



LAI SUN GARMENT

LAI SUN GARMENT (INTERNATIONAL) LIMITED

Annual Report 2002-2003

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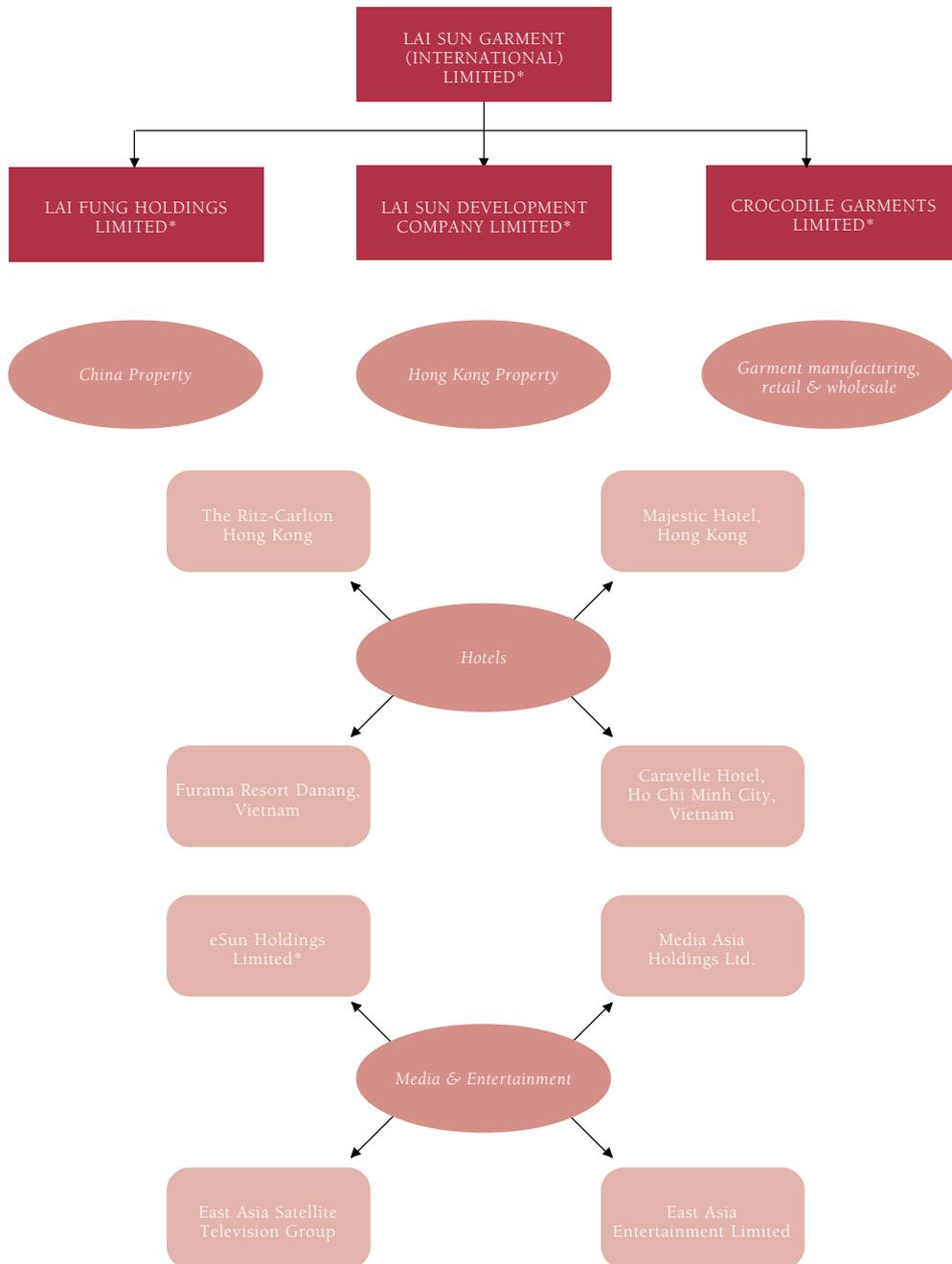
**Lai Sun Garment (International) Limited**

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*Stock code on Hong Kong Stock Exchange: 191*

# Corporate Profile

The Lai Sun Group was founded in 1947 as a garment manufacturer and obtained its first listing on the Hong Kong stock exchange in 1972. The Group has since evolved into a diversified conglomerate and its principal activities include: garment manufacturing, retail and wholesale, property development, property investment, China property, hotels, telecommunications, and media and entertainment. Lai Sun Garment (International) Limited is principally the holding company of the Group and is listed on The Stock Exchange of Hong Kong Limited.



\* Listed on Main Board of the Stock Exchange

## Corporate Information

### Place of Incorporation

Hong Kong

### Directors

Lim Por Yen (Chairman & Managing Director)

Lam Kin Ngok, Peter (Deputy Chairman)

Lam Kin Ming (Deputy Chairman)

Shiu Kai Wah

Lee Po On

Lam Kin Hong, Matthew

U Po Chu

Chiu Wai

Lai Yuen Fong

Lam Wai Kei, Vicky#

Wan Yee Hwa, Edward

Leung Shu Yin, William

# Alternate director to Madam Lai Yuen Fong

### Secretary and Registered Office

Yeung Kam Hoi

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon

Hong Kong

### Share Registrars

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### Auditors

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

### Solicitors

Vincent T.K. Cheung, Yap & Co.

15th Floor, Alexandra House

16-20 Chater Road

Central

Hong Kong

### Bankers

Citibank, N.A.

Hang Seng Bank Limited

Shanghai Commercial Bank Limited

The Bank of East Asia Limited

The Hongkong and Shanghai Banking

Corporation Limited

## Chairman's Statement



*Chairman and Managing Director LIM Por Yen*

### GROUP RESULTS

The Group reported a consolidated net loss from ordinary activities attributable to shareholders of HK\$31,066,000 for the year ended 31st July, 2003, which represented a significant improvement on the net loss of HK\$1,200,274,000 recorded for the previous year. The aforesaid loss for the year was derived from the Group's share of losses of Crocodile Garments Limited and Lai Sun Development Company Limited.

A mild decrease in turnover for the year was reported, due mainly to a noticeable drop in turnover of Crocodile Garments Limited of around 19% but offset by an increase in turnover of about 16% recorded by the garment operation of the Company.

### DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year under review.

### BUSINESS REVIEW

#### *Lai Sun Garment (International) Limited*

The garment operation of the Company recorded an increase of around 32% in net operating profit compared with the corresponding figure for the previous financial year. Savings in administrative and operating expenses, which had been cut by approximately 20.3% on the figure for last year, was the major contributor to the favourable results.

## Chairman's Statement

### *Lai Sun Development Company Limited ("LSD")*

LSD reported a consolidated net loss attributable to shareholders of HK\$461 million for the year under review. This represented a noticeable improvement on the net loss of HK\$1,941.5 million recorded by LSD for the previous financial year. The operating results of LSD had been affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong in early 2003. Local business activities dropped to an unexpectedly low level and continued deflationary pressure resulting from wage decline and contraction in consumer spending had put additional pressure on office and retail properties rentals to which LSD is heavily exposed.

The results of LSD were further affected by losses incurred from provisions taken in respect of its development landbank and the realized loss on disposal of its entire interest in Asia Television Limited during the year.

Notwithstanding such unfavourable market conditions, LSD managed to reduce its overall interest expense for the year under review by almost 9% due to the continued low interest rate environment and its disposal of non-strategic assets.

LSD's investment property portfolio generated gross rental income of HK\$390 million for the year, representing a drop of 6% from the previous year. This was largely due to the sale of Crocodile House 1 and 2 in July 2002 and downward rental revision for the key investment properties. This was, however, partly compensated by rental income from the Majestic Centre acquired by LSD in November 2002. Overall vacancy of LSD's investment properties remained at a low 5%.

During the year, LSD managed to complete a few strategic disposals. These included the LSD group's 20% interest in Bayshore Development Group Limited, which owns the site of the former Furama Hotel at 1 Connaught Road, Central, Hong Kong in March 2003; its entire interest in Asia Television Limited in July 2003; Lai Sun Yuen Long Centre in August 2003 and Causeway Bay Plaza 1 in October 2003.

The hotel sector in Hong Kong was hard hit during the first half of 2003 due to the SARS outbreak. For the seven months ended 31st July, 2003, LSD's 65%-owned The Ritz-Carlton Hong Kong recorded an average occupancy of 45.6% and an average room rate of HK\$1,520, compared with 72.0% and HK\$1,570 recorded in the previous corresponding period.

## Chairman's Statement

Performance of LSD's two hotels in Vietnam, the Caravelle Hotel in Ho Chi Minh City (26.01% interest) and Furama Resort Danang (62.6% interest) was also adversely affected by the substantial decline in tourist traffic during the first seven months of 2003. Both hotels, however, still managed to provide positive contributions.

### *eSun Holdings Limited ("eSun")*

eSun, in which LSD holds a 42.54% interest, reported a net loss attributable to shareholders of HK\$46,721,000 for the six months ended 30th June, 2003. The loss was mainly attributable to a HK\$25,228,000 operating loss recorded by East Asia Satellite Television Limited ("EAST"). eSun's results had also been affected by the suspension in interest payment from Furama Hotel Enterprises Limited ("FHEL") of the LSD group on the HK\$1,500 million debt due from FHEL with effect from 1st January, 2003.

EAST made reasonable progress in cost control and programme distribution. Programmes produced by EAST are now being offered to subscribers of NOW Broadband TV of PCCW Limited. EAST has also successfully marketed its services of providing broadcasting facilities and know-how to outside clients.

Media Asia Holdings Ltd. ("MAH"), in which eSun holds a 49.77% interest, recorded an operating loss for the six months ended 30th June, 2003. East Asia Entertainment Limited, a wholly-owned subsidiary of eSun, had made good progress in the sale of distribution rights for DVD/VCD recordings of its entertainment shows and films.

On 29th January, 2003, LSD requested the board of eSun to put forward a proposal for the privatization of eSun by way of a Scheme of Arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK\$0.28 per share (the "Scheme"). At a meeting of the Scheme shareholders of eSun convened at the direction of the Supreme Court of Bermuda and held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act 1981 of Bermuda and the Hong Kong Code on Takeovers and Mergers. The Scheme thus could not be put into effect and had lapsed.

## Chairman's Statement

### *Lai Fung Holdings Limited ("Lai Fung")*

Lai Fung reported a consolidated net profit attributable to shareholders of HK\$56,995,000 for the year under review, which represented a significant improvement compared with a net loss of HK\$93,976,000 for the previous year. This improvement in results was attributable mainly to the gain on disposal of a partial interest in a subsidiary; an increase in total rental income from Hong Kong Plaza; reduction in finance costs; and a decrease in share of losses of associates.

A decrease in turnover of approximately 16% was recorded due to a slowdown in sale of units in Phase II of Eastern Place in Guangzhou. This shortfall had been compensated by an increase of HK\$13,180,000 in rental income from Hong Kong Plaza in Shanghai.

In Shanghai, rental income from the service apartments of Hong Kong Plaza had been affected by the outbreak of SARS in early 2003 but the property continued to generate satisfactory growth in total rental income.

Foundation work for Lai Fung's project in Changning district, the Regents Park (formerly known as Hai Xin Garden), was completed during the year under review. This development will comprise 13 residential blocks, around 14,800 sq.m. of commercial area, a clubhouse and other facilities. Phase I of the project is scheduled for completion in early 2005.

Construction work of Phase III of Eastern Place in Guangzhou, including a 50-metre swimming pool, tennis courts and golf practice areas has been completed and pre-sale of the residential units is in progress.

Substantial structural work for May Flower Plaza (previously known as Wuyuehua Shangye Guangchang) in Guangzhou had been completed during the year under review. The development comprises a 13-storey complex of office and commercial units of approximately 35,000 sq.m., and a 4-storey basement of approximately 14,000 sq.m. for commercial and car parking uses.

In May 2003, Lai Fung completed a one-for-five rights issue of 767,706,730 shares at HK\$0.10 per share. The Company took up its entitlement in full and therefore its equity interest in Lai Fung remains unchanged at 46.04%.

## Chairman's Statement

### *Crocodile Garments Limited ("CGL")*

CGL's operating results had been adversely affected by the outbreak of SARS in early 2003 and as a result, a drop in turnover of around 19%, compared with the previous financial year, was reported. CGL's overall performance was further affected by provisions made for slow-moving inventories (HK\$29,917,000) and the deficit on revaluation of investment properties (HK\$22,000,000). The consolidated net loss attributable to shareholders of CGL therefore amounted to HK\$58,130,000, compared with a net profit of HK\$20,058,000 recorded for the previous financial year.

The unfavourable impact of SARS on in-bound tourists and local consumer spending had had instantaneous effect on the Hong Kong retail operation of CGL. The profit achieved in the first six months of the financial year reversed to a loss for the full year, despite the prompt adoption of various measures by management to control cost.

The impact of SARS extended to the Mainland of China but following the implementation by CGL of contingent measures, a quick recovery in business activities had been reported by the franchisees.

In October 2003, CGL settled its legal dispute with La Chemise Lacoste S.A. ("Lacoste") over its claim that CGL had infringed its trademark in the Mainland. CGL will use a new trademark device in the Mainland from the third quarter of 2004 and it will cease to use the original trademark design with effect from April 2006.

### PROSPECTS

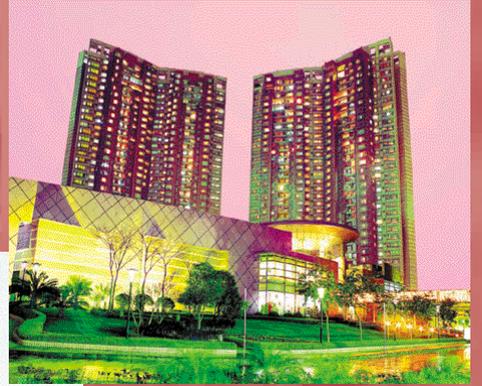
Following the abatement of SARS in May 2003 and the implementation by the Hong Kong SAR government of a number of measures to revive the local economy, in particular the tourism industry, there are signs that the adverse impact of SARS on the local economy is being gradually neutralized. Tourists arrival figures since August 2003 onwards have been stronger than expected and this should benefit the retail, catering and hotel sectors. Sentiment of local residents also appears to be more optimistic and this will augur well for both the property and consumer markets in the short term.

Given the depletion of LSD's development landbank, its property sales schedule will remain thin, with only two projects, namely the Rolling Hills (Phase 2) in Yuen Long and Furama Court in Tsimshatsui, earmarked for sale or pre-sale in 2003/2004.

Croco ladies line

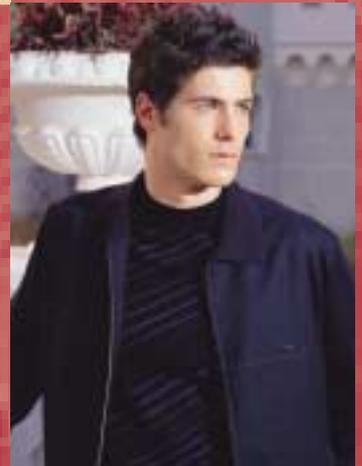


Eastern Place, Guangzhou



Majestic Hotel

Crocodile fashion



Cheung Sha Wan Plaza



Regents Park,  
Shanghai



Croco Kids



May Flower Plaza,  
Guangzhou

## Chairman's Statement

LSD expects the competitive environment in the office and commercial property market to continue. Following its disposal of Crocodile House 1 and 2, Lai Sun Yuen Long Centre and Causeway Bay Plaza 1, LSD anticipates that a substantially lower rental income will be reported in the coming year.

With the stronger than expected revival in tourists arrival levels, the short-term prospects of the hotel industry appear to be more promising. LSD is optimistic of better performance of The Ritz-Carlton Hong Kong and Majestic Hotel in Hong Kong and the two hotels in Vietnam in this financial year.

With the continued devaluation of LSD's investment properties and the loss sustained for the year under review, LSD recorded a consolidated net deficiency in assets of HK\$374 million (2002: net assets of HK\$766 million) as at 31st July, 2003. It is obvious that a substantial debt restructuring programme would be essential for LSD to regain financial health. LSD is negotiating with all of its creditors on a comprehensive debt restructuring plan which LSD hopes could be agreed upon by all parties before the first quarter of 2004.

The debt of approximately HK\$1,500 million owed to the eSun group by the LSD group, originally due to be repaid on 31st December, 2002, remained outstanding. eSun will continue its discussions with the LSD group to pursue the recovery of the debt.

While EAST awaits approval for a satellite television downlink licence from the relevant authorities in the Mainland, it stands to benefit, as a content provider, from the growing number of new players in the local pay-TV market. MAH will benefit from the possible relaxation of quota for Hong Kong produced films in the Mainland following the formal introduction of the Closer Economic Partnership Arrangement ("CEPA").

With the successful accession of China into the World Trade Organisation and the signing of CEPA between Hong Kong and the Mainland, the outlook for further growth in the property market in the Mainland remains positive. Lai Fung expects its flagship property in Shanghai, Hong Kong Plaza, to continue to contribute stable rental income. Its investment property portfolio will be further strengthened when its new grade-A commercial property, May Flower Plaza in Guangzhou, begins leasing in early 2004.

## Chairman's Statement

The scheduled pre-sale of completed developments, the Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, is also expected to contribute positively to both turnover and profitability.

With the legal dispute between CGL and Lacoste concerning the trademark of CGL now settled amicably, CGL is confident it can further strengthen its market share in the Mainland when the new trademark is launched in fall 2004. Given this conclusion to the long-running dispute and the implementation of CEPA, CGL is also optimistic about future prospects for its products in the Mainland market.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2003, total bank and other borrowings, inclusive of the note payable to a shareholder, and net assets of the Group amounted to HK\$295 million and HK\$1,858 million, respectively. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to total net assets as at that date was approximately 15.9%.

Substantially all of the total bank and other borrowings of HK\$85 million as at 31st July, 2003 were repayable or renewable within one year. The note payable to a shareholder had a maturity date on 30th April, 2005.

The Group's bank borrowings were mainly in HK dollar and US dollar thereby avoiding any unnecessary exchange risk exposure. The majority of the bank and other borrowings were maintained as floating rate debts. Attention will be paid to the interest rate movements. Hedging instruments will be employed when necessary to hedge against unanticipated interest rate volatilities.

As at 31st July, 2003, certain investment properties with carrying value of approximately HK\$244 million and certain land and building with carrying value of approximately HK\$6 million were pledged to banks to secure banking facilities granted to the Group. In addition, 115,000,000 ordinary shares of Lai Fung and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure banking facilities granted to the Group.

The cash and bank balance and short-term listed investments held by the Group as at 31st July, 2003 amounted to HK\$100 million and HK\$20 million, respectively, which was considered adequate to cover the working capital requirement of the Group.

# Chairman's Statement

Most of the Group's sales and purchases were made mainly in US dollar, HK dollar, Renminbi and euro. Foreign purchases in euro were mostly covered with forward exchange contracts in order to minimize the exchange risk.

## EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,000 (2002: 1,300) employees as at the balance sheet date. The drop in headcount was mainly due to further streamlining of the garment operations as part of the overall cost-cutting plan carried out by the Group. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 30 to the financial statements.

## MANAGEMENT AND STAFF

The impact of SARS on the operations of Group companies in Hong Kong and the Mainland during the year has been short and sharp but management and staff have shown exceptional resilience to this unprecedented shock to their operating units. On behalf of the Board, I wish to pay tribute to management and all staff members of the Group for their contribution and dedication to their work. I would also like to thank our shareholders and business partners and associates for their continuing support.

**Lim Por Yen**

*Chairman and Managing Director*

Hong Kong

7th November, 2003

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31st July, 2003.

## PRINCIPAL ACTIVITIES

The Company's principal activities during the year consisted of the trading of garments, property investment and investment holding.

The Group's principal activities did not change during the year and included the manufacture and trading of garments, property development, property investment and investment holding.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st July, 2003 is set out in note 4 to the financial statements.

## RESULTS

The Group's loss for the year ended 31st July, 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 29 to 75.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 24.

## PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out on page 25.

## SHARE CAPITAL

Details of share capital of the Company during the year are set out in note 27 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31st July, 2003, the Company did not have any reserves for distribution in accordance with the provisions of Section 79B of the Companies Ordinance.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$6,262,000.

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to its five largest customers accounted for less than 30% of the Group's combined sales and the Group's purchases from its five largest suppliers accounted for less than 30% of the Group's combined purchases.

## DIRECTORS

The directors of the Company as at the date of this report and those who were in office during the year are as follows:

Lim Por Yen (*Chairman and Managing Director*)

Lam Kin Ngok, Peter (*Deputy Chairman*)

Lam Kin Ming (*Deputy Chairman*)

Shiu Kai Wah

Lee Po On

Lam Kin Hong, Matthew

U Po Chu

Chiu Wai

Lai Yuen Fong

Lam Wai Kei, Vicky #

Wan Yee Hwa, Edward \*

Leung Shu Yin, William \*

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# *Alternate director to Madam Lai Yuen Fong*

\* *Independent non-executive directors*

In accordance with Article 102 of the Company's Articles of Association, Mr. Lim Por Yen, Mr. Shiu Kai Wah, Mr. Lam Kin Hong, Matthew and Madam Lai Yuen Fong retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election at the said meeting.

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 5 to the financial statements, no director had a material interest, whether direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong and the Mainland, and garment manufacturing and related businesses.

As the Board is independent from the boards of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

## CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

At no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### Executive Directors

Mr. Lim Por Yen, Chairman and Managing Director of the Company, aged 88, is the founder of the Lai Sun Group and has been a director of the Company since October 1987. He is also the honorary chairman of Lai Sun Development Company Limited, the chairman of Crocodile Garments Limited and Lai Fung Holdings Limited, and an executive director of eSun Holdings Limited. Mr. Lim first became involved in the property and investment business in the mid-1950's and has over 60 years' experience in the garment business. He is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the People's Republic of China. Mr. Lim was also one of the Hong Kong Affairs Advisers to the People's Republic of China and is a founder member of The Better Hong Kong Foundation.

Mr. Lam Kin Ngok, Peter, aged 46, is a Deputy Chairman of the Company. He has been a director of the Company since October 1987. Mr. Lam is also the chairman and president of Lai Sun Development Company Limited, and an executive director of eSun Holdings Limited, Crocodile Garments Limited and Lai Fung Holdings Limited. Mr. Lam has extensive experience in the property and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

Mr. Lam Kin Ming, aged 66, is a Deputy Chairman of the Company. He has been a director of the Company since October 1987 and has been involved in the management of garment business since 1958. Mr. Lam is also the deputy chairman of Crocodile Garments Limited and Lai Fung Holdings Limited, and a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Lam is also an alternate director to certain directors of Lai Fung Holdings Limited. Mr. Lam is a son of Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### Executive Directors (continued)

Mr. Shiu Kai Wah, aged 71, has been a director of the Company since December 1990. He is also a non-executive director of Lai Sun Development Company Limited, eSun Holdings Limited, Lai Fung Holdings Limited and Crocodile Garments Limited. Mr. Shiu has over 30 years' experience in the management of the garment business.

Mr. Lee Po On, aged 48, has been a director of the Company since June 1991. Mr. Lee is also an executive director and the chief executive officer of eSun Holdings Limited and a director of Lai Fung Holdings Limited. Mr. Lee joined the Lai Sun Group in November 1987 and held the position of chief executive officer of Asia Television Limited from 1992 to 1996. He is a Fellow of the Association of Chartered Certified Accountants with substantial financial and commercial experience.

Mr. Lam Kin Hong, Matthew, aged 35, was appointed a director of the Company in March 2001. He is a legal adviser of the Company and is also an executive director of Crocodile Garments Limited, and an executive director and the chief executive officer of Lai Fung Holdings Limited. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development and corporate finance fields in Hong Kong and China. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

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#### Non-Executive Directors

Madam U Po Chu, aged 78, has been a director of the Company since December 1990. She is also a non-executive director of Lai Sun Development Company Limited, Crocodile Garments Limited and eSun Holdings Limited, and an executive director of Lai Fung Holdings Limited. Madam U has over 55 years' experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing, and in the late 1980's also became involved in property development and investment. In 2000, Madam U began investing in the catering industry in Hong Kong. Madam U is Mr. Lim Por Yen's wife.

Mr. Chiu Wai, aged 72, has been a director of the Company since October 1987. Mr. Chiu is also a non-executive director of Lai Sun Development Company Limited, eSun Holdings Limited, Lai Fung Holdings Limited and Crocodile Garments Limited. Mr. Chiu has over 45 years' experience in production management. He has been working for the Lai Sun Group's garment business since 1955.

Madam Lai Yuen Fong, aged 89, has been a director of the Company since May 1992. Madam Lai is Mr. Lim Por Yen's wife.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### Non-Executive Directors (continued)

Miss Lam Wai Kei, Vicky, aged 31, was appointed the alternate director to Madam Lai Yuen Fong in September 2001. She graduated from the University of Southern California in the United States with bachelor's degrees in business administration and architecture in 1996. She is a member of the American Institute of Architects and prior to joining the Lai Sun Group in August 2000, she worked as an architect and project manager with Skidmore, Owings and Merrill Co. Ltd., an architects firm in New York which participated in various substantial projects such as the New York Stock Exchange, John Kennedy Airport and Times Square Tower. She is currently a vice president of Kingscord Investment Limited, a wholly-owned subsidiary of the Company engaged in property investments in the Mainland of China and Hong Kong. Miss Lam is a daughter of Mr. Lam Kin Ming and a granddaughter of Mr. Lim Por Yen.

Mr. Wan Yee Hwa, Edward, aged 67, was appointed an independent non-executive director of the Company in March 2002. Mr. Wan is also an independent non-executive director of Crocodile Garments Limited. He has been a certified public accountant in Hong Kong since 1961.

Mr. Leung Shu Yin, William, aged 54, is an independent non-executive director of the Company. Mr. Leung is a certified public accountant, a member of the Hong Kong Securities Institute and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is practising as a practising director of two Certified Public Accountants' firms in Hong Kong and is also an independent non-executive director of another two companies listed in Hong Kong.

#### Senior Management

Mr. Lau Shu Yan, Julius, aged 47, joined the Lai Sun Group in July 1991 as a director of Lai Sun Development Company Limited. Mr. Lau has over 15 years of experience of holding senior management positions in the property and securities industries. He was a director of Jones Lang Wootton Limited and then Jardine Fleming Broking Limited prior to his current appointment. Mr. Lau is a director and a member of the Executive Committee of the Real Estate Developers Association of Hong Kong.

Mr. Wu Shiu Kee, Keith, aged 40, joined the Lai Sun Group in November 1997 and was appointed a director of Lai Sun Development Company Limited on 1st January, 1998. He has over 15 years' experience in investment research and asset management. Prior to his appointment in the Lai Sun Group, Mr. Wu served as a director and head of Hong Kong/China Research for Peregrine Brokerage Limited. He holds a Bachelor in Science degree from the University of Toronto and a Master in Science degree from Stanford University.

Mr. Lien Jown Jing, Vincent, aged 42, first joined the Lai Sun Group as an independent non-executive director of eSun Holdings Limited ("eSun") in August 1998 and was later appointed an executive director and elected the chairman of eSun in December 1999. He has over 14 years' experience in banking and corporate finance in Hong Kong and the Mainland of China, Singapore and South-east Asia, having held various senior positions at different major multinational banking institutions.

# Report of the Directors

## DIRECTORS' INTERESTS

As at 31st July, 2003, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

### (1) The Company

Name of Director	Personal Interests	Long positions in the shares			Total	Percentage
		Family Interests	Corporate Interests	Capacity		
Lim Por Yen	484,991,750	3,669,000 (Note 1)	Nil	Beneficial owner	488,660,750	33.99%
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Beneficial owner	110,794,951	7.71%
Lam Kin Ming	4,451,790	Nil	Nil	Beneficial owner	4,451,790	0.31%
U Po Chu	3,669,000	484,991,750 (Note 2)	Nil	Beneficial owner	488,660,750	33.99%
Chiu Wai	199,600	Nil	Nil	Beneficial owner	199,600	0.01%
Lai Yuen Fong	Nil	488,660,750 (Note 3)	Nil	Beneficial owner	488,660,750	33.99%

#### Notes:

1. Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
2. Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 488,660,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

#### Long positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives.

#### Short positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporations

#### (a) Lai Sun Development Company Limited ("LSD")

Name of Director	Long positions in shares of LSD					
	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lim Por Yen	197,859,550	633,400 <i>(Note 1)</i>	1,582,869,192 <i>(Note 2)</i>	Beneficial owner	1,781,362,142	47.55%
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Beneficial owner	10,099,585	0.27%
U Po Chu	633,400	1,780,728,742 <i>(Note 3)</i>	Nil	Beneficial owner	1,781,362,142	47.55%
Chiu Wai	195,500	Nil	Nil	Beneficial owner	195,500	0.01%
Lai Yuen Fong	Nil	1,781,362,142 <i>(Note 4)</i>	Nil	Beneficial owner	1,781,362,142	47.55%
Lam Wai Kei, Vicky	100,000	Nil	Nil	Beneficial owner	100,000	0.0027%

#### Notes:

- Mr. Lim Por Yen was deemed to be interested in 633,400 shares in LSD by virtue of the interest in such shares of his spouse, Madam U Po Chu.
- The Company and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in LSD. Mr. Lim Por Yen was deemed to be interested in such shares in LSD by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
- Madam U Po Chu was deemed to be interested in 1,780,728,742 shares in LSD by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
- Madam Lai Yuen Fong was deemed to be interested in 1,781,362,142 shares in LSD by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

#### Long positions in underlying shares of equity derivatives of LSD

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of LSD.

#### Short positions in underlying shares of equity derivatives of LSD

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of LSD.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporations (continued)

#### (b) eSun Holdings Limited ("eSun")

Name of Director	Personal Interests	Long positions in shares of eSun			Total	Percentage
		Family Interests	Corporate Interests	Capacity		
Lim Por Yen	Nil	Nil	285,512,791 (Note 1)	Beneficial owner	285,512,791	42.54%
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%
U Po Chu	Nil	285,512,791 (Note 2)	Nil	Beneficial owner	285,512,791	42.54%
Lai Yuen Fong	Nil	285,512,791 (Note 3)	Nil	Beneficial owner	285,512,791	42.54%

#### Notes:

1. eSun is an associated corporation of the Company as LSD and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in eSun. The Company and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of LSD. Mr. Lim Por Yen was deemed to be interested in such shares in eSun by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 285,512,791 shares in eSun by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 285,512,791 shares in eSun by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

#### Long positions in underlying shares of equity derivatives of eSun

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of eSun.

#### Short positions in underlying shares of equity derivatives of eSun

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of eSun.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporations (continued)

#### (c) Lai Fung Holdings Limited ("Lai Fung")

Name of Director	Long positions in shares of Lai Fung					Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity			
Lim Por Yen	Nil	Nil	2,120,550,431 (Note 1)	Beneficial owner	2,120,550,431	46.04%	
U Po Chu	Nil	2,120,550,431 (Note 2)	Nil	Beneficial owner	2,120,550,431	46.04%	
Lai Yuen Fong	Nil	2,120,550,431 (Note 3)	Nil	Beneficial owner	2,120,550,431	46.04%	

Notes:

1. The Company and its wholly-owned subsidiary beneficially owned 2,120,550,431 shares in Lai Fung. Mr. Lim Por Yen was deemed to be interested in such shares in Lai Fung by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 2,120,550,431 shares in Lai Fung by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 2,120,550,431 shares in Lai Fung by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

#### Long positions in underlying shares of equity derivatives of Lai Fung

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of Lai Fung.

#### Short positions in underlying shares of equity derivatives of Lai Fung

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of Lai Fung.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporations (continued)

#### (d) Crocodile Garments Limited ("CGL")

Name of Director	Personal Interests	Long positions in shares of CGL			Capacity	Total	Percentage
		Family Interests	Corporate Interests				
Lim Por Yen	Nil	Nil	338,982,809 (Note 1)	Beneficial owner	338,982,809	54.93%	
Lee Po On	6,194,000	Nil	Nil	Beneficial owner	6,194,000	1.00%	
U Po Chu	Nil	338,982,809 (Note 2)	Nil	Beneficial owner	338,982,809	54.93%	
Lai Yuen Fong	Nil	338,982,809 (Note 3)	Nil	Beneficial owner	338,982,809	54.93%	

#### Notes:

1. The Company and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Mr. Lim Por Yen was deemed to be interested in such shares in CGL by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 338,982,809 shares in CGL by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 338,982,809 shares in CGL by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

#### Long positions in underlying shares of equity derivatives of CGL

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of CGL.

#### Short positions in underlying shares of equity derivatives of CGL

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of CGL.

Save as disclosed above, as at 31st July, 2003, none of the directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

## Report of the Directors

### ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2003, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lim Por Yen	Beneficial owner	Personal and Family	488,660,750	33.99% (Note 2)
Lam Kin Ngok, Peter	Beneficial owner	Personal	110,794,951	7.71% (Note 3)
U Po Chu	Beneficial owner	Personal and Family	488,660,750	33.99% (Note 4)
Lai Yuen Fong	Beneficial owner	Family	488,660,750	33.99% (Note 5)
Far East Consortium International Limited	Beneficial owner	Corporate	108,697,000	7.56% (Note 3)

#### Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest, respectively.
2. Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
3. Persons falling into the category of "Other Persons" in Practice Note 5 to the Listing Rules.
4. Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Madam Lai Yuen Fong was deemed to be interested in 488,660,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31st July, 2003.

# Report of the Directors

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year ended 31st July, 2003, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## DETAILS OF PROPERTIES

The principal investment properties of the Group are as follows:

Location	Group interest	Tenure	Use
Por Yen Building, No. 478 Castle Peak Road, Kowloon, Hong Kong	100%	Inland Lot No. 2081 is held for a term of 99 years commencing on 1st July, 1898 and renewable for a further term of 50 years	Industrial/rental
Shop G9/9A and G10 on ground floor, Room no. 213A on 2nd floor and Room no. 413A on 4th floor, Hankow Centre, 5-15 Hankow Road, 41-51 Peking Road, 4, 4A and 4B Ashley Road and 1, 1A-1E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong	54.93%	Inland Lot No. 8219 is held for a term of 150 years commencing on 24th June, 1895	Commercial/rental
The whole of basement, Shop No. 24 on Ground and Mezzanine Floors, Shop No. 33B on Ground and Mezzanine Floors, Tsimshatsui Mansion, Nos. 83-97 Nathan Road, Nos. 36-50 Lock Road, Tsim Sha Tsui, Kowloon, Hong Kong	54.93%	The property is held under Conditions of Renewal No.5289 for a term of 150 years commencing on 24th June, 1889	Commercial/rental
Crocodile Building, No. 79 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	54.93%	Inland Lot No. 692 is held for a term of 92 years commencing on 1st July, 1955	Commercial/rental

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

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

Particulars of the Group's property under development are as follows:

Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
A piece of land at junction of Da Tong Road and Zhi Jiang Xi Road, Su Jia Xiang, Zhabei, Shanghai, PRC	95%	Development under planning	2004	Commercial/residential	The total site area is 41,800 sq.m. The total gross floor area will be 194,000 sq.m.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and adjusted as appropriate, is set out below.

### RESULTS

	Year ended 31st July,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>1,295,241</u>	<u>1,297,622</u>	<u>1,317,571</u>	<u>2,966,884</u>	<u>3,180,510</u>
LOSS BEFORE TAX	(24,626)	(1,162,612)	(608,191)	(3,061,925)	(7,658,991)
Tax	<u>(32,639)</u>	<u>(28,622)</u>	<u>(18,695)</u>	<u>(29,211)</u>	<u>(49,758)</u>
LOSS BEFORE MINORITY INTERESTS	(57,265)	(1,191,234)	(626,886)	(3,091,136)	(7,708,749)
Minority interests	<u>26,199</u>	<u>(9,040)</u>	<u>(2,550)</u>	<u>2,008,849</u>	<u>4,074,093</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(31,066)</u>	<u>(1,200,274)</u>	<u>(629,436)</u>	<u>(1,082,287)</u>	<u>(3,634,656)</u>

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued) ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st July,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Fixed assets	31,465	35,581	234,067	376,975	2,414,824
Investment properties	246,900	221,100	142,800	77,700	10,034,000
Properties under development	176,397	177,228	188,702	187,840	7,982,105
Goodwill	89,887	107,867	125,847	128,366	258,544
Deferred pre-operating expenses	—	—	—	—	10,718
Interests in associates	1,661,272	1,659,150	2,788,652	2,654,130	1,124,655
Interests in jointly-controlled entities	—	—	—	—	188,572
Long term investments	—	—	—	—	1,018,389
Long term note receivable	—	—	—	—	245,000
Current assets	<u>489,998</u>	<u>648,098</u>	<u>513,174</u>	<u>493,410</u>	<u>2,613,982</u>
<b>TOTAL ASSETS</b>	<b><u>2,695,919</u></b>	<b><u>2,849,024</u></b>	<b><u>3,993,242</u></b>	<b><u>3,918,421</u></b>	<b><u>25,890,789</u></b>
Current liabilities	(502,819)	(629,733)	(509,953)	(450,086)	(5,133,268)
Note payable	(210,000)	(210,000)	—	—	—
Long term deposits received	(6,875)	(23,375)	(39,875)	—	(102,635)
Interest-bearing bank and other borrowings	—	(7)	(2,387)	(7,858)	(3,195,936)
Provision for premium on bonds redemption	—	—	—	—	(249,554)
Provision for premium on convertible note redemption	—	—	—	—	(1,667)
Convertible bonds	—	—	—	—	(2,098,581)
Convertible note	—	—	—	—	(600,000)
Long term bonds payable	—	—	—	—	(891,250)
Deferred tax	—	—	—	(1,063)	(188)
<b>TOTAL LIABILITIES</b>	<b><u>(719,694)</u></b>	<b><u>(863,115)</u></b>	<b><u>(552,215)</u></b>	<b><u>(459,007)</u></b>	<b><u>(12,273,079)</u></b>
<b>MINORITY INTERESTS</b>	<b><u>(117,958)</u></b>	<b><u>(144,156)</u></b>	<b><u>(182,541)</u></b>	<b><u>(198,880)</u></b>	<b><u>(9,123,369)</u></b>
	<b><u>1,858,267</u></b>	<b><u>1,841,753</u></b>	<b><u>3,258,486</u></b>	<b><u>3,260,534</u></b>	<b><u>4,494,341</u></b>

## Report of the Directors

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report. All the non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

### AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

### AUDITORS

Ernst & Young retire at the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said meeting.

On Behalf of the Board

**Lim Por Yen**

*Chairman & Managing Director*

Hong Kong

7th November, 2003

# Report of the Auditors

**ERNST & YOUNG**

安永會計師事務所

To the members

Lai Sun Garment (International) Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 29 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

*Certified Public Accountants*

Hong Kong

7th November, 2003

# Consolidated Profit and Loss Account

For the year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	6	1,295,241	1,297,622
Cost of sales		<u>(952,376)</u>	<u>(849,014)</u>
Gross profit		342,865	448,608
Other revenue and gains		10,415	11,296
Administrative expenses		(114,279)	(112,828)
Selling and distribution costs		(182,998)	(229,286)
Other operating expenses		<u>(47,282)</u>	<u>(80,650)</u>
PROFIT FROM OPERATING ACTIVITIES	7	8,721	37,140
Finance costs	8	(13,099)	(6,814)
Share of profits and losses of associates		(32,809)	(922,849)
Negative goodwill recognised		12,561	3,723
Provision for impairment in value of an associate		<u>—</u>	<u>(273,812)</u>
LOSS BEFORE TAX		(24,626)	(1,162,612)
Tax	10	<u>(32,639)</u>	<u>(28,622)</u>
LOSS BEFORE MINORITY INTERESTS		(57,265)	(1,191,234)
Minority interests		<u>26,199</u>	<u>(9,040)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>(31,066)</u>	<u>(1,200,274)</u>
LOSS PER SHARE	12		
Basic		<u>HK\$0.02</u>	<u>HK\$0.83</u>
Diluted		<u>N/A</u>	<u>N/A</u>

# Consolidated Balance Sheet

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	31,465	35,581
Investment properties	14	246,900	221,100
Properties under development	15	176,397	177,228
Goodwill	17	89,887	107,867
Interests in associates	18	1,661,272	1,659,150
		<u>2,205,921</u>	<u>2,200,926</u>
<b>CURRENT ASSETS</b>			
Short term investments	19	19,637	18,150
Inventories	20	92,033	138,564
Deposits and other receivables		22,872	30,900
Trade receivables	21	255,881	361,309
Cash and cash equivalents	22	99,575	99,175
		<u>489,998</u>	<u>648,098</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		96,395	98,866
Trade and bills payables	23	275,838	413,836
Tax payable		46,069	28,625
Interest-bearing bank and other borrowings	24	84,517	88,406
		<u>502,819</u>	<u>629,733</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(12,821)</u>	<u>18,365</u>
TOTAL ASSETS LESS CURRENT LIABILITIES — PAGE 31		<u>2,193,100</u>	<u>2,219,291</u>

# Consolidated Balance Sheet

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES — PAGE 30		<u>2,193,100</u>	<u>2,219,291</u>
NON-CURRENT LIABILITIES			
Note payable	25	210,000	210,000
Long term deposits received		6,875	23,375
Interest-bearing bank and other borrowings	24	<u>—</u>	<u>7</u>
		<u>216,875</u>	<u>233,382</u>
MINORITY INTERESTS			
		<u>117,958</u>	<u>144,156</u>
		<u>1,858,267</u>	<u>1,841,753</u>
CAPITAL AND RESERVES			
Issued capital	27	718,855	718,855
Reserves	28(a)	<u>1,139,412</u>	<u>1,122,898</u>
		<u>1,858,267</u>	<u>1,841,753</u>

Lim Por Yen  
Director

Lam Kin Ngok, Peter  
Director

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2001	718,855	1,119,738	51,912	148,729	4,455,469	57	29,755	(3,266,029)	3,258,486
Share of reserves of associates	—	—	—	(148,729)	(33,312)	—	—	—	(182,041)
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	(38)	—	(38)
Associates	—	—	—	—	—	—	(809)	—	(809)
Deficit on revaluation of fixed assets on their transfer to investment properties	—	—	(31,961)	—	—	—	—	—	(31,961)
Net losses not recognised in the profit and loss account	—	—	(31,961)	(148,729)	(33,312)	—	(847)	—	(214,849)
Release upon write-off of fixed assets	—	—	(166)	—	—	—	—	166	—
Release upon deregistration of subsidiaries	—	—	—	—	(1,610)	—	—	—	(1,610)
Net loss for the year	—	—	—	—	—	—	—	(1,200,274)	(1,200,274)
At 31st July, 2002 and 1st August, 2002									
— Page 33	718,855	1,119,738	19,785	—	4,420,547	57	28,908	(4,466,137)	1,841,753

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st July, 2002 and 1st August, 2002 — Page 32	718,855	1,119,738	19,785	—	4,420,547	57	28,908	(4,466,137)	1,841,753
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	70	—	70
Associates	—	—	—	—	—	—	(326)	—	(326)
Share of reserves of an associate	—	—	—	—	(1,572)	—	—	1,867	295
Surplus on revaluation of fixed assets on their transfer to investment properties	—	—	47,541	—	—	—	—	—	47,541
Net gains and losses not recognised in the profit and loss account	—	—	47,541	—	(1,572)	—	(256)	1,867	47,580
Net loss for the year	—	—	—	—	—	—	—	(31,066)	(31,066)
At 31st July, 2003	<u>718,855</u>	<u>1,119,738*</u>	<u>67,326*</u>	<u>—*</u>	<u>4,418,975*</u>	<u>57*</u>	<u>28,652*</u>	<u>(4,495,336)*</u>	<u>1,858,267</u>

\* These reserve accounts comprise the consolidated reserves of HK\$1,139,412,000 (2002: HK\$1,122,898,000) in the consolidated balance sheet.

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	718,855	1,119,738	67,326	3,914,994	57	5,212	605,206	6,431,388
Associates	—	—	—	503,981	—	23,440	(5,100,542)	(4,573,121)
At 31st July, 2003	<u>718,855</u>	<u>1,119,738</u>	<u>67,326</u>	<u>4,418,975</u>	<u>57</u>	<u>28,652</u>	<u>(4,495,336)</u>	<u>1,858,267</u>
Company and subsidiaries	718,855	1,119,738	19,785	3,914,994	57	5,142	589,526	6,368,097
Associates	—	—	—	505,553	—	23,766	(5,055,663)	(4,526,344)
At 31st July, 2002	<u>718,855</u>	<u>1,119,738</u>	<u>19,785</u>	<u>4,420,547</u>	<u>57</u>	<u>28,908</u>	<u>(4,466,137)</u>	<u>1,841,753</u>

Certain amounts of negative goodwill arising on the acquisition of subsidiaries and associates, remain credited to the capital reserve and are further explained in notes 17 and 18 to the financial statements.

# Consolidated Cash Flow Statement

For the year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(24,626)	(1,162,612)
Adjustments for:			
Amortisation of goodwill on acquisition of subsidiaries	7	17,980	17,980
Deficit on revaluation of fixed assets	7	—	25,836
Deficit on revaluation of investment properties	7	23,700	1,700
Depreciation	7	7,965	15,868
Dividend income from short term listed investments	7	(845)	(778)
Gain on deregistration of subsidiaries	7	—	(1,610)
Interest income	7	(701)	(716)
Impairment of properties under development	7	943	11,414
Loss on disposal of fixed assets	7	1,041	1,985
Loss on disposal of properties held for sale	7	—	100
Provision for doubtful debts	7	523	2,068
Unrealised losses/(gains) of short term investments	7	(1,487)	133
Finance costs	8	13,099	6,814
Share of profits and losses of associates		32,809	922,849
Negative goodwill recognised		(12,561)	(3,723)
Provision for impairment in value of an associate		—	273,812
Operating profits before working capital changes		57,840	111,120
Decrease/(increase) in amounts due from associates		234	(241)
Decrease in amounts due to associates		(1,229)	(1,864)
Increase in short term investments		—	(483)
Decrease/(increase) in inventories		46,531	(12,028)
Decrease/(increase) in trade receivables, deposits and other receivables		112,933	(123,327)
Increase/(decrease) in trade and bills payables, deposits received, other payables and accruals		(156,969)	136,523
Cash generated from operations		59,340	109,700
Hong Kong profits tax paid		(317)	(19,111)
Overseas taxes paid		(941)	—
Net cash inflow from operating activities — page 36		58,082	90,589

# Consolidated Cash Flow Statement

For the year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Net cash inflow from operating activities — page 35		<u>58,082</u>	<u>90,589</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of an associate		—	(35,343)
Dividends received from short term listed investments		845	778
Interest received		701	716
Proceeds from disposal of fixed assets		15	1,218
Proceeds from disposal of properties held for sale		—	4,300
Purchases of fixed assets		(6,864)	(5,807)
Subscription of rights shares of an associate		<u>(35,343)</u>	<u>—</u>
Net cash outflow from investing activities		<u>(40,646)</u>	<u>(34,138)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase/(decrease) in trust receipt loans		143	(14,378)
Interest paid on bank loans, overdrafts and other borrowings		(13,099)	(6,814)
Proceeds from new borrowings		—	50,455
Repayment of bank loans and other borrowings		(2,367)	(65,910)
Repayment of note payable		—	(15,200)
Advance from a shareholder		—	16,000
Repayment of an advance from a shareholder		<u>—</u>	<u>(16,000)</u>
Net cash outflow from financing activities		<u>(15,323)</u>	<u>(51,847)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,113	4,604
Cash and cash equivalents at beginning of year		95,173	90,569
Effect of foreign exchange rate changes, net		<u>(41)</u>	<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>97,245</u>	<u>95,173</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	22	78,718	86,156
Non-pledged time deposits with original maturity of less than three months when acquired	22	20,857	13,019
Bank overdrafts	24	<u>(2,330)</u>	<u>(4,002)</u>
		<u>97,245</u>	<u>95,173</u>

# Company Balance Sheet

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	4,011	4,872
Investment properties	14	63,900	16,100
Interests in subsidiaries	16	586,911	561,462
Interests in associates	18	370,868	346,862
		<u>1,025,690</u>	<u>929,296</u>
<b>CURRENT ASSETS</b>			
Short term investments	19	19,637	18,150
Deposits and other receivables		4,501	4,479
Trade receivables		229,033	328,357
Cash and cash equivalents	22	28,026	13,069
		<u>281,197</u>	<u>364,055</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		23,954	28,481
Trade payables		234,624	337,340
Tax payable		24,573	6,073
Interest-bearing bank and other borrowings	24	40,007	40,965
		<u>323,158</u>	<u>412,859</u>
<b>NET CURRENT LIABILITIES</b>		<u>(41,961)</u>	<u>(48,804)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>983,729</b>	<b>880,492</b>
<b>NON-CURRENT LIABILITIES</b>			
Note payable	25	210,000	210,000
Long term deposits received		6,875	23,375
Interest-bearing bank and other borrowings	24	—	7
		<u>216,875</u>	<u>233,382</u>
		<u>766,854</u>	<u>647,110</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	718,855	718,855
Reserves	28(b)	47,999	(71,745)
		<u>766,854</u>	<u>647,110</u>

Lim Por Yen  
Director

Lam Kin Ngok, Peter  
Director

# Notes to Financial Statements

31st July, 2003

## 1. CORPORATE INFORMATION

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

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

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

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”
- SSAP 35: “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 32 to 34 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserve note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### Subsidiaries

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

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

### Associates

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

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

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

### Goodwill

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

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

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

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

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### Negative goodwill

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

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

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

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Negative goodwill (continued)

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

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

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

### Impairment of assets

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

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

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

### Fixed assets and depreciation

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

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

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

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

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

The transitional provisions set out in paragraph 72 of SSAP 17 “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.

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

On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

On a transfer of a revalued asset to investment properties, the remaining fixed asset revaluation reserve arising from that asset is frozen and remains as a fixed asset revaluation reserve until the asset is sold, when the frozen fixed asset revaluation reserve is transferred to retained earnings as a movement in reserves.

### Investment properties

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

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)

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

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

### Properties under development

Properties under development are stated at cost less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

### Short term investments

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

### Inventories

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

### Textile quota entitlements

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

### Operating leases

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

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement, in addition to bank overdrafts, also included advances from banks repayable within three months from the date of the advance. The definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31st July, 2002 has been adjusted to remove trust receipt loans of HK\$10,181,000 previously included at that date. This year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

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.

### Deferred tax

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

### Revenue recognition

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

- (a) from the sale of goods and transfer of quotas, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the sale of properties held for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Government or a completion certificate by the relevant government authorities, whichever is the later;
- (c) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

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

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy, however, has had no material effect on the financial statements.

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

#### *Pension schemes*

The Group operates defined contribution pension schemes under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes") for those employees who are eligible to participate in the MPF Schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF 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 which operate in the Mainland of China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

### Related parties

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

### Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

# Notes to Financial Statements

31st July, 2003

## 4. SEGMENT INFORMATION

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

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

- (a) the garment 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 services business, and corporate income and expense items.

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

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

# Notes to Financial Statements

31st July, 2003

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, 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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	1,268,361	1,274,750	—	—	14,054	11,739	12,826	11,133	—	—	1,295,241	1,297,622
Intersegment sales	—	—	—	—	3,999	4,131	—	—	(3,999)	(4,131)	—	—
Other revenue	6,802	7,483	—	—	211	128	—	2	—	—	7,013	7,613
<b>Total</b>	<b>1,275,163</b>	<b>1,282,233</b>	<b>—</b>	<b>—</b>	<b>18,264</b>	<b>15,998</b>	<b>12,826</b>	<b>11,135</b>	<b>(3,999)</b>	<b>(4,131)</b>	<b>1,302,254</b>	<b>1,305,235</b>
Segment results	29,902	44,617	(1,239)	(11,800)	(10,184)	9,005	(13,160)	(8,365)	—	—	5,319	33,457
Interest income and unallocated other revenue and gains											3,402	3,683
Profit from operating activities											8,721	37,140
Finance costs											(13,099)	(6,814)
Share of profits and losses of associates											(32,809)	(922,849)
Negative goodwill recognised											12,561	3,723
Provision for impairment in value of an associate											—	(273,812)
Loss before tax											(24,626)	(1,162,612)
Tax											(32,639)	(28,622)
Loss before minority interests											(57,265)	(1,191,234)
Minority interests											26,199	(9,040)
Net loss from ordinary activities attributable to shareholders											(31,066)	(1,200,274)

## Notes to Financial Statements

31st July, 2003

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Garment operation		Property development		Property investment		Others		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	588,551	769,696	179,655	180,798	259,874	232,314	4,237	3,064	1,032,317	1,185,872
Interests in associates									1,661,272	1,659,150
Bank overdrafts included in segment assets	2,330	4,002	—	—	—	—	—	—	2,330	4,002
Total assets									2,695,919	2,849,024
Segment liabilities	362,026	524,488	2,986	813	907	3,348	13,190	7,428	379,109	536,077
Unallocated liabilities									338,255	323,036
Bank overdrafts included in segment assets	2,330	4,002	—	—	—	—	—	—	2,330	4,002
Total liabilities									719,694	863,115
Other segment information:										
Depreciation	7,501	15,261	22	66	289	264	153	277	7,965	15,868
Amortisation of goodwill on acquisition of subsidiaries	17,980	17,980	—	—	—	—	—	—	17,980	17,980
Deficit on revaluation of fixed assets	—	25,836	—	—	—	—	—	—	—	25,836
Deficit on revaluation of investment properties	—	—	—	—	23,700	1,700	—	—	23,700	1,700
Impairment of properties under development	—	—	943	11,414	—	—	—	—	943	11,414
Capital expenditure	6,565	4,968	—	—	245	736	54	103	6,864	5,807

## (b) Geographical segments

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

## Group

	Hong Kong		Mainland of China		United States of America		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	253,703	303,475	246,047	304,742	795,491	689,405	1,295,241	1,297,622
Other segment information:								
Segment assets	484,785	481,692	315,482	371,475	232,050	332,705	1,032,317	1,185,872
Capital expenditure	4,936	3,814	1,928	1,993	—	—	6,864	5,807

# Notes to Financial Statements

31st July, 2003

## 5. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Rental expenses paid and payable to associates	(i)	8,996	11,607
Interest expense paid to a shareholder	(ii)	<u>10,571</u>	<u>3,164</u>

Notes:

- (i) The rental expenses were charged by the associate pursuant to the respective lease agreements.
- (ii) The interest was charged by a shareholder at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable (note 25).

## 6. TURNOVER

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Sale of garments and transfer of textile quotas	1,268,361	1,274,750
Property rentals	14,054	11,739
Other operations	<u>12,826</u>	<u>11,133</u>
	<u>1,295,241</u>	<u>1,297,622</u>

# Notes to Financial Statements

31st July, 2003

## 7. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group	
	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration	1,470	1,520
Amortisation of goodwill on acquisition of subsidiaries*	17,980	17,980
Deficit on revaluation of fixed assets	—	25,836
Deficit on revaluation of investment properties	23,700	1,700
Depreciation	7,965	15,868
Foreign exchange losses, net	202	10
Impairment of properties under development	943	11,414
Loss on disposal of fixed assets	1,041	1,985
Loss on disposal of properties held for sale	—	100
Minimum lease payments under operating leases in respect of land and buildings	67,479	89,724
Provision for doubtful debts	523	2,068
Severance payment	2,562	19,056
Staff costs (including directors' remuneration — see note 9):		
Wages and salaries	102,097	112,288
Pension scheme contributions	2,857	3,563
Less: Forfeited contributions	(219)	—
Net pension scheme contributions**	<u>2,638</u>	<u>3,563</u>
	<u>104,735</u>	<u>115,851</u>
Unrealised losses/(gains) of short term investments	(1,487)	133
Dividend income from short term listed investments	(845)	(778)
Gain on deregistration of subsidiaries	—	(1,610)
Interest income from bank deposits	(653)	(660)
Other interest income	(48)	(56)
Rental income	(14,054)	(11,739)
Less: Outgoings	<u>1,152</u>	<u>1,692</u>
Net rental income	<u>(12,902)</u>	<u>(10,047)</u>

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

\*\* As at 31st July, 2003, no forfeited contributions were available to the Group to reduce its contributions to the pension scheme in future years (2002: Nil).

# Notes to Financial Statements

31st July, 2003

## 8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	<u>13,099</u>	<u>6,814</u>

## 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### (a) Directors' remuneration

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	608	579
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	10,357	9,052
Bonuses paid and payable	1,530	960
Pension scheme contributions	<u>38</u>	<u>62</u>
	<u>12,533</u>	<u>10,653</u>

Fees include HK\$106,000 (2002: HK\$77,000) paid to independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Group	
	2003	2002
	Number of directors	Number of directors
Nil — HK\$1,000,000	9	11
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$2,500,001 — HK\$3,000,000	—	1
HK\$4,000,001 — HK\$4,500,000	1	—
HK\$5,000,001 — HK\$5,500,000	—	1
HK\$6,000,001 or above	<u>1</u>	<u>—</u>
	<u>12</u>	<u>14</u>

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

# Notes to Financial Statements

31st July, 2003

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

### (b) Five highest paid employees

The five highest paid employees during the year included three directors (2002: three directors), details of whose emoluments are set out in (a) above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are set out below:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances and benefits in kind	4,460	4,135
Bonuses paid and payable	2,000	2,100
Pension scheme contributions	24	24
	<u>6,484</u>	<u>6,259</u>

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

	Group	
	2003	2002
	Number of individuals	Number of individuals
HK\$2,000,001 — HK\$2,500,000	1	1
HK\$3,500,001 — HK\$4,000,000	1	1
	<u>2</u>	<u>2</u>

# Notes to Financial Statements

31st July, 2003

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
Provision for tax for the year:		
Hong Kong	18,202	11,060
Outside Hong Kong	—	2,300
	<u>18,202</u>	<u>13,360</u>
Prior year underprovision/(overprovision):		
Hong Kong	<u>500</u>	<u>(1,100)</u>
Share of tax attributable to associates:		
Hong Kong	12,885	15,179
Outside Hong Kong	1,432	1,183
Deferred	<u>(380)</u>	<u>—</u>
	<u>13,937</u>	<u>16,362</u>
Tax charge for the year	<u>32,639</u>	<u>28,622</u>

## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2003 dealt with in the financial statements of the Company is HK\$73,903,000 (2002: net loss of HK\$1,748,379,000).

## 12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$31,066,000 (2002: HK\$1,200,274,000) and the weighted average of 1,437,709,710 (2002: 1,437,709,710) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st July, 2003 and 2002 have not been disclosed as no diluting events existed during these years.

# Notes to Financial Statements

31st July, 2003

## 13. FIXED ASSETS

### Group

	31st July, 2002 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Transfer to investment properties HK\$'000	Revaluation HK\$'000	31st July, 2003 HK\$'000
Cost or valuation:						
Leasehold land						
and buildings	30,441	—	—	(49,500)	45,917	26,858
Leasehold improvements	753	—	—	—	—	753
Plant and machinery	22,615	555	(925)	—	—	22,245
Furniture, fixtures						
and equipment	75,797	5,414	(13,320)	—	—	67,891
Motor vehicles	14,042	456	(197)	—	—	14,301
Computers	19,334	439	(3,027)	—	—	16,746
Motor vessels	16,951	—	—	—	—	16,951
	<u>179,933</u>	<u>6,864</u>	<u>(17,469)</u>	<u>(49,500)</u>	<u>45,917</u>	<u>165,745</u>
Accumulated depreciation:						
Leasehold land						
and buildings	10,658	1,029	—	—	(1,624)	10,063
Leasehold improvements	719	27	—	—	—	746
Plant and machinery	19,360	802	(472)	—	—	19,690
Furniture, fixtures						
and equipment	67,187	4,420	(12,746)	—	—	58,861
Motor vehicles	12,612	385	(197)	—	—	12,800
Computers	16,865	1,302	(2,998)	—	—	15,169
Motor vessels	16,951	—	—	—	—	16,951
	<u>144,352</u>	<u>7,965</u>	<u>(16,413)</u>	<u>—</u>	<u>(1,624)</u>	<u>134,280</u>
Net book value	<u>35,581</u>					<u>31,465</u>

# Notes to Financial Statements

31st July, 2003

## 13. FIXED ASSETS (continued)

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

	Hong Kong HK\$'000	Outside Hong Kong HK\$'000	Total HK\$'000
Long term	6,680	17,778	24,458
Medium term	2,400	—	2,400
	<u>9,080</u>	<u>17,778</u>	<u>26,858</u>

### Company

	31st July, 2002 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Transfer to investment properties HK\$'000	Revaluation HK\$'000	31st July, 2003 HK\$'000
Cost or valuation:						
Medium term leasehold land and buildings situated in Hong Kong	5,983	—	—	(49,500)	45,917	2,400
Furniture, fixtures and equipment	5,729	1,885	—	—	—	7,614
Motor vehicles	10,609	—	(19)	—	—	10,590
Motor vessels	16,951	—	—	—	—	16,951
	<u>39,272</u>	<u>1,885</u>	<u>(19)</u>	<u>(49,500)</u>	<u>45,917</u>	<u>37,555</u>
Accumulated depreciation:						
Medium term leasehold land and buildings situated in Hong Kong	2,561	136	—	—	(1,624)	1,073
Furniture, fixtures and equipment	5,198	396	—	—	—	5,594
Motor vehicles	9,690	255	(19)	—	—	9,926
Motor vessels	16,951	—	—	—	—	16,951
	<u>34,400</u>	<u>787</u>	<u>(19)</u>	<u>—</u>	<u>(1,624)</u>	<u>33,544</u>
Net book value	<u>4,872</u>					<u>4,011</u>

# Notes to Financial Statements

31st July, 2003

## 13. FIXED ASSETS (continued)

Certain land and buildings of the Group with a net book value of HK\$6,239,000 (2002: HK\$7,600,000) were pledged to banks to secure banking facilities granted to the Group.

In the prior year, land and buildings of the Company with a net book value of HK\$1,267,000 was pledged to banks to secure banking facilities granted to the Group.

Certain leasehold land and buildings held by the Group and the Company were revalued on 31st July, 1992 and 31st July, 1994, by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis.

The analysis of cost or valuation of the leasehold land and buildings is as follows:

	Group HK\$'000	Company HK\$'000
At cost	17,778	—
At 1992 valuation	6,680	—
At 1994 valuation	<u>2,400</u>	<u>2,400</u>
	<u>26,858</u>	<u>2,400</u>

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings situated in Hong Kong	<u>2,111</u>	<u>3,426</u>	<u>60</u>	<u>1,333</u>

All other fixed assets are stated at cost.

# Notes to Financial Statements

31st July, 2003

## 14. INVESTMENT PROPERTIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At beginning of year, at valuation	221,100	142,800	16,100	17,800
Transfer from fixed assets	49,500	80,000	49,500	—
Deficit on revaluation	(23,700)	(1,700)	(1,700)	(1,700)
At end of year, at valuation	<u>246,900</u>	<u>221,100</u>	<u>63,900</u>	<u>16,100</u>

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

At 31st July, 2003, the Group's investment properties were revalued by Centaline Surveyors Limited, independent professionally qualified valuers and Chesterton Petty Limited, independent chartered surveyors, on an open market basis.

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 31 to the financial statements.

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Certain investment properties of the Group and of the Company with carrying values of HK\$244,300,000 (2002: HK\$217,500,000) and HK\$61,300,000 (2002: HK\$12,500,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

## 15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year, at carrying value	177,228	188,702
Impairment provided for during the year	(943)	(11,414)
Exchange realignments	<u>112</u>	<u>(60)</u>
At end of year, at carrying value	<u>176,397</u>	<u>177,228</u>

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

The balance at 31st July, 2003 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, the Mainland of China.

# Notes to Financial Statements

31st July, 2003

## 15. PROPERTIES UNDER DEVELOPMENT (continued)

Pursuant to a land use rights agreement entered into between Hu Xin and the Shanghai Land Administration Bureau (the "Land Administration Bureau") in September 1995, Hu Xin had to complete 60% of the development project by 31st December, 1998, and the entire project by 31st December, 1999 (the "Completion Date"). If the completion was delayed, a penalty would be charged at (1) 1% of the land consideration of RMB13,745,000 during the first six months after the Completion Date; (2) 3% during the following six months; and (3) 7% during the second year after the Completion Date. If the project was not able to be completed within two years after the Completion Date, the Land Administration Bureau would have the right to repossess the land use rights.

On 25th December, 1998, Hu Xin extended the Completion Date to 31st December, 2001. A further extension of the Completion Date to 31st December, 2004 was successfully obtained on 18th December, 2002.

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Shares listed in Hong Kong, at cost	7,265	7,265
Unlisted shares, at cost	486	486
	<u>7,751</u>	<u>7,751</u>
Amounts due from subsidiaries	1,065,897	1,054,865
Amounts due to subsidiaries	(111,839)	(126,256)
	954,058	928,609
Provision for impairment	(374,898)	(374,898)
	<u>579,160</u>	<u>553,711</u>
	<u>586,911</u>	<u>561,462</u>
Market value of listed shares at the balance sheet date	<u>600</u>	<u>309</u>

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

# Notes to Financial Statements

31st July, 2003

## 16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Direct (%)	Indirect (%)	
Costroll Company Limited	Hong Kong	HK\$20	Ordinary	—	54.93	Property letting
Creative Fashions Limited	Hong Kong	HK\$500,000	Ordinary	100.00	—	Garment trading
Crocodile (China) Limited	Hong Kong	HK\$4	Ordinary	—	54.93	Garment trading
Crocodile Garments Limited	Hong Kong	HK\$154,281,783	Ordinary	0.43	54.50	Garment manufacturing and trading
Crocodile Garments (Zhong Shan) Limited	Mainland of China	HK\$17,200,000	*	—	49.44**	Garment manufacturing and trading
Crocodile Investment Limited	Hong Kong	HK\$20	Ordinary	—	54.93	Investment holding
Dackart Trading Company Limited	Hong Kong	HK\$20	Ordinary	—	54.93	Property investment
Gold Nation Development Limited	Hong Kong	HK\$2	Ordinary	—	54.93	Property investment
Joy Mind Limited	Hong Kong	HK\$2	Ordinary	100.00	—	Investment holding
Kingscord Investment Limited	Hong Kong	HK\$2	Ordinary	—	100.00	Investment holding

# Notes to Financial Statements

31st July, 2003

## 16. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Direct (%)	Indirect (%)	
Kingscord Real Estate (Shanghai) Co., Ltd.	Mainland of China	US\$1,500,000	*	—	100.00	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd.	Mainland of China	US\$6,000,000	*	—	95.00	Property development and investment
Silver Glory Securities Limited	British Virgin Islands	US\$1	Ordinary	100.00	—	Investment holding

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

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

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

As at 31st July, 2003, 96,000,000 ordinary shares of Crocodile Garments Limited ("Crocodile") held by the Group were pledged to a bank to secure banking facilities granted to the Company.

# Notes to Financial Statements

31st July, 2003

## 17. GOODWILL

The amounts of goodwill capitalised as an asset arising from the acquisition of subsidiaries are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning and at end of year	<u>534,373</u>	<u>534,373</u>
Accumulated amortisation and impairment:		
At beginning of year	426,506	408,526
Amortisation provided during the year	<u>17,980</u>	<u>17,980</u>
	<u>444,486</u>	<u>426,506</u>
Net book value	<u>89,887</u>	<u>107,867</u>

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

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As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, which arose from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK\$7,994,000 as at 1st August, 2002 and 31st July, 2003.

## Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Shares listed in Hong Kong, at cost	—	—	2,344,673	2,320,417
Share of net assets	2,560,243	2,845,489	—	—
Negative goodwill on acquisition	(899,388)	(911,949)	—	—
	<u>1,660,855</u>	<u>1,933,540</u>	<u>2,344,673</u>	<u>2,320,417</u>
Amounts due from associates	2,571	5,854	2,435	2,670
Amounts due to associates	(2,019)	(3,248)	(2,015)	(2,000)
	<u>1,661,407</u>	<u>1,936,146</u>	<u>2,345,093</u>	<u>2,321,087</u>
Provision for impairment	(135)	(276,996)	(1,974,225)	(1,974,225)
	<u>1,661,272</u>	<u>1,659,150</u>	<u>370,868</u>	<u>346,862</u>
Market value of listed shares at balance sheet date	<u>356,875</u>	<u>260,713</u>	<u>265,079</u>	<u>200,472</u>

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

During the year, provision for impairment in the LSD Group of HK\$273,812,000 was written back and applied to offset the additional share of losses in the LSD Group amounted to HK\$323,812,000.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$252,000 (2002: HK\$586,000) due from an associate which bears interest at the prevailing market rate.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in the capital reserve, arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001, was HK\$3,906,654,000 as at 1st August, 2002 and 31st July, 2003.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

The amount of negative goodwill recognised in the consolidated balance sheet arising from the acquisition of associates which was accounted for in accordance with SSAP 30 is as follows:

Group	HK\$'000
<hr/>	
Cost:	
At beginning and at end of year	915,672
Recognition as income:	
At beginning of year	3,723
Recognised as income during the year	12,561
	<hr/>
	16,284
Net book value:	
At 31st July, 2003	899,388
	<hr/>
At 31st July, 2002	911,949
	<hr/>

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Details of the principal associates are as follows:

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

Notes:

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

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

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

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

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

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

As at 31st July, 2003, 115,000,000 ordinary shares of Lai Fung held by the Group had been pledged to a bank to secure banking facilities granted to the Company.

Included in the Group's share of the net assets of its associates are its share of net assets of LSD and Lai Fung, companies listed on The Stock Exchange of Hong Kong Limited which, in the opinion of the directors, are material in the context of the Group's financial statements.

### (a) LSD Group \*

Summary of the deficiency in assets of the LSD Group as at 31st July, 2003 and the results for the financial year ended 31st July, 2003 are set out below:

	As at 31st July, 2003 HK\$'000
Non-current assets	7,684,632
Current assets	386,620
Current liabilities	(8,040,621)
Non-current liabilities	(45,359)
Minority interests	(359,428)
	<u>(374,156)</u>
Contingent liabilities	<u>194,772</u>
	Year ended 31st July, 2003 HK\$'000
Turnover	<u>906,590</u>
Loss before tax	(404,488)
Tax	<u>(28,516)</u>
Loss before minority interests	(433,004)
Minority interests	<u>(28,036)</u>
Net loss from ordinary activities attributable to shareholders	<u>(461,040)</u>

\* The amounts are extracted from the audited financial statements of LSD for the year ended 31st July, 2003.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

### (a) LSD Group (continued)

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

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

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

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

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

The LSD Group sustained a net loss from ordinary activities attributable to shareholders of HK\$461 million (2002: HK\$1,942 million). At the balance sheet date, the LSD Group had consolidated net current liabilities of HK\$7,654 million (2002: HK\$6,193 million) and consolidated deficiency in assets of HK\$374 million (2002: net assets of HK\$766 million). The deterioration in the LSD Group's net asset position primarily resulted from the valuation deficit arising in respect of the LSD Group's investment properties and the loss incurred by the LSD Group during the year.

During the year, the LSD Group had ongoing discussions with all of its financial creditors with the objective of refinancing the LSD Group to put it in a better financial position. On 17th December, 2002, meetings with exchangeable bondholders (the "Exchangeable Bondholders") and convertible bondholders (the "Convertible Bondholders") were held at which, among other things, resolutions to approve the deferral of the LSD Group's obligations to redeem exchangeable bonds (the "Exchangeable Bonds") and convertible bonds (the "Convertible Bonds") to 31st March, 2003 were duly passed.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

### (a) LSD Group (continued)

The LSD Group defaulted in the repayment of a debt (the “Debt”) due to Golden Pool Enterprise Limited, a wholly-owned subsidiary of eSun Holdings Limited (“eSun”), on 31st December, 2002. In addition, the Convertible Bonds were due to be redeemed by the LSD Group on 31st March, 2003 but were not so redeemed and, at the same time, the LSD Group also failed to satisfy the redemption rights exercised by certain of the Exchangeable Bondholders, which in turn, has resulted in the Exchangeable Bonds becoming due for redemption in their entirety. Accordingly, the LSD Group had defaulted in the repayment of the Debt and the redemption of both of the Convertible Bonds and the Exchangeable Bonds. Such defaults, in turn, constituted a technical event of default under all of the LSD Group’s other borrowing facilities.

As at the date of approval of its financial statements, the LSD Group has yet to reach an agreement with the Exchangeable Bondholders, the Convertible Bondholders, eSun and its other financial creditors as to the terms of a comprehensive restructuring of the LSD Group’s indebtedness (the “Debt Restructuring Plan”). The LSD Group is currently operating under a period of informal standstill and up to now, neither the Exchangeable Bondholders, the Convertible Bondholders, eSun nor its other financial creditors has taken any action to enforce their respective securities. The LSD Group is, with the assistance of its financial and legal advisers, conducting ongoing negotiations with all of its financial creditors with a view to securing the terms of a Debt Restructuring Plan acceptable to all relevant parties.

Throughout the year and up to the date of approval of its financial statements, the LSD Group continued to implement an orderly disposal of its assets, including properties and other investments, to generate positive cash flows for the partial repayment of certain bonds payable, bank and other borrowings and to help provide sufficient working capital for the LSD Group’s operations.

The directors of LSD believe that the LSD Group will be able to secure the agreement of all its financial creditors to the Debt Restructuring Plan and, at the same time will be able to continue the orderly disposal of the assets of the LSD Group and to obtain financing or refinancing arrangements to generate additional positive cash flows. On this basis, the directors of LSD consider that the LSD Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of LSD are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group \*\*

Summary of the net assets of the Lai Fung Group as at 31st July, 2003 and the results for the financial year ended 31st July, 2003 are set out below:

	As at 31st July, 2003 HK\$'000
<hr/>	
Non-current assets	6,957,990
Current assets	264,392
Current liabilities	(313,336)
Non-current liabilities	(1,087,028)
Minority interests	<u>(219,746)</u>
	<u>5,602,272</u>
Contingent liabilities	<u>1,280,000</u>
	Year ended 31st July, 2003 HK\$'000
<hr/>	
Turnover	<u>119,338</u>
Profit before tax	62,922
Tax	<u>(4,103)</u>
Profit before minority interests	58,819
Minority interests	<u>(1,824)</u>
Net profit from ordinary activities attributable to shareholders	<u>56,995</u>

\*\* The amounts are extracted from the audited financial statements of Lai Fung for the year ended 31st July, 2003.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN ASSOCIATES (continued)

### (b) Lai Fung Group (continued)

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

- (i) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, Lai Fung agreed to guarantee up to 95% of the liabilities of Shanghai Li Xing Real Estate Development Co., Ltd., a 90% owned subsidiary of Lai Fung, for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung at the balance sheet date.
- (ii) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, Lai Fung agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung at the balance sheet date.

## 19. SHORT TERM INVESTMENTS

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	<u>19,637</u>	<u>18,150</u>

## 20. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	6,145	7,398
Work in progress	133	563
Finished goods	<u>85,755</u>	<u>130,603</u>
	<u>92,033</u>	<u>138,564</u>

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK\$39,471,000 (2002: HK\$30,626,000).

# Notes to Financial Statements

31st July, 2003

## 21. TRADE RECEIVABLES

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

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

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

An aged analysis of trade receivables, based on invoice due date, as at 31st July, 2003 is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current to 90 days	171,123	199,006
91 days to 180 days	5,535	36,674
181 days to 365 days	35,577	80,582
Over 365 days	43,646	45,047
	<u>255,881</u>	<u>361,309</u>

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

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	78,718	86,156	9,795	2,553
Time deposits	20,857	13,019	18,231	10,516
	<u>99,575</u>	<u>99,175</u>	<u>28,026</u>	<u>13,069</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$60,077,000 (2002: HK\$46,826,000). The RMB is not freely convertible into other currencies, however, under the Mainland'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.

# Notes to Financial Statements

31st July, 2003

## 23. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at 31st July, 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	179,912	237,239
91 days to 180 days	4,943	39,601
181 days to 365 days	36,546	80,902
Over 365 days	54,437	56,094
	<u>275,838</u>	<u>413,836</u>

## 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unsecured bank overdrafts	2,330	4,002	—	886
Secured bank loans	64,250	66,538	40,000	40,000
Trust receipt loans	17,930	17,787	—	—
Other borrowings, unsecured	7	86	7	86
	<u>84,517</u>	<u>88,413</u>	<u>40,007</u>	<u>40,972</u>
Portion due within one year or on demand classified as current liabilities	<u>(84,517)</u>	<u>(88,406)</u>	<u>(40,007)</u>	<u>(40,965)</u>
Long term portion	<u>—</u>	<u>7</u>	<u>—</u>	<u>7</u>
The long term portion of bank and other borrowings is repayable within a period of more than one year but not exceeding two years	<u>—</u>	<u>7</u>	<u>—</u>	<u>7</u>

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

# Notes to Financial Statements

31st July, 2003

## 25. NOTE PAYABLE

The amount represented the outstanding balance of a note payable to Mr. Lim Por Yen (the "Loan Note"), an executive director and substantial shareholder of the Company (as defined in the Listing Rules). The Loan Note is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and repayable by 30th April, 2004. On 28th October, 2003, the repayment term of the Loan Note was extended to 30th April, 2005, and the Loan Note has remained to be classified as non-current liabilities.

## 26. DEFERRED TAX

The principal components of the deferred tax assets are as follows:

### Group

	Recognised		Not recognised	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decelerated capital allowances on fixed assets	—	—	339	473
Tax losses	—	—	65,815	58,142
Other	—	—	90	—
	<u>—</u>	<u>—</u>	<u>66,244</u>	<u>58,615</u>

### Company

	Recognised		Not recognised	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decelerated capital allowances on fixed assets	<u>—</u>	<u>—</u>	<u>265</u>	<u>616</u>

The revaluation of the Group's investment properties in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

# Notes to Financial Statements

31st July, 2003

## 27. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
4,000,000,000 ordinary shares of HK\$0.50 each	<u>2,000,000</u>	<u>2,000,000</u>
<i>Issued and fully paid:</i>		
1,437,709,710 ordinary shares of HK\$0.50 each	<u>718,855</u>	<u>718,855</u>

## 28. 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 32 to 34 of the financial statements.

### (b) Company

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st August, 2001	1,119,738	19,785	7,235	531,576	1,678,334
Deficit on revaluation of investment properties	—	—	(1,700)	—	(1,700)
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,748,379)</u>	<u>(1,748,379)</u>
At 31st July, 2002 and At 1st August, 2002	1,119,738	19,785	5,535	(1,216,803)	(71,745)
Surplus on revaluation of fixed assets on their transfer to investment properties	—	47,541	—	—	47,541
Deficit on revaluation of investment properties	—	—	(1,700)	—	(1,700)
Net profit for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>73,903</u>	<u>73,903</u>
At 31st July, 2003	<u>1,119,738</u>	<u>67,326</u>	<u>3,835</u>	<u>(1,142,900)</u>	<u>47,999</u>

# Notes to Financial Statements

31st July, 2003

## 29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

In the prior year, the Group acquired from LSD approximately 25.40% of the issued capital of Lai Fung for a consideration of HK\$225,200,000. This transaction was settled through the issuance of the Loan Note which was simultaneously assigned by LSD to Mr. Lim Por Yen pursuant to a deed of assignment, and therefore had no effect on the Group's cashflows.

## 30. CONTINGENT LIABILITIES

In the prior year, Crocodile was involved in legal disputes with a supplier, which alleged that Crocodile had infringed its trademark in the Mainland of China and sought orders from the courts in the Mainland of China for compensation of RMB3,500,000. Subsequent to the balance sheet date, on 23rd October, 2003, a joint declaration was announced by both parties pursuant to which Crocodile agreed to use a new trademark device in the Mainland of China and the supplier agreed to abandon all of the claims against Crocodile. In the opinion of the directors, no losses have arisen from this settlement and accordingly, no further costs have to be provided at the balance sheet date.

## 31. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group and the Company lease their investment properties (note 14 to the financial statements) and certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	13,533	10,571	3,569	1,396
In the second to fifth years, inclusive	<u>10,448</u>	<u>11,155</u>	<u>2,831</u>	<u>1,178</u>
	<u>23,981</u>	<u>21,726</u>	<u>6,400</u>	<u>2,574</u>

# Notes to Financial Statements

31st July, 2003

## 31. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases its office properties, 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	47,240	63,058	57	97
In the second to fifth years, inclusive	32,462	42,820	—	57
After five years	—	28	—	—
	<u>79,702</u>	<u>105,906</u>	<u>57</u>	<u>154</u>

## 32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital commitments in respect of development costs attributable to properties under development:				
Contracted, but not provided for	156,384	156,384	—	—
Authorised, but not contracted for	94,470	94,470	—	—
	<u>250,854</u>	<u>250,854</u>	<u>—</u>	<u>—</u>

## 33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs 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 comparative amounts have been reclassified to conform with the current year's presentation.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th November, 2003.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on Monday, 22nd December, 2003 at 11:15 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31st July, 2003;
2. To re-elect retiring directors and to fix the directors' remuneration;
3. To appoint auditors and to authorise the directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares in the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares in the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares in the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any of the securities which are convertible into shares of the Company; or (iii) an issue of shares in the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares in the Company under any option scheme or similar arrangement for the grant or issue to employees of the Company and/or any of its subsidiaries of shares in the Company or rights to acquire shares in the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; or
- (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors to the holders of shares, whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

By Order of the Board  
 Yeung Kam Hoi  
 Company Secretary

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Hong Kong, 7th November, 2003

*Notes:*

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company’s Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Annual General Meeting or at any of its adjourned meeting should they so wish.

## Notice of Annual General Meeting

3. Ordinary Resolution No. 4 relates to the granting of a general mandate to the directors of the Company to issue new shares of up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the said resolution. The Company has no immediate plan to issue such new shares.