Notes to Financial Statements

31st July, 2005

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

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

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

The Group has resolved to early adopt all the Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants in the financial year ended 31st July, 2005. All these early adopted HKFRSs are effective for accounting periods beginning on or after 1st January, 2005 for the preparation of these financial statements.

The following new and revised HKFRSs are relevant to the Group's financial statements and are adopted for the first time for the preparation of the current year's financial statements. In accordance with the relevant requirements under these HKFRSs where permitted, comparative amounts of the financial statements for the year ended 31st July, 2004 have been restated.

- HKAS 1 "Presentation of Financial Statements"
- HKAS 2 "Inventories"
- HKAS 7 "Cash Flow Statements"
- HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- HKAS 10 "Events after the Balance Sheet Date"
- HKAS 12 "Income Taxes"
- HKAS 14 "Segment Reporting"
- HKAS 16 "Property, Plant and Equipment"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 19 "Employee Benefits"
- HKAS 21 "The Effects of Changes in Foreign Exchange Rates"
- HKAS 23 "Borrowing Costs"
- HKAS 24 "Related Party Disclosures"
- HKAS 27 "Consolidated and Separate Financial Statements"
- HKAS 28 "Investments in Associates"
- HKAS 31 "Interests in Joint Ventures"
- HKAS 32 "Financial instruments: Disclosure and Presentation"
- HKAS 33 "Earnings per Share"
- HKAS 36 "Impairment of Assets"

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

• HKAS 37	"Provisions, Contingent Liabilities and Contingent Assets"
• HKAS 38	"Intangible Assets"
• HKAS 39	"Financial Instruments: Recognition and Measurement"
• HKAS 39 (Amendment)	"Transition and Initial Recognition of Financial Assets and Financial Liabilities"
• HKAS 40	"Investment Property"
• HKFRS 3	"Business Combinations"
• HKFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"
• HKAS-Int 15	"Operating Leases — Incentives"
• HKAS-Int 21	"Income Taxes — Recovery of Revalued Non-Depreciable Assets"
• HK-Int 4	"Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

The adoption of HKASs 2, 7, 8, 10, 12 ,14, 16, 18, 19, 21, 23, 27, 28, 31, 33, 37, 38, 39(Amendment), HKFRS 5, HKAS-Int 15, has had no material impact on the Group's accounting policies, the methods of computation in the Group's consolidated financial statements and the presentation and disclosures of the consolidated financial statements. The effect of the relevant HKFRSs including the new accounting measurement and disclosure practices is summarised as follows:

(a) HKAS 1 "Presentation of Financial Statements"

HKAS 1 affects certain presentation in these financial statements, including the following:

- minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the parent;

- taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group's share of profits and losses of associates; and

- the Group is no longer permitted to not disclose comparative information for movements in property, plant and equipment.

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKAS 17 "Leases" and HK-Int 4 "Leases — Determination of the Length of the Lease Term in respect of Hong Kong Land Leases"

In prior years, leasehold land and buildings held for own use were stated at cost, except for those items of property, plant and equipment that were stated at revalued amounts based on revaluation reflected in the financial statements in periods ended before 30th July, 1995, pursuant to the transitional provisions of Statement of Standard Accounting Practice ("SSAP") 17 "Property, plant and equipment", less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17 and HK-Int 4, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. Leasehold land is classified as an operating lease, because the title of the land is not expected to be passed to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payment cannot be allocated reliably between the land and building elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the previously reported consolidated income statement and accumulated losses.

The new accounting policy for prepaid land lease payments is summarised in note 5 to the financial statements.

(c) HKAS 24 "Related Party Disclosures"

HKAS 24 affects the identification of related parties and requires more extensive disclosures for related party transactions.

(d) HKAS 32 and HKAS 39 — Financial Instruments

In prior years, the Group classified its equity securities and advances to investees intended to be held for a continuing strategic or long term purposes as long term investments. These long term investments were stated at cost less any impairment losses, on an individual investment basis. Short term investments of the Group were investments in equity securities held for trading purposes. Changes in fair value of a security were recognised in the income statement in the period in which they arise.

Upon the adoption of HKAS 32 and HKAS 39, the Group's long term investments and short term investments were redesignated as available-for-sale investments and financial assets at fair value through profit or loss, where appropriate, effective from 1st August, 2004.

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(d) HKAS 32 and HKAS 39 — Financial Instruments (continued)

Available-for-sale investments are those non-derivative investments in equity securities that are designated as available-for-sale investments or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The measurement of financial assets at fair value through profit or loss is similar to those previously classified as short term investments with changes in fair value recognised in the income statement.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for the recognition, measurement, derecognition and disclosure of financial instruments. Further details of the effects of the above changes on these consolidated financial statements and the change in the accounting policy are summarised in note 5 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(e) HKAS 40 "Investment Property"

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

The change in the accounting policy has been adopted retrospectively. The comparative amounts of the Company for the year ended 31st July, 2004 have been restated to conform to the new policy. The effects of the above changes are summarised in note 31(b) to the financial statements. The new accounting policy for investment properties is summarised in note 5 to the financial statements.

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(f) HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

In prior years, goodwill/negative goodwill arising on acquisitions prior to the adoption of SSAP30 "Business Combinations" in 2001, was eliminated against consolidated reserves in the year of the acquisition and was not recognised in the consolidated income statement until the disposal or impairment of the acquired business.

Goodwill arising on acquisitions, after the adoption of SSAP 30 "Business Combinations" in 2001, was capitalised and amortised on the straight-line basis over its estimated useful life, and was subject to impairment testing when there was an indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent that it related to expectations of future losses and expenses which were identified in the acquisition plan and could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36 in the current year, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired) with impairment loss recognised in the consolidated income statement of the period. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 require the Group to eliminate the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill, and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings at 1st August, 2004. Goodwill previously eliminated against consolidated reserves continues to remain eliminated against consolidated reserves and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes to these financial statements are summarised in note 3 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated. The new accounting policies for business combinations and impairment of assets are summarised in note 5 to the financial statements.

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(g) HKAS-Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets"

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rates that would be applicable upon the sale of the investment properties.

Upon the adoption of HKAS-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined on the basis that these properties will be recovered through use. Accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes to these financial statements are summarised in note 3 to the financial statements. The change has been adopted retrospectively from the earliest period presented and the comparative amounts have been restated.

For those HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006, they have not been early adopted by the Group. The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operations and financial position.

Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES

Pursuant to HKAS 8, which outlines the disclosure requirements when a change in accounting policy has a material effect on the current year's and prior years' amounts presented, the Group has restated the opening balances of total equity as at 1st August, 2004 to take into account the effects of changes in the accounting policies disclosed in note 2 to the financial statements. The previously reported profit for the year ended 31st July, 2004 have also been restated. The amount of adjustment for each financial statement line item affected and the impact to the basic earnings per share are summarised as follows:

(a) Consolidated income statement

	Impact on adopting HKFRSs on the Company and its subsidiaries		Impact of HKFRSs on share of profits and losses of associates	
	HKFRS 3	HKAS-Int 21	associates	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31st July, 2005				
Increase in tax	—	(8,386)	—	(8,386)
Decrease in amortisation of goodwill	17,980	—	—	17,980
Increase in share of profits and losses of associates	—	—	122,024	122,024
Decrease in gain on deemed disposal of an associate	(1,993,385)	—	—	(1,993,385)
Decrease in negative goodwill recognised	(24,018)	—	—	(24,018)
Increase/(decrease) in profit for the year	(1,999,423)	(8,386)	122,024	(1,885,785)
Increase/(decrease) in profit attributable to:				
Equity holders of the parent	(1,999,423)	(5,760)	122,024	(1,883,159)
Minority interests	—	(2,626)	—	(2,626)
	(1,999,423)	(8,386)	122,024	(1,885,785)
Increase/(decrease) in earnings per share (HK$)	(1.38)	—	0.08	(1.30)
For the year ended 31st July, 2004				
Increase in loss on deemed disposal of interest in an associate	—	—	(531)	(531)
Decrease in share of profits and losses of associates	—	—	(34,515)	(34,515)
Decrease in negative goodwill recognised	—	—	(4,303)	(4,303)
Increase in tax	—	(1,975)	—	(1,975)
Decrease in profit for the year	—	(1,975)	(39,349)	(41,324)
Decrease in profit attributable to: Equity holders of the parent	—	(1,975)	(39,349)	(41,324)
Decrease in earnings per share (HK$)	—	—	(0.03)	(0.03)

Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES (continued)

(b) Consolidated balance sheet

	Impact on adopting HKFRSs on the Company and its subsidiaries		Impact of HKFRSs on interests in associates	
	HKFRS 3	HKAS-Int 21		Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31st July, 2005				
Increase in interests in associates	612,965	—	68,843	681,808
Increase in goodwill	17,980	—	—	17,980
Increase in deferred tax liabilities	—	(20,829)	—	(20,829)
Increase/(decrease) in net assets	630,945	(20,829)	68,843	678,959
Total equity				
Increase/(decrease) in retained earnings	2,339,398	(8,662)	170,351	2,501,087
Decrease in property revaluation reserve	—	(9,541)	—	(9,541)
Increase in exchange fluctuation reserve	—	—	841	841
Decrease in capital reserve	(1,708,453)	—	(102,349)	(1,810,802)
Decrease in minority interest	—	(2,626)	—	(2,626)
Increase/(decrease) in equity	630,945	(20,829)	68,843	678,959
As at 1st August, 2004				
Total equity				
Decrease in property revaluation reserve	—	(9,541)	—	(9,541)
Decrease/(increase) in accumulated losses	4,338,821	(2,902)	48,327	4,384,246
Decrease in capital reserve	(3,701,838)	—	(102,349)	(3,804,187)
Increase/(decrease) in equity	636,983	(12,443)	(54,022)	570,518
As at 31st July, 2004				
Decrease in interests in associates	—	—	(57,599)	(57,599)
Increase in deferred tax liabilities	—	(12,443)	—	(12,443)
Decrease in net assets	—	(12,443)	(57,599)	(70,042)
Total equity				
Decrease in property revaluation reserve	—	(9,541)	—	(9,541)
Decrease/(increase) in accumulated losses	—	(2,902)	44,750	41,848
Decrease in capital reserve	—	—	(102,349)	(102,349)
Decrease in equity	—	(12,443)	(57,599)	(70,042)
As at 1st August, 2003				
Total equity				
Decrease in property revaluation reserve	—	(9,541)	—	(9,541)
Decrease in capital reserve	—	—	(104,503)	(104,503)
Decrease/(increase) in accumulated losses	—	(927)	84,099	83,172
Decrease in equity	—	(10,468)	(20,404)	(30,872)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Income tax

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

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable (i.e. more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

Notes to Financial Statements

31st July, 2005

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Estimate of fair value of investment properties

The best evidence of fair value is the current prices in an active market for similar leases and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair-value estimates. In making its judgement, management considers information from (i) current prices in an active market for properties of a different nature, condition or location by reference to available market information; (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions; and (iii) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and by using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

Impairment test of assets and goodwill

The Group determines whether an asset or goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, certain property, plant and equipment, available-for-sale investments and financial assets at fair value through profit or loss that have been measured at fair value, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2005. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent interests of outside shareholders in the results and net assets of the Company's subsidiaries and are presented separately in the income statement and within equity in the consolidated balance sheet from the results/equity attributable to equity holders of the parent.

5. 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.

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

Associates

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

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

The reporting dates of associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Business combinations

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates is initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1st August, 2004 is not amortised, and goodwill already carried in the consolidated balance sheet as at 1st August, 2004 is not amortised after that date. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill (continued)

As at the acquisition date, any goodwill acquired in a business combination is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement.

Where goodwill forms part of a cash-generating unit, and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against the consolidated reserves

Goodwill arising on acquisitions before 1st January, 2001 was eliminated against consolidated reserves in the year of acquisition. The Group applied the transitional provision of the HKFRS 3 that permitted such goodwill to remain eliminated against consolidated reserves not to be recognised in the consolidated income statement when the Group disposes of all or part of the business to which that goodwill relates, or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

Negative goodwill previously recognised as an asset or eliminated against the consolidated reserves

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

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1st August, 2004 the carrying amounts of negative goodwill (including that remaining in consolidated reserves) against retained earnings.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated. Recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost 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 items of property, plant and equipment that have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Buildings	2% - 5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	10% - 25%
Computers	10% - 25%
Motor vessels	25%

The transitional provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment" have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations, which were reflected in the financial statements in periods ended before 30th September, 1995, have not been further revalued to fair value at subsequent balance sheet dates. It is the directors' intention not to revalue these assets in the future.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Gain or loss on derecognition of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

On a transfer of an asset to investment property, a valuation is performed to determine the fair value of the asset to be transferred. Any revaluation surplus/deficit so arising by the difference between the revaluated amount and the net carrying value of the asset 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.

Prepaid land lease payments

Prepaid land lease payments are lump sum upfront payments to acquire long term interest in lessee-occupied properties.

Prepaid land lease payments for land relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement. Prepaid land lease payments relating to investment properties and properties developed for sale are not amortised and are included as part of the cost of such properties.

5. 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 owned by the Group or held by the Group under finance leases to earn rentals, or for capital appreciation, or both. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

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

Properties under development

Properties under development are stated at cost less any accumulated impairment losses. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified into four categories including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale investments (continued)

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"). Where the loss event has an impact on the estimated future cash flows that can be reliably estimated, they are stated at cost less any accumulated impairment losses. If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less an impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. If the fair value of an available-for-sale debt investment increases in the subsequent period, and the increase can be objectively related to an event occurring after the loss was recognised in the income statement, the impairment loss should be reversed and recognised in the income statement. However, in case of equity investments, impairments cannot be reversed through the income statement.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal.

Interest-bearing loans and borrowings

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Debtors

Debtors are recognised and carried at the original invoice amount less allowance for any uncollectible amounts.

An estimate for doubtful debts for debtors is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Textile quota entitlements

The Group is entitled to certain textile quotas until 1st January, 2005. Temporary textile quota purchased from outside parties are written off to the income statement at the time of utilisation, or in the absence of such utilisation, upon the expiry of the relevant utilisation period. Temporary textile quotas granted by the government are not capitalised as assets in the balance sheet. The profit on the transfer of temporary textile quota entitlements to third parties is recognised upon the execution of a legally binding, unconditional and irrevocable transfer form.

Operating leases

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

Cash and cash equivalents

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

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

Income tax

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

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.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future 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 future 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;

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

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

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) royalty income, when the right to receive income is established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a financial 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 that have been earned by the employees from their service to the Group at the balance sheet date.

Notes to Financial Statements

31st July, 2005

5. 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 those employees who are eligible to participate in the MPF scheme during the year. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes 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 Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

The employees of the Group's subsidiaries that operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government in which the subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those asset. Capitalisation of such borrowing costs ceases when the assets is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the income statement in the period in which they are incurred.

Related parties

A party is related to the Group if:

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

  (i) controls, is controlled by, or is under common control with, the Group;

  (ii) has an interest in the Group that gives it significant influence over the Group; or

  (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

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

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

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31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

A party is related to the Group if: (continued)

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

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

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign is recognised in the income statement.

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

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31st July, 2005

6. 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 that are subject to risks and returns which are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the garment operation segment engages in the trading and distribution of garments and the transfer of textile quotas;

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

(c) the property investment segment comprises the leasing of commercial and residential premises; and

(d) the "others" segment comprises, principally, the Group's property management service business, and corporate income and 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 assets.

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

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Garment operation		Property development		Property investment		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	441,961	827,185	—	—	18,126	16,765	21,638	14,805	—	—	481,725	858,755
Intersegment sales	—	—	—	—	12	525	—	—	(12)	(525)	—	—
Other revenue and gains	37,943	19,321	—	—	217	212	—	—	—	—	38,160	19,533
Total	479,904	846,506	—	—	18,355	17,502	21,638	14,805	(12)	(525)	519,885	878,288
Segment results	12,175	81,015	50,551	(65)	143,903	29,820	724	(7,636)	—	—	207,353	103,134
Interest income and unallocated other revenue and gains											7,225	10,556
Profit from operating activities											214,578	113,690
Finance costs											(16,220)	(12,336)
Share of profits and losses of associates											(20,855)	(491)
Negative goodwill recognised											—	20,562
Gain/(loss) on deemed disposal of interests in associates											217,817	(6,145)
Profit before tax											395,320	115,280
Tax											(19,948)	(11,448)
Profit for the year											375,372	103,832
Attributable to:												
Equity holders of the parent											318,041	82,246
Minority interests											57,331	21,586
											375,372	103,832

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Garment operation		Property development		Property investment		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment assets	**430,402**	305,316	**233,315**	179,330	**251,841**	267,606	**7,319**	2,626	**—**	—	**922,877**	754,878
Interests in associates											**2,177,085**	1,535,567
Unallocated assets											**386,357**	195,937
Total assets											**3,486,319**	2,486,382
Segment liabilities	**100,016**	225,735	**1,120**	1,131	**18,013**	15,432	**11,412**	12,982	**—**	—	**130,561**	255,280
Unallocated liabilities											**366,685**	347,086
Total liabilities											**497,246**	602,366
Other segment information:												
Depreciation	**10,552**	6,574	**—**	12	**180**	291	**40**	135	**—**	—	**10,772**	7,012
Amortisation of goodwill on acquisition of subsidiaries	**—**	17,980	**—**	—	**—**	—	**—**	—	**—**	—	**—**	17,980
Gain on revaluation of investment properties	**—**	—	**—**	—	**(50,920)**	(13,380)	**—**	—	**—**	—	**(50,920)**	(13,380)
Gains on disposal of investment properties	**—**	—	**—**	—	**(77,009)**	—	**—**	—	**—**	—	**(77,009)**	—
Write-back of impairment of properties under development	**—**	—	**(50,715)**	—	**—**	—	**—**	—	**—**	—	**(50,715)**	—
Capital expenditure	**21,298**	4,735	**16**	—	**—**	838	**11**	41	**—**	—	**21,325**	5,614

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments:

Group

	Hong Kong		Mainland China		United States of America		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment revenue:								
Sales to external customers	**239,190**	247,892	**187,110**	232,719	**55,425**	378,144	**481,725**	858,755
Other segment information:								
Segment assets	**623,366**	440,114	**295,572**	227,096	**3,939**	87,668	**922,877**	754,878
Capital expenditure	**18,388**	4,754	**2,937**	860	**—**	—	**21,325**	5,614

Notes to Financial Statements

31st July, 2005

7. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Rental expenses and building management fee paid and payable to:			
Lai Sun Textiles Company Limited	(i)	**2,010**	59
Related companies	(ii)	**3,942**	4,823
Interest expense on note payable and other borrowing granted by Mr. Lim Por Yen	(iii)	**12,085**	10,583
Interest expense on other borrowing granted by Mr. Lam Kin Ngok, Peter	(iii)	**2,003**	—

Notes:

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

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

(iii) The interest expense was charged at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable (note 28) and the other borrowings (note 27).

(b) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**15,520**	10,189
Post-employment benefits	**38**	38
Total compensation paid to key management personnel	**15,558**	10,227

Notes to Financial Statements

31st July, 2005

8. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of garments sold, proceeds from the transfer of textile quotas, rental income and income from other operations. An analysis of turnover, other revenue and gains is as follows:

Turnover

	Group	
	2005	2004
	HK$'000	HK$'000
Sale of garments and proceeds from transfer of textile quotas	**441,961**	827,184
Rental income	**19,172**	16,765
Other operations	**20,592**	14,806
	481,725	858,755

Other revenue and gains

	Group	
	2005	2004
	HK$'000	HK$'000
Royalty income	**33,767**	16,026
Unrealised gains on revaluation of financial assets at fair value through profit or loss	**2,404**	4,613
Dividend income from financial assets at fair value through profit or loss	**1,100**	584
Gain on deregistration of a subsidiary	**—**	4,400
Interest income from bank deposits	**1,939**	579
Other interest income	**122**	32
Foreign exchange gains, net	**1,192**	—
Others	**4,861**	3,855
	45,385	30,089

Notes to Financial Statements

31st July, 2005

9. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Auditors' remuneration	**2,053**	1,735
Amortisation of goodwill on acquisition of a subsidiary*- note 19	**—**	17,980
Depreciation	**10,772**	7,012
Foreign exchange losses, net	**—**	706
Losses/(gains) on disposal of property, plant and equipment	**(65)**	1,079
Minimum lease payments under operating leases in respect of land and buildings	**58,988**	59,094
Provision/(write-back of provision) for doubtful debts*	**(1,425)**	251
Write-back of provision for slow-moving inventories	**(4,633)**	(13,063)
Provision for an amount due from an associate	**—**	821
Staff costs (including directors' remuneration - note 11):		
Wages and salaries	**84,759**	89,333
Pension scheme contributions**	**2,716**	2,446
	87,475	91,779
Rental income	**(19,172)**	(16,765)
Less: Outgoings	**3,766**	3,514
Net rental income	**(15,406)**	(13,251)

* This amount is included in the "Other operating income/(expenses), net" on the face of the consolidated income statement.

** At 31st July, 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years. (2004: Nil).

10. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interests on:		
Bank loans and overdrafts wholly repayable within five years	**2,132**	1,753
Note payable and other borrowings wholly repayable within five years (notes 27 and 28)	**14,088**	10,583
Total interest expenses	**16,220**	12,336

Notes to Financial Statements

31st July, 2005

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

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

	Group	
	2005	2004
	HK$'000	HK$'000
Fees	**743**	614
Other emoluments:		
Salaries, allowances and benefits in kind	**10,628**	9,025
Gratuity/bonuses paid and payable	**4,672**	550
Pension scheme contributions	**55**	38
	16,098	10,227

The remuneration of individual director is set out below:

	Fees	Salaries, allowances and benefits in kind	Gratuity/ bonuses paid and payable	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2005					
Executive and non-executive directors:					
Lim Por Yen (deceased)	31	633	—	—	664
Lam Kin Ngok, Peter	62	520	—	12	594
Lam Kin Ming	62	3,409	2,672	—	6,143
Shiu Ka Wah	62	298	2,000	—	2,360
Lee Po On	52	—	—	2	54
Lam Kin Hong, Matthew	62	2,188	—	24	2,274
U Po Chu	62	1,871	—	—	1,933
Chiu Wai	62	—	—	—	62
Lai Yuen Fong	52	1,186	—	—	1,238
Lam Wai Kei, Vicky	—	523	—	17	540
Independent non-executive directors:					
Wan Yee Hwa, Edward	100	—	—	—	100
Chow Bing Chiu	84	—	—	—	84
Leung Shu Yin, William	52	—	—	—	52
	743	10,628	4,672	55	16,098

Notes to Financial Statements

31st July, 2005

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(a) Directors' remuneration (continued)

There were no other emoluments payable to the independent non-executive directors during the year. (2004: Nil)

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

(b) Employees' remuneration

The five highest paid employees during the year included three directors (2004: two directors), details of whose remuneration are set out in 11(a) above. Details of the remuneration of the remaining two (2004: three) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,806**	2,626
Bonuses paid and payable	**1,160**	8,900
Pension scheme contributions	**24**	41
	4,990	11,567

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

	Group	
	2005	2004
	Number of employees	
HK$1,500,001 - HK$2,000,000	—	1
HK$2,000,001 - HK$2,500,000	**1**	—
HK$2,500,001 - HK$3,000,000	**1**	—
HK$3,000,001 - HK$3,500,000	—	1
HK$6,500,001 - HK$7,000,000	—	1
	2	3

Notes to Financial Statements

31st July, 2005

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Provision for tax for the year:		
Current – Hong Kong	**25**	13,635
Deferred tax (note 29)	**21,334**	(1,380)
	21,359	12,255
Prior years' overprovision - Hong Kong	**(1,411)**	(807)
Tax charge for the year	**19,948**	11,448

In accordance with the presentation requirements of HKAS 1, adopted by the Group during the year as detailed in note 2 to these financial statements, share of tax credit attributable to associates that amounted to HK$18,018,000 is now included in "share of profits and losses of associates" on the face of the consolidated income statement. The comparative amounts of a tax credit of HK$8,609,000 (as restated) for the year ended 31st July, 2004 have been reclassified to conform with the current year's presentation.

Notes to Financial Statements

31st July, 2005

12. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before tax	**395,320**	115,280
Share of profits and losses of associates	**20,855**	491
Profit before tax attributable to the Company and its subsidiaries	**416,175**	115,771
Tax at the statutory rate of 17.5% (2004: 17.5%)	**72,831**	20,260
Higher tax rate of other places	**9,185**	(1,595)
Income not subject to tax	**(70,514)**	(10,166)
Expenses not deductible for tax	**11,745**	12,852
Write-off of deferred tax assets	**7,239**	—
Adjustments in respect of current tax of previous periods	**(1,411)**	(807)
Tax losses utilised from previous periods	**(9,586)**	—
Tax losses not recognised	**1,020**	197
Decrease in unprovided tax assets	**(561)**	(9,293)
Tax charge at the Group's effective tax rate	**19,948**	11,448

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

The profit for the year attributable to equity holders of the parent for the year ended 31st July, 2005 dealt with in the financial statements of the Company was HK$152,512,000 (2004: HK$55,289,000 (as restated)) (note 31(b)).

Notes to Financial Statements

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14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to equity holders of the parent of HK$318,041,000 (2004: HK$82,246,000 (as restated)) and the weighted average number of 1,451,003,601 (2004: 1,437,709,710) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st July, 2005 has not been disclosed as no diluting events existed during the year.

The calculation of diluted earnings per share for the year ended 31st July, 2004 is based on the adjusted profit attributable to equity holders of the parent for that year of HK$82,216,000 (as restated) and the weighted average number of 1,437,709,710 ordinary shares in issue during the prior year.

The prior year adjusted net profit attributable to equity holders of the parent is calculated based on the profit attributable to equity holders of the parent for that year of HK$82,246,000 (as restated) less the dilution in the results of an associate, Lai Fung, attributable to the Group of HK$30,000 arising from the deemed exercise of all Lai Fung's share options being outstanding during the prior year.

Notes to Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings# HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Total HK$'000
Cost or valuation:								
At 1st August, 2003	26,858	753	22,245	67,891	14,301	16,746	16,951	165,745
Additions	—	—	359	3,474	1,356	425	—	5,614
Disposals/write-off	(2,400)	—	(4,484)	(12,343)	(506)	(1,063)	—	(20,796)
Revaluation	20	—	—	—	—	—	—	20
Transfer to investment properties	(6,700)	—	—	—	—	—	—	(6,700)
At 31st July, 2004 and 1st August, 2004	17,778	753	18,120	59,022	15,151	16,108	16,951	143,883
Additions	—	—	74	16,322	3,070	1,859	—	21,325
Disposals/write-off	—	—	(88)	(9,467)	(2,048)	(4,530)	—	(16,133)
Exchange realignments	—	—	48	78	10	15	—	151
At 31st July, 2005	17,778	753	18,154	65,955	16,183	13,452	16,951	149,226
Accumulated depreciation and impairment:								
At 1st August, 2003	10,063	746	19,690	58,861	12,800	15,169	16,951	134,280
Depreciation provided during the year	895	5	732	3,701	531	1,148	—	7,012
Disposals/write-off	(1,073)	—	(4,292)	(11,290)	(506)	(954)	—	(18,115)
Revaluation	(535)	—	—	—	—	—	—	(535)
At 31st July, 2004 and 1st August, 2004	9,350	751	16,130	51,272	12,825	15,363	16,951	122,642
Depreciation provided during the year	800	2	624	7,403	1,395	548	—	10,772
Disposals/write-off	—	—	(72)	(9,326)	(2,048)	(4,520)	—	(15,966)
Exchange realignments	—	—	31	32	3	4	—	70
At 31st July, 2005	10,150	753	16,713	49,381	12,175	11,395	16,951	117,518
Net book value:								
At 31st July, 2005	7,628	—	1,441	16,574	4,008	2,057	—	31,708
At 31st July, 2004	8,428	2	1,990	7,750	2,326	745	—	21,241

Notes to Financial Statements

31st July, 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings stated at valuation are held under long term leases and are situated in Mainland China.

Company

	Medium term leasehold land and buildings situated in Hong Kong# HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Motor vessels HK$'000	Total HK$'000
Cost:					
At 1st August, 2003	2,400	7,614	10,590	16,951	37,555
Additions	—	2,595	1,356	—	3,951
Disposals	(2,400)	—	—	—	(2,400)
At 31st July, 2004 and 1st August, 2004	—	10,209	11,946	16,951	39,106
Additions	—	1,893	—	—	1,893
Disposals	—	(5,326)	(715)	—	(6,041)
At 31st July, 2005	—	6,776	11,231	16,951	34,958
Accumulated depreciation:					
At 1st August, 2003	1,073	5,594	9,926	16,951	33,544
Depreciation provided during the year	—	838	424	—	1,262
Disposals	(1,073)	—	—	—	(1,073)
At 31st July, 2004 and 1st August, 2004	—	6,432	10,350	16,951	33,733
Depreciation provided during the year	—	1,182	748	—	1,930
Disposals	—	(5,286)	(715)	—	(6,001)
At 31st July, 2005	—	2,328	10,383	16,951	29,662
Net book value:					
At 31st July, 2005	—	4,448	848	—	5,296
At 31st July, 2004	—	3,777	1,596	—	5,373

As the prepaid land lease payment cannot be allocated reliably between the land and building elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment in accordance with HKAS 17.

Notes to Financial Statements

31st July, 2005

16. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year, at valuation	**265,680**	246,900	**74,980**	63,900
Disposals	**(66,000)**	(1,300)	**—**	(1,300)
Transfer from property, plant and equipment	**—**	6,700	**—**	—
Revaluation surplus	**50,920**	13,380	**14,620**	12,380
At end of year, at valuation	**250,600**	265,680	**89,600**	74,980

At 31st July, 2005, the investment properties were stated at their aggregate open market values based on existing use with reference to a valuation performed by Centaline Surveyors Limited, independent professionally qualified valuers or by Chesterton Petty Limited, independent chartered surveyors, as at 31st July, 2005.

The Group's and the Company's investment properties are situated in Hong Kong. Apart from a property with a market value of HK$11,000,000 (2004: HK$6,700,000), which is held under a long term lease, other investment properties are held under medium term leases.

Certain investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 34 to these financial statements.

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

At 31st July, 2005, certain investment properties of the Group and of the Company with carrying amounts of HK$248,200,000 (2004: HK$264,200,000) and HK$87,200,000 (2004: HK$73,500,000), respectively, were pledged to banks to secure banking facilities granted by the bank to the Group.

Notes to Financial Statements

31st July, 2005

17. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**178,150**	176,397
Additions during the year	**718**	1,883
Reversal of impairment provision	**50,715**	—
Amortisation of prepaid land lease payments	**3,289**	3,228
Capitalisation of amortisation of prepaid land lease payments	**(3,289)**	(3,228)
Exchange realignment	**3,667**	(130)
At end of year	**233,250**	178,150

The Group's properties under development are situated in Mainland China and are held under long term leases. These properties are carried at cost less impairment.

The balance at 31st July, 2005 represents the carrying value of a property development project of Shanghai Hu Xin Real Estate Development Co., Ltd. ("Hu Xin"), a subsidiary of the Group, undertaken in Shanghai, Mainland China.

Pursuant to a land use rights agreement entered into between Hu Xin and the Shanghai Land Administration Bureau (the "Bureau") in September 1995 and the subsequent extension approval granted by the Bureau on 15th March, 2005, Hu Xin has to complete the entire project by 31st December, 2008 (the "Completion Date"). If the completion was delayed, a penalty would be charged at (1) 1% of the land consideration of RMB13,745,000 during the first six months after the Completion Date; (2) 3% during the following six months; and (3) 7% during the second year after the Completion Date. If the project was not completed within two years after the Completion Date, the Bureau has the right to repossess the land use rights.

The write-back of provision for impairment of property under development of HK$50,715,000 is made by directors with reference to the increase in the net present value of future cash flows, which are estimated based on the Group's plan for recovering the carrying amount of the properties under development.

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Shares listed in Hong Kong, at cost	**7,265**	7,265
Unlisted shares, at cost	**486**	486
	7,751	7,751
Amounts due from subsidiaries	**1,082,909**	1,082,518
Amounts due to subsidiaries	**(113,511)**	(113,947)
	969,398	968,571
Provision for impairment	**(359,898)**	(374,898)
	609,500	593,673
	617,251	601,424
Market value of listed shares at the balance sheet date	**1,520**	920

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

Particulars of the principal subsidiaries as at 31st July, 2005 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered and paid-up share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Crocodile (China) Limited	Hong Kong	HK$4	Ordinary	—	54.93	Garment trading
Crocodile Garments Limited	Hong Kong	HK$154,281,783	Ordinary	0.43	54.50	Garment manufacturing and trading

Notes to Financial Statements

31st July, 2005

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31st July, 2005 are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered and paid-up share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Crocodile Garments (Zhong Shan) Limited	Mainland China	HK$17,200,000	*	—	49.44#	Garment manufacturing and trading
Dackart Trading Company Limited	Hong Kong	HK$20	Ordinary	—	54.93	Property investment
Gold Nation Development Limited	Hong Kong	HK$2	Ordinary	—	54.93	Property investment##
Joy Mind Limited	Hong Kong	HK$2	Ordinary	100.00	—	Investment holding
Kingscord Investment Limited	Hong Kong	HK$2	Ordinary	—	100.00	Investment holding
Kingscord Real Estate (Shanghai) Co., Ltd.**	Mainland China	US$1,500,000	*	—	100.00	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd. ***	Mainland China	US$6,000,000	*	—	95.00	Property development and investment
Shenton Investment Limited	Hong Kong	HK$2	Ordinary	—	54.93	Property investment
Silver Glory Securities Limited	British Virgin Islands	US$1	Ordinary	100.00	—	Investment holding

* These subsidiaries have registered capital rather than issued share capital.

** This subsidiary is registered as a wholly-foreign owned enterprise under the laws of Mainland China.

*** This subsidiary is registered as a Sino-foreign owned enterprise under the laws of Mainland China.

Crocodile Garments (Zhong Shan) Limited, a Sino-foreign owned enterprise under the laws of Mainland China, is a 90%-owned subsidiary of Crocodile Garments Limited and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

This subsidiary becomes dormant after it has disposed of its investment property during the year.

Notes to Financial Statements

31st July, 2005

18. INTERESTS IN SUBSIDIARIES (continued)

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

As at 31st July, 2005, 96,000,000 (2004: 96,000,000) ordinary shares of Crocodile Garments Limited ("CGL") held by the Group were pledged to a bank to secure banking facilities granted to the Company.

19. GOODWILL AND NEGATIVE GOODWILL

The amounts of goodwill and negative goodwill capitalised as assets arising from the acquisitions of a subsidiary and an associate, respectively, prior to 1st August, 2004 are as follows:

		Group	
	Notes	Goodwill HK$'000	Negative goodwill included in the carrying value of interests in associates HK$'000
Cost:			
At 1st August, 2003			
As previously reported		524,385	(825,881)
Effect of adopting HKFRSs by an associate	(a)	—	143,144
As restated		524,385	(682,737)
Released upon deemed disposal (as restated)	(a)	—	13,086
At 31st July, 2004 (as restated)		524,385	(669,651)
At 31st July, 2004:			
As previously reported		524,385	(810,053)
Effect of adopting HKFRSs by an associate	(a)	—	140,402
As restated		524,385	(669,651)
Effect of adopting HKFRS 3	(b)	(452,478)	669,651
At 31st July, 2005		71,907	—

Notes to Financial Statements

31st July, 2005

19. GOODWILL AND NEGATIVE GOODWILL (continued)

	Notes	Group Goodwill HK$'000	Negative goodwill included in the carrying value of interests in associates HK$'000
Accumulated amortisation and impairment/(recognition as income):			
At 1st August, 2003			
As previously reported		434,498	14,687
Effect of adopting HKFRSs by an associate	(a)	—	(2,597)
As restated		434,498	12,090
Amortisation provided for the year – note 9		17,980	—
Recognised as income during the year (as restated)	(a)	—	20,578
At 31st July, 2004 (as restated)		452,478	32,668
At 1st August, 2004			
As previously reported		452,478	39,568
Effect of adopting HKFRSs by an associate	(a)	—	(6,900)
As restated		452,478	32,668
Effect of adopting HKFRS 3	(b)	(452,478)	(32,668)
At 31st July, 2005		—	—
Net book value:			
At 31st July, 2005		71,907	—
At 31st July, 2004 (as restated)		71,907	(636,983)

Notes:

(a) The adoption of HKFRSs by an associate of the Group has resulted in decreases in the cost of negative goodwill and the accumulated recognition of negative goodwill as at 31st July 2003 and 2004, and decreases in the recognition of negative goodwill as income for the year ended 31st July, 2004.

(b) The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained earnings as at 1st August 2004.

Notes to Financial Statements

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19. GOODWILL AND NEGATIVE GOODWILL (continued)

Impairment testing of goodwill

At 31st July, 2004 and 2005, goodwill arising on acquisition is relevant to the operations of a subsidiary. Its recoverable amount has been determined based on a value-in-use calculation using cash flow projections, which are based on financial budget approved by management of the Group and the subsidiary over a period of 5 years. The discounted rate applied to the cash flow projections is 13%.

20. INTERESTS IN ASSOCIATES

		Group		Company	
		2005	2004	**2005**	2004
	Notes	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000
Shares listed in Hong Kong, at cost		**—**	—	**361,632**	2,381,057
Share of net assets		**2,177,348**	2,173,085	**—**	—
Negative goodwill on acquisition	(a)	**—**	(636,983)	**—**	—
		2,177,348	1,536,102	**361,632**	2,381,057
Amounts due from associates	(b)	**2,690**	2,603	**1,735**	1,647
Amounts due to associates	(b)	**(1,997)**	(2,182)	**(1,997)**	(2,182)
		2,178,041	1,536,523	**361,370**	2,380,522
Provision for impairment		**(956)**	(956)	**—**	(1,974,225)
		2,177,085	1,535,567	**361,370**	406,297
Market value of listed shares at balance sheet date		**471,822**	598,226	**323,819**	448,788

Notes:

(a) The carrying amount of negative goodwill at 1st August, 2004 has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

(b) Balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$2,364,000 (2004: HK$2,276,000) due from an associate which bears interest at the prevailing market rate.

Notes to Financial Statements

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20. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associate as at 31st July, 2005 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of capital held	Principal activities
Lai Fung Holdings Limited	Corporate	Cayman Islands	Ordinary	45.13	Note

The above table lists, in the opinion of the directors, the principal associate of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Note:

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

The principal activities of its subsidiaries during the year consisted of property development for sale and property investment for rental purposes.

As at 31st July, 2005, 115,000,000 (2004: 115,000,000) ordinary shares of Lai Fung held by the Group were pledged to a bank to secure banking facilities granted to the Company.

The following is a summary of aggregate amounts of assets, liabilities, revenues and results of the Group's associates:

	2005 HK$'000	2004 HK$'000
Assets	**7,701,458**	7,166,113
Liabilities	**4,423,390**	4,189,311
Revenues	**648,084**	890,642
Profit	**255,435**	66,840

Notes to Financial Statements

31st July, 2005

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments in Hong Kong at quoted market price	**188,361**	—	**170,619**	—

Available-for-sale investments represented investment in ordinary shares of LSD.

As at 31st July, 2004, the Group had approximately a 42.25% equity interest in LSD and equity accounted for it as an associate of the Group.

On 7th December, 2004, LSD, allotted and issued approximately 9,000 million of its new ordinary shares at a price of HK$0.50 per share to its bondholders and eSun Holdings Limited ("eSun"), an associate of LSD, as part of the settlement package for certain indebtedness owed by LSD to its bondholders and eSun. As a result, the Group's interest in LSD was diluted to approximately 12.42% on the same date. Since then, the Group's interest in LSD is accounted for as an available-for-sale investment.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at quoted market value	**26,654**	24,250

23. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**9,511**	10,225
Work in progress	**342**	511
Finished goods	**58,154**	64,250
	68,007	74,986

The Group's inventories included an amount of HK$16,576,000 (2004: HK$27,467,000) which was carried at fair value less estimated cost to sell as at the balance sheet date.

The Group reversed a provision for slow-moving inventories of HK$4,633,000 (2004: HK$13,063,000) during the year following the sales of certain aged items as a result of the Group's promotional activities.

24. DEBTORS, DEPOSITS AND OTHER RECEIVABLES

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

CGL and its subsidiaries (collectively the "CGL Group"), a listed subgroup of the Company, maintains their own sets of credit policies. Other than cash sales made by the CGL Group at its retail outlets, trading terms with wholesale customers are to a large extent on credit, except that payment in advance is normally required from new customers. Invoices are normally payable within 30 days from the date of issuance, except that the terms are extended to 90 days for certain well-established customers. Each customer has a designated credit limit.

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

An aged analysis of the debtors as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Debtors:		
Current to 90 days	**7,001**	24,553
91 to 180 days	**5,269**	11,738
181 to 365 days	**266**	12,815
Over 365 days	**4,414**	46,392
	16,950	95,498
Other debtors and deposits	**35,071**	23,166
	52,021	118,664

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**69,309**	182,539	**69,309**	22,002
Time deposits	**317,048**	—	**35,257**	—
Cash and cash equivalents	**386,357**	182,539	**104,566**	22,002

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$99,089,000 (2004: HK$130,879,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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31st July, 2005

26. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

An aged analysis of the creditors as at balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Creditors:		
Current to 90 days	**17,601**	39,044
91 to 180 days	**1,180**	18,369
181 to 365 days	**1,049**	12,019
Over 365 days	**14,455**	56,085
	34,285	125,517
Deposits received and accruals	**75,126**	116,519
	109,411	242,036

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured bank overdrafts	**2,425**	2,232	**—**	—
Secured bank loans	**24,250**	54,250	**—**	30,000
Trust receipt loans:				
Secured	**9,881**	14,322	**—**	—
Unsecured	**7,311**	2,299	**—**	—
Other borrowings, unsecured	**100,902**	38,810	**100,902**	38,810
	144,769	111,913	**100,902**	68,810
Portion due within one year or on demand, classified as current liabilities	**(43,867)**	(73,113)	**—**	(30,010)
Non-current portion	**100,902**	38,800	**100,902**	38,800
Non-current portion of other borrowings repayable within a period of more than one year but not exceeding two years	100,902	38,800	100,902	38,800

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31st July, 2005

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The Group's secured bank loans as at 31st July, 2005 are secured by fixed charges on certain properties and floating charges over certain assets held by the Group.

Other borrowings as at 31st July, 2005 included a loan of HK$31,745,000 due to Mr. Lim Por Yen and another loan of HK$69,157,000 due to Mr. Lam Kin Ngok, Peter.

Mr. Lim Por Yen, who passed away on 18th February, 2005, was a then executive director and a then shareholder of the Company. A loan facility of HK$100 million was granted by him in prior years, which bears interest at the best lending rate quoted by a designated bank in Hong Kong and was due on 30th November, 2005. On 31st July, 2005, the executor of Mr Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the outstanding amount or the related interest would be made within one year from the balance sheet date.

Mr. Lam Kin Ngok, Peter is an executive director of the Company. A loan was granted by him during the year, which bears interest at the best lending rate quoted by a designated bank in Hong Kong and is not repayable within one year from the balance sheet date.

The carrying amounts of the Group's bank and other borrowings approximate their fair values at the balance sheet date.

28. NOTE PAYABLE AND ACCRUED INTEREST PAYABLE

Note payable amount represented a loan note payable to the late Mr. Lim Por Yen (the "Loan Note"). According to the terms, the Loan Note is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and is due on 30th April, 2006.

On 31st July, 2005, the executor of Mr. Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the Loan Note or the related interest would be made within one year from the balance sheet date.

Accrued interest payable represented accrued interests on the loan payable to the late Mr. Lim Por Yen of HK$31,745,000 (note 27) and accrued interests on the Loan Note outstanding at 31st July, 2005.

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29. DEFERRED TAX

Movements in deferred tax assets/liabilities during the year are as follows:

Deferred tax liabilities

Group

	Revaluation of properties HK$'000
At 1st August, 2003	
As previously reported	—
Effect of adopting HKAS-Int 21 (note 3)	10,468
As restated	10,468
Deferred tax charged to the consolidated income statement during the year (note 12)	1,975
At 31st July, 2004 (restated)	12,443

	Accelerated capital allowances HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1st August, 2004			
As previously reported	—	—	—
Effect of adopting HKAS-Int 21 (note 3)	—	12,443	12,443
As restated	—	12,443	12,443
Deferred tax charged to the consolidated income statement during the year (note 12)	404	8,386	8,790
At 31st July, 2005	404	20,829	21,233

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29. DEFERRED TAX (continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profits HK$'000
At 31st July, 2003	10,043
Deferred tax credited to the consolidated income statement during the year (note 12)	3,355
At 31st July, 2004 and 1st August, 2004	13,398
Deferred tax charged to the consolidated income statement during the year (note 12)	(12,544)
At 31st July, 2005	854
Net deferred tax liability as at 31st July, 2005	20,379

Deferred tax liabilities

Company

	Revaluation of properties HK$'000
At 1st August, 2003	
As previously reported	—
Effect of adopting HKAS-Int 21	10,468
As restated	10,468
Deferred tax charged to the income statement during the year	1,975
At 31st July, 2004 and 1st August, 2004 (restated)	12,443
Deferred tax charged to the income statement during the year	2,559
At 31st July, 2005	15,002

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29. DEFERRED TAX (continued)

At 31st July, 2005 and 2004, the Group had unprovided deferred tax assets that represented the following temporary differences and tax losses:

	Group	
	2005	2004
	HK$'000	HK$'000
Tax losses:		
Hong Kong	**168,545**	244,898
Mainland China	**24,845**	47,439
Decelerated capital allowances	**14,022**	11,214
Others	**19,123**	23,279
	226,535	326,830

Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses in Mainland China are available for a period of five years for offsetting against future taxable profits of the respective Group companies in which the losses arose.

At 31st July, 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

Deferred tax assets have not been recognised in respect of the above tax losses and other temporary differences as it is not probable that taxable profits will be available against which the deductible temporary differences and the unused taxes can be utilised.

Deferred tax has been calculated at a rate of 17.5% (2004: 17.5%) on cumulative temporary differences at the balance sheet date.

HKAS 12 and HKAS-Int 21 were adopted during the year as further explained in notes 2 and 5 to the financial statements, the impact of which is summarised in note 3 to the financial statements.

30. SHARE CAPITAL

	2005	2004
	HK$'000	HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.50 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,617,423,423 (2004: 1,437,709,710) ordinary shares of HK$0.50 each	**808,712**	718,855

On 5th July, 2005, rights issue of one rights share for every eight existing shares was made, at an issue price of HK$0.5 per rights share, resulting in the issue of 179,713,713 shares of HK$0.5 each for a total cash consideration, before expenses of HK$3,436,000, of approximately HK$89,857,000.

Pursuant to an extraordinary general meeting held on 26th August, 2005, the nominal amount of each existing authorised share of the Company was reduced from HK$0.50 to HK$0.01 by cancelling the paid-up capital to the extent of HK$0.49 in respect of each existing authorised share. On the basis of the 1,617,423,423 shares in issue as of that date, the credit arising from such reduction, which amounted to approximately HK$792,537,000, was credited to the share premium account of the Company.

31. 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 pages 30 to 32 to the financial statements.

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31. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Investment property revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31st July, 2003 and 1st August, 2003						
As previously reported	1,119,738	67,326	—	3,835	(1,142,900)	47,999
Effect of adopting						
HKAS 40	—	—	—	(3,835)	3,835	—
HKAS-Int 21	—	(9,541)	—	—	(927)	(10,468)
As restated	1,119,738	57,785	—	—	(1,139,992)	37,531
Transfer to accumulated losses upon disposal of a property	—	(2,291)	—	—	2,291	—
Net profit for the year (as restated)	—	—	—	—	55,289	55,289
At 31st July, 2004 (as restated)	1,119,738	55,494	—	—	(1,082,412)	92,820
At 31st July, 2004 and 1st August, 2004						
As previously reported	1,119,738	65,035	—	15,197	(1,094,707)	105,263
Effect of adopting						
HKAS 40	—	—	—	(15,197)	15,197	—
HKAS-Int 21	—	(9,541)	—	—	(2,902)	(12,443)
As restated	1,119,738	55,494	—	—	(1,082,412)	92,820
Share issue expenses	(3,436)	—	—	—	—	(3,436)
Changes in fair value of an available-for-sale investment	—	—	(11,470)	—	—	(11,470)
Net profit for the year	—	—	—	—	152,512	152,512
At 31st July, 2005	1,116,302	55,494	(11,470)	—	(929,900)	230,426

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, note payable, cash and bank balances, financial assets at fair value through profit or loss and short-term time deposits.

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

(i) Fair value and cash flow interest rate risks

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

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

(ii) Liquidity risk

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

(iii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of certain investment operations in Mainland China, the Group's balance sheet can be affected by movements in the RMB/HK$ exchange rate.

A portion of the Group's revenue is predominately in RMB. As RMB is pegged to a basket of foreign currencies, the Group does not expect any significant movements in exchange rates.

The Group has minimal transactional currency exposure, which arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency.

(iv) Credit risk

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

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33. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities (2004: Nil).

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease their investment properties (note 16) and certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**11,694**	13,297	**6,385**	6,359
In the second to fifth years, inclusive	**12,472**	6,088	**3,447**	4,904
After five years	**644**	—	**—**	—
	24,810	19,385	**9,832**	11,263

(b) As lessee

The Group leases its office premises, certain 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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**72,985**	49,873	50	120
In the second to fifth years, inclusive	**65,670**	39,548	—	50
	138,655	89,421	50	170

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35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments in respect of development costs attributable to properties under development:				
Contracted, but not provided for	**161,735**	163,222	**73**	—
Authorised, but not contracted for	**94,470**	94,470	**—**	—
	256,205	257,692	**73**	—

36. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by assets of the Group, are included in notes 16, 18 and 20 to the financial statements.

37. POST BALANCE SHEET EVENTS

On 15th November, 2005, Starfeel Hong Kong Limited ("Starfeel"), a wholly-owned subsidiary of the Company, Proven Honour Investments Limited ("Proven Honour") and Capital Wealth Corporation Limited ("Capital Wealth") entered into a loan facility agreement (the "Loan Facility Agreement"). Both Proven Honour and Capital Wealth are independent third parties of the Company. Pursuant to the Loan Facility Agreement, Starfeel and Proven Honour agreed to provide a revolving loan facility of HK$100,000,000 to Capital Wealth for a period of three years commencing as of 28th July, 2005. An amount up to HK$70,000,000 of the revolving loan facility is to be provided by Starfeel. An amount up to HK$30,000,000 million is to be provided by Proven Honour. The above transaction was detailed in the Company's announcement dated 17th November, 2005.

Other than disclosed above and elsewhere in the financial statements, the Group had no significant post balance sheet event.

38. COMPARATIVE AMOUNTS

As further explained in notes 2 and 3 to the financial statements, due to the adoption of HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18th November, 2005.