

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment property.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 28th February. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Reserve arising on consolidation of subsidiaries which represents the shortfall of purchase consideration over the fair value ascribed to the net assets acquired, is taken directly to reserves in the year of acquisition.

### (c) Joint venture

A joint venture is classified as a jointly controlled entity if it is held as a long term investment and a contractual arrangement between the shareholders establishes joint control over the economic activities of the joint venture. Results of the jointly controlled entity are incorporated in the consolidated accounts to the extent of the Group's share of the post acquisition results calculated from its accounts made up to 28th February 2001. Investment in joint venture represents the Group's share of the net assets of the jointly controlled entity.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Other investment

Other investment is carried at cost less any provision for diminution in value. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

Profit or loss on disposal of other investment, representing the difference between the net sales proceeds and the carrying amount, is recognised in the profit and loss account as they arise.

### (e) Fixed assets

Fixed assets other than investment properties (note 1(f)) are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the remaining period of the lease.

Other fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis, after taking into account their estimated residual values, at the following annual rates:

Buildings	3-4% or over the lease period, whichever is the shorter
Leasehold improvements	5-20% or over the lease period, whichever is the shorter
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amounts are reduced to their recoverable amounts. The amount of the reduction to recoverable amounts is charged to the profit and loss account. Expected future cash flows have not been discounted in determining the recoverable amount.

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

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods greater than 20 years are valued each year by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuations are credited to the investment properties revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit.

Upon the disposal of an investment property, the relevant portion of the revaluation reserves realised in respect of previous valuation is released from the investment properties revaluation reserves to the profit and loss account.

### (g) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overheads. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (j) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

### (l) Related parties

Related parties are individuals and companies, including subsidiaries and associated companies and jointly controlled entities, where the individual, company or group 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; or when the parties are subject to common control or common significant influence.

### (m) Retirement benefits

The Group contributes to a defined contribution retirement scheme which is available to all employees. Employees are required to contribute each month an amount equal to 5% of the basic monthly salary and contributions are made by the employer at 5% of the employee's basic monthly salary. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions to this scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

A mandatory provident fund scheme (MPF) was established under the MPF Ordinance in December 2000. Since the Company has obtained exemption for its existing retirement schemes, all staff were offered the choice of switching to the MPF scheme or staying in existing schemes. Where staff elected to join the MPF, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK\$20,000 per month). Staff may elect to contribute more than the minimum as a voluntary contribution. The Group's contributions to this mandatory provident fund scheme are expensed as incurred.

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Revenue recognition

- (i) Revenue from sales of shoes is recognised upon delivery of goods to customers.
- (ii) Operating lease rental income is recognised on a straight line basis.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Management fee is recognised when service is rendered.
- (v) Dividend income is recognised when the shareholder's right to receive payment is established.

## 2. REVENUE AND TURNOVER

The Group is principally engaged in the manufacturing and sale of shoes. Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of goods	356,823	347,091
Other revenues		
Gross rental income from investment property	438	498
Bank interest income	1,015	2,196
Management fee from related companies	1,038	970
Income from sales of raw materials	-	478
	2,491	4,142
Total revenues	359,314	351,233

# NOTES TO THE ACCOUNTS

## 2. REVENUE AND TURNOVER *(Continued)*

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by principal activities and markets is as follows:

	Turnover		Operating profit/(loss)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Analysis by principal activities				
Shoes business	352,213	347,091	23,872	20,873
e-commerce business	4,610	–	(11,878)	–
	<u>356,823</u>	<u>347,091</u>	<u>11,994</u>	<u>20,873</u>
Analysis by principal markets				
Hong Kong	168,085	158,723	(21,751)	(14,277)
Mainland China	177,772	177,306	33,675	30,842
Others	10,966	11,062	70	4,308
	<u>356,823</u>	<u>347,091</u>	<u>11,994</u>	<u>20,873</u>

In addition, the Group also recognised share of profits of jointly controlled entity which is principally engaged in property development in the Mainland China. Share of profit from jointly controlled entity amounted to HK\$8,373,000 for the year.

# NOTES TO THE ACCOUNTS

## 3. OPERATING PROFIT

	2001 HK\$'000	2000 HK\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Gain on disposal of subsidiaries	—	1,285
<b>Charging</b>		
Auditors' remuneration	901	883
Depreciation	18,961	15,744
Exchange loss	641	2,296
Loss on disposal of fixed assets	2,035	877
Operating lease rentals in respect of land and buildings	43,731	52,740
Outgoings in respect of investment property	197	197
Staff costs	47,129	48,812
Cost of inventories recognised as an expense	175,293	167,344
Provision for closure of retail outlets ( <i>note a</i> )	2,759	1,530

- (a) During the year, the Group has resolved to terminate its e-commerce business which mainly included the introduction of a specific series of products for sales through internet and designated shops. The turnover of the Group's e-commerce business for the year amounted to HK\$4,610,000 (2000: HK\$Nil) and the resulting operating loss amounted to HK\$11,878,000 (2000: HK\$Nil), which has included a provision for loss in relation to the closure of the designated shops of HK\$2,759,000. All the Group's e-commerce business ceased by the end of May 2001.

## 4. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on short term bank loans and overdrafts	1,079	364
Interest on secured long term bank loans	598	1,326
	<u>1,677</u>	<u>1,690</u>

# NOTES TO THE ACCOUNTS

## 5. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' remuneration

The aggregate amounts of emoluments payable to Directors of the Company during the year were as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	60	60
Salaries, housing allowances, other allowances and benefits in kind	4,420	4,108
Contributions to retirement scheme as Directors	192	–
	<u>4,672</u>	<u>4,168</u>

Emoluments paid to independent Non-executive Directors amounted to HK\$60,000 during the year (2000: HK\$60,000).

The emoluments were paid to the Directors as follows:

Emoluments Band	Number of Directors	
	2001	2000
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	2	2

### (b) Five highest paid individuals

The Directors' emoluments presented above include the emoluments of the three (2000: three) highest paid individuals in the Group. The emoluments of the remaining two (2000: two) highest paid individuals were:

	2001 HK\$'000	2000 HK\$'000
Salaries, housing allowances, other allowances, and benefits in kind	<u>1,742</u>	<u>1,742</u>

Emoluments Band	Number of individuals	
	2001	2000
Nil – HK\$1,000,000	2	2

# NOTES TO THE ACCOUNTS

## 6. RETIREMENT BENEFIT COSTS

Retirement benefit scheme costs amounted to HK\$1,005,000 (2000: HK\$Nil) were paid by the Group during the year. Forfeited contributions totalling HK\$1,070,000 (2000: HK\$751,000) were refunded during the year.

## 7. TAXATION

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries		
Mainland China	3,404	1,349
Macau	12	6
	<u>3,416</u>	<u>1,355</u>
	-----	-----
Jointly controlled entity		
Taxation in Mainland China		
– current year	2,885	202
– prior years underprovision	7,232	–
	<u>10,117</u>	<u>202</u>
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	<u><u>13,533</u></u>	<u><u>1,557</u></u>

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year (2000: HK\$Nil).

The underprovision for taxation in Mainland China in prior years represents additional provision for income tax of the jointly controlled entity as a result of the change in basis of income tax assessment by the local tax authority with retrospective effect.

Taxation on profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group and jointly controlled entity operate.

There was no material unprovided deferred taxation for the year (2000: HK\$Nil).

## NOTES TO THE ACCOUNTS

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,268,000 (2000: profit of HK\$14,181,000).

### 9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend of HK cent Nil (2000: HK1.0 cent) per share	–	4,486
Proposed final dividend of HK1.0 cent (2000: HK2.0 cents) per share	4,486	8,972
	4,486	13,458

### 10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$5,157,000 (2000: HK\$27,096,000) and on the weighted average number of shares in issue during the year of 448,619,600 (2000: 448,619,600).

Fully diluted earnings per share is not presented as the exercise of the outstanding share options of the Company would be anti-dilutive in respect of both years presented.

# NOTES TO THE ACCOUNTS

## 11. FIXED ASSETS

### Group

	Investment property HK\$'000	Other properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1st March 2000	5,100	149,068	34,919	44,974	25,278	4,085	263,424
Additions	-	-	9,441	2,689	2,652	212	14,994
Surplus on revaluation	1,100	-	-	-	-	-	1,100
Disposals	-	(613)	(4,259)	(60)	(3)	(751)	(5,686)
At 28th February 2001	<u>6,200</u>	<u>148,455</u>	<u>40,101</u>	<u>47,603</u>	<u>27,927</u>	<u>3,546</u>	<u>273,832</u>
Accumulated depreciation							
At 1st March 2000	-	13,616	20,283	9,782	16,609	2,419	62,709
Charge for the year	-	3,051	9,116	3,435	2,886	473	18,961
Disposals	-	(209)	(2,251)	(60)	-	(751)	(3,271)
At 28th February 2001	<u>-</u>	<u>16,458</u>	<u>27,148</u>	<u>13,157</u>	<u>19,495</u>	<u>2,141</u>	<u>78,399</u>
Net book value							
At 28th February 2001	<u>6,200</u>	<u>131,997</u>	<u>12,953</u>	<u>34,446</u>	<u>8,432</u>	<u>1,405</u>	<u>195,433</u>
At 29th February 2000	<u>5,100</u>	<u>135,452</u>	<u>14,636</u>	<u>35,192</u>	<u>8,669</u>	<u>1,666</u>	<u>200,715</u>

The investment property is a freehold property located in Macau and is stated at the professional valuation made on an open market value basis at 28th February 2001 by independent professional valuers, Chung, Chan & Associates.

All other fixed assets are stated at cost less accumulated depreciation.

# NOTES TO THE ACCOUNTS

## 11. FIXED ASSETS (Continued)

Other properties are analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Held in Hong Kong on leases of between 10 to 50 years	103,499	104,112
Held outside Hong Kong on leases of between 10 to 50 years	<u>44,956</u>	<u>44,956</u>
	<u><u>148,455</u></u>	<u><u>149,068</u></u>

Net book value of other properties amounted to HK\$110,510,000 (2000: HK\$92,887,000) have been pledged to secure short term bank loan and long term bank loan facilities of HK\$49,545,000 (2000: HK\$45,000,000) and HK\$23,238,000 (2000: HK\$23,238,000) respectively granted to certain subsidiaries of the Group.

## 12. SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	107,657	107,657
Amounts due by subsidiaries	<u>286,199</u>	<u>287,280</u>
	<u><u>393,856</u></u>	<u><u>394,937</u></u>

The amounts due by subsidiaries are unsecured, interest free and have no fixed terms of repayment.

## NOTES TO THE ACCOUNTS

### 12. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries of the Group which, in the opinion of the Directors, principally affect the results or form a substantial portion of the net assets of the Group:

Name	Place of incorporation	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Blooming On Limited	Hong Kong	HK\$2	Property holding	100
Brightly Investment Limited	Hong Kong	HK\$2	Property holding	100
Brilliant Investment Holdings Limited	British Virgin Islands	US\$1	Trading of shoes	100
Great Sino Enterprises Limited	Hong Kong	HK\$10,000	Investment holding	100
Guangzhou Le Saunda Company Limited	The People's Republic of China	RMB7,000,000	Retailing of shoes	100
Guangzhou Shungo Shoes Fashion Company Limited	The People's Republic of China	RMB3,750,950	Retailing of shoes	100
King Glory Trading Limited	Hong Kong	HK\$500,000	Investment holding	100
L. S. Asia Pacific Sdn. Bhd.	Malaysia	RM1,000	Trading of shoes	100
Le Saunda Asia Pacific Limited	Labuan	US\$1	Trading of shoes	100
Le Saunda (B.V.I.) Limited (note (a))	British Virgin Islands	US\$31,500	Investment holding	100

# NOTES TO THE ACCOUNTS

## 12. SUBSIDIARIES (Continued)

Name	Place of incorporation	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Le Saunda Calcado, Limitada	Macau	MOP200,000	Retailing of shoes	100
Le Saunda (China) Limited	Hong Kong	HK\$2	Investment holding	100
Le Saunda China Holdings Ltd.	British Virgin Islands	US\$1	Investment holding	100
Le Saunda China Investment Ltd.	Hong Kong	HK\$100	Investment holding	100
Le Saunda Merchandising (International) Limited	Hong Kong	HK\$2	Merchandising of shoes	100
Le Saunda Licensing Limited	Bahamas	US\$5,000	Holding and licensing of trade marks and names	100
Le Saunda Management Limited	Hong Kong	HK\$2	Provision of management services	100
Le Saunda Real Estate Limited	Hong Kong	HK\$2	Investment holding	100
Le Saunda Shoe-Making Limited	Hong Kong	HK\$2	Investment holding	100
L. S. Retailing Limited (note (b))	Hong Kong	HK\$20,002,000	Retailing of shoes	100
Lorraine Properties Limited	Hong Kong	HK\$2	Property holding	100

# NOTES TO THE ACCOUNTS

## 12. SUBSIDIARIES (Continued)

Name	Place of incorporation	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Maior Limited	Hong Kong	HK\$2,000,000	Trading and investment holding	100
Master Benefit Limited	Hong Kong	HK\$3,000,000	Provision of management services	100
Multiple Reward Limited	Hong Kong	HK\$100	Provision of financial services	100
Parklink Investment Development Limited	Hong Kong	HK\$2	Property holding	100
Shunde Daxin Shoe-Making Co., Limited	The People's Republic of China	RMB8,711,084	Manufacturing and trading of shoes	100
Shunde Lixinda Shoes Company Limited	The People's Republic of China	RMB13,117,034	Manufacturing and trading of shoes	100
Shunde Yihensin Shoe-Making Factory	The People's Republic of China	RMB5,645,382	Manufacturing and trading of shoes	100
Trend Door Company Limited	Hong Kong	HK\$2	Property holding	100
Trend Light Trading Company Limited	Hong Kong	HK\$2	Property holding	100
Winkon Development Limited	Hong Kong	HK\$2	Property holding	100

# NOTES TO THE ACCOUNTS

## 12. SUBSIDIARIES (Continued)

Name	Place of incorporation	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Shunde Ying Da Shoes Co. Ltd.	The People's Republic of China	RMB6,162,257	Manufacturing and trading of shoes	100
廣州盈通信息科技有限公司	The People's Republic of China	RMB500,000	Investment and trading	100
順德市北滘鎮凱裕貿易有限公司	The People's Republic of China	RMB500,000	Wholesales of shoes	100
Nat's (H.K.) Company Limited	Hong Kong	HK\$3	Retailing of shoes	100
Best Lane (HK) Limited	Hong Kong	HK\$3,000,000	Provision of management services	100

- (a) Le Saunda (B.V.I.) Limited is held directly by the Company. All other subsidiaries are held indirectly.
- (b) L. S. Retailing Limited has a capital comprising ordinary shares of HK\$2,000 and non-voting deferred shares of HK\$20,000,000.
- (c) None of the subsidiaries have issued any loan capital.
- (d) Except for Le Saunda Licensing Limited, L. S. Asia Pacific Sdn. Bhd. and Le Saunda Asia Pacific Limited which operate worldwide, and Le Saunda China Investment Limited and Brilliant Investment Holdings Limited which operate in the People's Republic of China ("PRC"), all subsidiaries operate principally in their places of incorporation.

# NOTES TO THE ACCOUNTS

## 13. INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Registered capital at cost, unlisted	36,386	36,386
Share of undistributed post-acquisition reserves	22,777	24,521
Share of net assets	<u>59,163</u>	<u>60,907</u>

The details of the joint venture are as follows:

Name	Place of establishment/ operation	Principal activities	Group's percentage of equity interest
Shunde Shuang Qiang Property Development Company Limited ("SSQ")	The People's Republic of China ("PRC")	Property development	50%

The joint venture is held indirectly by the Company.

By virtue of a joint venture agreement dated 23rd February 1994 the Company's subsidiary, Le Saunda Real Estate Limited ("LSRE") and Shunde Hongye Real Estate Company ("SHREC"), a company established in the PRC, agreed to form a limited liability company known as SSQ in accordance with the rules and regulations of the PRC. The joint venture which has already commenced operations is for a period of 20 years from the date of issue of business licence, i.e. 21st April 1994.

In accordance with the joint venture agreement, each of LSRE and SHREC has committed to contribute a US\$5 million (equivalent to approximately HK\$38,650,000) capital in SSQ and share the results of SSQ equally. Up to 28th February 2001, LSRE had contributed US\$4.8 million (approximately HK\$36,386,000) to SSQ.

# NOTES TO THE ACCOUNTS

## 13. INVESTMENT IN JOINTLY CONTROLLED ENTITY (Continued)

Extract of the operating results and financial position of SSQ is as follows:

	2001 HK\$'000	2000 HK\$'000
Operating results		
Turnover	<u>37,298</u>	<u>41,361</u>
Profit before taxation	<u>16,746</u>	<u>18,940</u>
Group's share of profit before taxation	<u>8,373</u>	<u>9,470</u>
Financial position		
Long term assets	565	381
Current assets	190,659	171,470
Current liabilities	<u>(72,273)</u>	<u>(49,411)</u>
Shareholders' funds	<u>118,951</u>	<u>122,440</u>

## 14. OTHER INVESTMENT

	2001 HK\$'000	2000 HK\$'000
Registered capital at cost, unlisted	2,273	–
Loan to investee company	<u>34,090</u>	<u>–</u>
	<u>36,363</u>	<u>–</u>

The details of other investment are as follows:

Name	Place of establishment/ operation	Principal activities	Group's percentage of equity interests
順德市陳村鎮 碧桂園物業發展 有限公司	The People's Republic of China ("PRC")	Property development	25%

In the opinion of the Directors, the Group does not have significant influence over the investment. Accordingly, the investment has been classified as other investment and stated at cost.

The loan to investee company is unsecured, interest free and has no fixed terms of repayments.

# NOTES TO THE ACCOUNTS

## 15. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	55,038	38,597
Work in progress	15,103	13,085
Finished goods	108,228	73,874
	<u>178,369</u>	<u>125,556</u>

As at 28th February 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK\$8,548,000 (2000: HK\$Nil).

## 16. TRADE AND OTHER RECEIVABLES

The Group's credit terms on consignment sales and credit sales range from 30 to 60 days. The aging analysis of trade receivables is as follows:

	2001 HK\$'000	2000 HK\$'000
Trade receivables		
Current to 30 days	12,217	19,349
31 to 60 days	2,380	3,496
61 to 90 days	3,073	864
Over 90 days	387	132
	<u>18,057</u>	<u>23,841</u>
Other receivables	5,219	4,577
	<u>23,276</u>	<u>28,418</u>
Total	<u>23,276</u>	<u>28,418</u>

Included in trade and other receivables are amounts due from related companies, of which a director of the Company has controlling interest, totalling HK\$Nil (2000: HK\$1,000). Maximum aggregate amounts due from these related companies outstanding during the year amounted to HK\$861,000 (2000: HK\$976,000). The balances are unsecured, interest free and have no fixed terms of repayment.

# NOTES TO THE ACCOUNTS

## 17. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors and their ageing analysis is as follows:

	2001 HK\$'000	2000 HK\$'000
Trade creditors		
Current to 30 days	11,649	10,876
31 to 60 days	5,800	6,461
61 to 90 days	687	2,205
Over 90 days	419	863
Over 120 days	39	513
	<hr/>	<hr/>
	18,594	20,918
Accruals	37,508	39,639
	<hr/>	<hr/>
Total	<u>56,102</u>	<u>60,557</u>

## 18. AMOUNTS DUE TO A DIRECTOR AND A RELATED COMPANY

The amounts due to a director and a related company are unsecured, interest free and have no fixed terms of repayment.

## 19. SHORT TERM BANK LOANS AND OVERDRAFTS

	2001 HK\$'000	2000 HK\$'000
Unsecured		
Bank loans and overdrafts	23,404	1,856
Secured		
Short term bank loans ( <i>note 25(b)</i> )	10,336	-
	<hr/>	<hr/>
	<u>33,740</u>	<u>1,856</u>

The unsecured bank loans and overdrafts are of maturity within 3 months. Included in secured short term bank loans is of maturity over 3 months, totalling HK\$4,545,000.

# NOTES TO THE ACCOUNTS

## 20. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
800,000,000 shares of HK\$0.10 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
448,619,600 ordinary shares of HK\$0.1 each	<u>44,862</u>	<u>44,862</u>

### Share options

On 20th November 1992, the Company adopted a Share Option Scheme ("the Scheme") pursuant to which the Directors may grant options to eligible employees, including Executive Directors of the Company, to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. The number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. During the year, 190,000 share options granted on 19th August 1994 and 130,000 share options granted on 8th February 1996 were cancelled upon resignation of the relevant employees.

Details of outstanding share options granted and being accepted under the Scheme as of 28th February 2001 were as follows:

Date of share options granted/accepted	Number of outstanding share options granted as at 28.2.2001	Subscription price per share	Subscription period
19th August 1994	2,110,000	HK\$0.767	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
8th February 1996	2,300,000	HK\$0.67	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
	<u>4,410,000</u>		

# NOTES TO THE ACCOUNTS

## 21. RESERVES

### Group

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profit HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1st March 1999	253,319	(2,065)	1,797	113,948	4,261	371,260
Deficit on revaluation of investment property	-	-	(100)	-	-	(100)
Exchange translation differences	-	(36)	-	-	-	(36)
Disposal of subsidiaries	-	(1,298)	-	-	-	(1,298)
Profit for the year	-	-	-	27,096	-	27,096
Dividends	-	-	-	(13,458)	-	(13,458)
At 29th February 2000 and 1st March 2000	253,319	(3,399)	1,697	127,586	4,261	383,464
Surplus on revaluation of investment property	-	-	1,100	-	-	1,100
Profit for the year	-	-	-	5,157	-	5,157
Dividend	-	-	-	(4,486)	-	(4,486)
At 28th February 2001	<u>253,319</u>	<u>(3,399)</u>	<u>2,797</u>	<u>128,257</u>	<u>4,261</u>	<u>385,235</u>
Reserves retained by jointly controlled entity						
At 1st March 2000	-	-	-	24,521	-	24,521
Loss for the year	-	-	-	(1,744)	-	(1,744)
At 28th February 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,777</u>	<u>-</u>	<u>22,777</u>

# NOTES TO THE ACCOUNTS

## 21. RESERVES (Continued)

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1st March 1999	253,319	76,157	19,893	349,369
Profit for the year retained	–	–	723	723
At 29th February 2000 and 1st March 2000	253,319	76,157	20,616	350,092
Loss for the year	–	–	(1,268)	(1,268)
Dividend	–	–	(4,486)	(4,486)
At 28th February 2001	<u>253,319</u>	<u>76,157</u>	<u>14,862</u>	<u>344,338</u>

The contributed surplus represents the difference between the consolidated shareholders' funds of Le Saunda (B.V.I.) Limited at the date on which its shares were acquired by the Company and the nominal value of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. Distributable reserves of the Company at 28th February 2001 amounted to HK\$91,019,000 (2000: HK\$96,773,000).

## 22. LONG TERM BANK LOANS – SECURED

	2001 HK\$'000	2000 HK\$'000
Secured bank loans wholly repayable within five years	6,347	11,360
Amount due within one year included under current liabilities	<u>(2,892)</u>	<u>(5,134)</u>
	<u>3,455</u>	<u>6,226</u>

The maturity of the long term bank loans is as follows:

– within one year	2,892	5,134
– in the second year	2,695	2,892
– in the third to fifth year inclusive	<u>760</u>	<u>3,334</u>
	<u>6,347</u>	<u>11,360</u>

# NOTES TO THE ACCOUNTS

## 23. CONTINGENT LIABILITIES

- (a) The Group unilaterally terminated certain operating lease agreements in respect of land and buildings prior to their natural expiry in previous years. The maximum potential liability arising from such early termination of lease agreements, as estimated by the Directors, amounted to approximately HK\$9 million (2000: HK\$15.9 million). The Directors are of the opinion that the likelihood for such potential liability being materialised is remote and that adequate disclosures having been made, no provision has been made in the accounts accordingly.
- (b) The Company and several subsidiaries have jointly given guarantees in favour of banks for banking facilities granted to certain subsidiaries to the extent of HK\$199,553,000 (2000: HK\$187,348,000) of which HK\$51,626,000 (2000: HK\$37,754,000), including trade finance, was utilised as at 28th February 2001.

## 24. COMMITMENTS

### (a) Capital commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for		
– in respect of purchase of fixed assets	–	2,265
– in respect of investment in jointly controlled entity	1,461	1,461
	<u>1,461</u>	<u>3,726</u>

### (b) Lease commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating lease commitments in respect of land and buildings at the end of year payable in the next twelve months, analysed according to the period in which the lease expires, were as follows:		
– expiring in the first year	5,459	10,778
– expiring in the second to fifth year inclusive	31,476	24,669
	<u>36,935</u>	<u>35,447</u>

# NOTES TO THE ACCOUNTS

## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	18,690	28,653
Share of profit of jointly controlled entity	(8,373)	(9,470)
Depreciation	18,961	15,744
Gain on disposal of subsidiaries	–	(1,285)
Loss on disposal of fixed assets	2,035	877
Profit on disposal of listed investments	–	(163)
Interest income	(1,015)	(2,196)
Interest expense	1,677	1,690
(Increase)/decrease in inventories	(52,813)	15,160
Decrease/(increase) in trade and other receivables	4,914	(6,528)
Decrease/(increase) in deposits and prepayments	22,797	(2,190)
(Decrease)/increase in creditors and accruals	(4,455)	86
Increase in amount due to a related company	–	313
(Decrease)/increase in amount due to a director	(6,313)	4,286
Exchange differences	–	(36)
	<u>(3,895)</u>	<u>44,941</u>
Net cash (outflow)/inflow from operating activities	<u>(3,895)</u>	<u>44,941</u>

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

	Short term bank loans HK\$'000	Long term bank loans HK\$'000	Loan to investee company HK\$'000
Balance at 1st March 1999	–	21,696	–
Net cash outflow from financing	–	(10,336)	–
	<u>–</u>	<u>(10,336)</u>	<u>–</u>
Balance at 29th February 2000 and at 1st March 2000	–	11,360	–
Net cash inflow/(outflow) from financing	4,545	(5,013)	(34,090)
	<u>4,545</u>	<u>(5,013)</u>	<u>(34,090)</u>
Balance at 28th February 2001	<u>4,545</u>	<u>6,347</u>	<u>(34,090)</u>

# NOTES TO THE ACCOUNTS

## 26. RELATED PARTY TRANSACTIONS

Principal transactions with related companies, which were carried out in the normal course of the Group's business are summarised as follows:

	2001 HK\$'000	2000 HK\$'000
Rental income from a related company ( <i>note a</i> )	<u>332</u>	<u>498</u>
Rental expenses to a related company ( <i>note c</i> )	<u>1,197</u>	<u>1,136</u>
Management fee from certain related companies ( <i>note b</i> )	<u>1,038</u>	<u>970</u>

- (a) During the year, the Group rented out its investment property located in Macau to G & F Holdings Limited, a company controlled by Mr Lee Keung (Lee Tze Bun Marces) ("Mr Lee"), Chairman of the Group. The rental charged represents fair and reasonable market value of the respective properties.
- (b) During the year, the Group provided administrative services to G & F Holdings Limited and certain of its subsidiaries for management fee. The fee for these services were mainly determined on a cost reimbursement basis.
- (c) During the year, the Group rented a shop located in Macau from Mr Lee as retail outlet in Macau. The rental charged represents fair and reasonable market value of the respective properties.

## 27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 11th June 2001.