

## 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 ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The effect of adopting this revised standard is set out in note 1(m) to the accounts.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 29 February. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the Board of Directors.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (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. The 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 29 February 2004. The investment in jointly controlled entity represents the Group's share of the net assets of the jointly controlled entity.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Other investment

Other investment is carried at cost less any provision for impairment losses. 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 impairment loss 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

#### (i) 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, any rental income being negotiated at arm's length.

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. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

## NOTES TO THE ACCOUNTS

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

#### (e) Fixed assets *(Continued)*

##### (ii) Other fixed assets

Other fixed assets, comprising properties other than investment properties, leasehold improvements, plant and machinery, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	3-4% or over the lease period, whichever is shorter
Leasehold improvements	5-20% or over the lease period, whichever is 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.

##### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **(f) Properties under development for sale**

Properties under development for sale are included in current assets and are stated at the lower of cost and net realisable value, if presale of properties has not commenced.

Properties under development for sale are included in current assets and are stated at cost plus attributable profit recognised on the basis set out in note 1(q)(ii) less sales instalments received and receivable and provision for any foreseeable losses, if presale of properties has commenced.

Cost of properties in the course of development comprises land cost, fees for land use rights and development costs including attributable interest and professional charges capitalised during the development period.

Net realisable value is determined by reference to sales proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

No depreciation is provided on properties under development for sale.

### **(g) Completed properties held for sale**

Completed properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling prices less costs to be incurred in selling the property.

### **(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 overhead expenditure. 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.

## NOTES TO THE ACCOUNTS

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

#### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

#### (k) Operating leases

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

#### (l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

#### (m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was accounted for at the current taxation 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **(m) Deferred taxation *(Continued)***

As detailed in note 26 to the accounts, opening retained profits at 1 March 2002 have been reduced by HK\$4,917,000, which represents the unprovided net deferred tax liabilities; and opening retained profits at 1 March 2003 have been increased by HK\$4,621,000, which represents the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets at 28 February 2003 by HK\$4,621,000. The loss for the year ended 28 February 2003 has been reduced by HK\$9,538,000.

### **(n) Translation of 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 balance sheet of subsidiaries and jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### **(o) Related parties**

Related parties are individuals and companies 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.

### **(p) Employee benefits**

#### **(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

## NOTES TO THE ACCOUNTS

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

#### **(p) Employee benefits *(Continued)***

##### **(ii) 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 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. All staff who had joined the previous retirement schemes have switched to MPF before 1 February 2003.

The Group also contributes to employees pension schemes established by municipal government in respect of certain companies in Mainland China. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the profit and loss account as incurred.

#### **(q) Revenue recognition**

- (i) Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

## 1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **(q) Revenue recognition** *(Continued)*

- (ii) The recognition of revenue and profits from the sales of properties commences when a legally binding contract of sale has been executed.

For the sales of properties under development in advance of completion, the revenues and profits recognised in a year are a proportion of the total revenues and profits expected on completion, the proportion used being the percentage of the construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recognised is restricted to the amount of instalments received and receivable.

Where purchasers fail to pay the balances of the purchase price and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profits; any profits recognised so far are reversed.

- (iii) Dividend income is recognised when the shareholder's right to receive payment is established.
- (iv) Operating lease rental income is recognised on a straight-line basis.
- (v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### **(r) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### **(s) Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude item such as taxation. Capital expenditure represents additions to fixed assets.



## NOTES TO THE ACCOUNTS

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	394,560	306,330
Sales of properties	69,850	5,199
	<u>464,410</u>	<u>311,529</u>
Other revenues		
Dividend income from other investment	–	18,613
Gross rental income from investment properties	1,764	1,936
Bank interest income	310	244
	<u>2,074</u>	<u>20,793</u>
Total revenues	<u><u>466,484</u></u>	<u><u>332,322</u></u>

## NOTES TO THE ACCOUNTS

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

## (i) Primary reporting format – geographical segments

	Hong Kong	Mainland China	Others	Total
	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>142,928</u>	<u>269,835</u>	<u>51,647</u>	<u>464,410</u>
Segment results	7,712	18,605	9,470	35,787
Finance costs	(133)	(253)	-	(386)
Share of profit of jointly controlled entity	<u>-</u>	<u>5,551</u>	<u>-</u>	<u>5,551</u>
Profit before taxation	7,579	23,903	9,470	40,952
Taxation (charge)/credit	<u>7,991</u>	<u>(13,275)</u>	<u>-</u>	<u>(5,284)</u>
Profit attributable to shareholders	<u>15,570</u>	<u>10,628</u>	<u>9,470</u>	<u>35,668</u>
Segment assets	95,502	282,831	7,288	385,621
Investment in jointly controlled entity	<u>-</u>	<u>65,168</u>	<u>-</u>	<u>65,168</u>
	<u>95,502</u>	<u>347,999</u>	<u>7,288</u>	<u>450,789</u>
Segment liabilities	<u>14,612</u>	<u>52,757</u>	<u>235</u>	<u>67,604</u>
Capital expenditure	<u>1,418</u>	<u>1,436</u>	<u>351</u>	<u>3,205</u>
Depreciation	<u>5,700</u>	<u>6,962</u>	<u>86</u>	<u>12,748</u>

## NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*(i) Primary reporting format – geographical segments *(Continued)*

	As restated			
	Hong Kong	Mainland China	Others	Total
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>107,794</u>	<u>183,755</u>	<u>19,980</u>	<u>311,529</u>
Segment results	(24,496)	2,903	2,255	(19,338)
Finance costs	(250)	(983)	-	(1,233)
Share of profit of jointly controlled entity	<u>-</u>	<u>1,605</u>	<u>-</u>	<u>1,605</u>
Profit/(loss) before taxation	(24,746)	3,525	2,255	(18,966)
Taxation credit	<u>-</u>	<u>4,961</u>	<u>-</u>	<u>4,961</u>
Profit/(loss) attributable to shareholders	<u>(24,746)</u>	<u>8,486</u>	<u>2,255</u>	<u>(14,005)</u>
Segment assets	88,171	263,727	6,956	358,854
Investment in jointly controlled entity	<u>-</u>	<u>62,160</u>	<u>-</u>	<u>62,160</u>
	<u>88,171</u>	<u>325,887</u>	<u>6,956</u>	<u>421,014</u>
Segment liabilities	<u>15,820</u>	<u>52,222</u>	<u>316</u>	<u>68,358</u>
Capital expenditure	<u>7,608</u>	<u>3,310</u>	<u>103</u>	<u>11,021</u>
Depreciation	<u>5,929</u>	<u>7,780</u>	<u>77</u>	<u>13,786</u>

## NOTES TO THE ACCOUNTS

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

## (ii) Secondary reporting format – business segments

	Turnover	Segment	Total	Capital
	2004	results	assets	expenditure
	2004	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sales of shoes	391,718	39,069	314,048	3,140
Sales of cosmetic products	2,842	(3,641)	2,265	–
Property development	69,850	359	134,476	65
	<u>464,410</u>	<u>35,787</u>	<u>450,789</u>	<u>3,205</u>
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sales of shoes	304,162	(33,247)	275,515	10,079
Sales of cosmetic products	2,168	(3,021)	3,794	151
Property development	5,199	16,930	141,705	791
	<u>311,529</u>	<u>(19,338)</u>	<u>421,014</u>	<u>11,021</u>

## NOTES TO THE ACCOUNTS

### 3 DISCONTINUING OPERATIONS

On 1 December 2003, the Group planned to terminate the cosmetic products segment located in Mainland China. The operations of the subsidiaries comprising this segment were terminated on 1 May 2004 and are reported in these accounts as discontinuing operations. The sales, results, cash flows and net assets of the cosmetic products segment were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	2,842	2,168
Operating costs	<u>(6,483)</u>	<u>(5,189)</u>
Loss for the year	<u><u>(3,641)</u></u>	<u><u>(3,021)</u></u>
Net operating cash inflow	615	196
Net investing cash outflow	-	(151)
Net financing cash inflow	<u>4</u>	<u>2</u>
Total net cash inflow	<u><u>619</u></u>	<u><u>47</u></u>
Total assets	2,265	3,794
Total liabilities	<u>(397)</u>	<u>(106)</u>
Net assets	<u><u>1,868</u></u>	<u><u>3,688</u></u>

## NOTES TO THE ACCOUNTS

## 4 OPERATING PROFIT/(LOSS)

	2004 HK\$'000	2003 HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
<b>Crediting</b>		
Revaluation surplus on investment properties	612	-
Net exchange gain	-	533
	<u>612</u>	<u>533</u>
<b>Charging</b>		
Auditors' remuneration	973	872
Depreciation	12,748	13,786
Loss on disposal of fixed assets	218	294
Net exchange loss	370	-
Operating lease rentals in respect of land and buildings	46,049	49,684
Outgoings in respect of investment properties	520	468
Staff costs (including directors' emoluments) (Note 6)	75,012	74,539
	<u>75,012</u>	<u>74,539</u>

## 5 FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on short term bank loans	386	1,197
Interest on secured long term bank loans	-	36
	<u>386</u>	<u>1,233</u>

## 6 STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	66,311	64,683
Staff welfare and other benefits	1,924	1,895
Unutilised annual leave	-	856
Termination benefits	2,071	3,368
Pension costs – defined contribution plans (Note 8)	4,706	3,737
	<u>75,012</u>	<u>74,539</u>

## NOTES TO THE ACCOUNTS

### 7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

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

	2004 HK\$'000	2003 HK\$'000
Fees	240	248
Salaries, housing allowances, other allowances and benefits in kind	5,730	6,715
Contributions to retirement scheme as Directors	51	193
Compensation for loss of office	-	2,818
	<u>6,021</u>	<u>9,974</u>

Emoluments paid to independent Non-executive Directors amounted to HK\$240,000 during the year (2003: HK\$248,000).

The emoluments of the Directors fell within the following bands:

Emoluments band	Number of Directors	
	2004	2003
HK\$Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	2	3
HK\$1,500,001 – HK\$2,000,000	1	-
HK\$5,000,001 – HK\$5,500,000	-	1
	<u>-</u>	<u>1</u>

#### (b) Five highest paid individuals

The Directors' emoluments presented above include the emoluments of the four (2003: four) highest paid individuals in the Group. The emoluments of the remaining one (2003: one) highest paid individual were:

	2004 HK\$'000	2003 HK\$'000
Salaries, housing allowances, other allowances and benefits in kind	<u>882</u>	<u>744</u>

## NOTES TO THE ACCOUNTS

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*(b) Five highest paid individuals *(Continued)*

Emoluments band	Number of individuals	
	2004	2003
HK\$ Nil – HK\$1,000,000	<u>1</u>	<u>1</u>

## 8 RETIREMENT BENEFIT COSTS

Retirement benefit scheme costs amounting to HK\$5,196,000 (2003: HK\$3,852,000) were paid by the Group during the year. Forfeited contributions totalling HK\$490,000 (2003: HK\$115,000) were refunded during the year.

## 9 TAXATION

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2004	As restated 2003
	HK\$'000	HK\$'000
Company and subsidiaries		
Mainland China	10,696	3,973
Hong Kong		
– overprovision in prior years	(4,992)	–
Deferred taxation relating to the origination and reversal of temporary differences	(2,530)	(9,538)
Deferred taxation resulting from an increase in tax rate	<u>(433)</u>	<u>–</u>
	2,741	(5,565)
Share of taxation attributable to the jointly controlled entity		
Mainland China	<u>2,543</u>	<u>604</u>
	<u>5,284</u>	<u>(4,961)</u>

Hong Kong profits tax has not been provided as the Group has sufficient tax losses brought forward to offset the estimated assessable profit for the year (2003: no estimated assessable profit). In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.



## NOTES TO THE ACCOUNTS

### 9 TAXATION (Continued)

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

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	<u>40,952</u>	<u>(18,966)</u>
Calculated at a tax rate of 17.5% (2003: 16%)	7,167	(3,035)
Effect of different tax rates in Mainland China	3,705	599
Income not subject to taxation	(20)	(3,011)
Expenses not deductible for taxation purposes	2,857	486
Recognition of previously unrecognised tax losses	(3,000)	-
Overprovision in prior years	(4,992)	-
Increase in opening net deferred tax assets resulting from an increase in tax rate	<u>(433)</u>	<u>-</u>
Taxation charge/(credit)	<u><u>5,284</u></u>	<u><u>(4,961)</u></u>

### 10 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$16,706,000 (2003: a loss of HK\$82,778,000).

### 11 DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Final, proposed of HK2.0 cents (2003: Nil) per ordinary share	<u><u>8,972</u></u>	<u><u>-</u></u>

At a meeting held on 25 June 2004, the Directors proposed a final dividend of HK2.0 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of contributed surplus of the Company for the year ending 28 February 2005.

## NOTES TO THE ACCOUNTS

## 12 EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of HK\$35,668,000 (2003: loss attributable to shareholders of HK\$14,005,000 as restated) and on the weighted average number of shares in issue during the year of 448,619,600 (2003: 448,619,600).

Fully diluted earnings/(loss) per share is not presented as the exercise prices of the outstanding share options of the Company are higher than the market price in respect of both years presented.

## 13 FIXED ASSETS

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1 March 2003	29,466	93,360	41,976	49,944	29,870	4,163	248,779
Additions	-	-	1,489	1,035	586	95	3,205
Revaluation	612	-	-	-	-	-	612
Disposals	-	-	(3,278)	-	(111)	(317)	(3,706)
At 29 February 2004	<u>30,078</u>	<u>93,360</u>	<u>40,187</u>	<u>50,979</u>	<u>30,345</u>	<u>3,941</u>	<u>248,890</u>
Accumulated depreciation and accumulated impairment							
At 1 March 2003	-	32,723	32,999	19,953	23,902	2,213	111,790
Charge for the year	-	1,477	4,909	3,561	2,351	450	12,748
Disposals	-	-	(3,022)	-	(77)	(222)	(3,321)
At 29 February 2004	<u>-</u>	<u>34,200</u>	<u>34,886</u>	<u>23,514</u>	<u>26,176</u>	<u>2,441</u>	<u>121,217</u>
Net book value							
At 29 February 2004	<u>30,078</u>	<u>59,160</u>	<u>5,301</u>	<u>27,465</u>	<u>4,169</u>	<u>1,500</u>	<u>127,673</u>
At 28 February 2003	<u>29,466</u>	<u>60,637</u>	<u>8,977</u>	<u>29,991</u>	<u>5,968</u>	<u>1,950</u>	<u>136,989</u>

## NOTES TO THE ACCOUNTS

### 13 FIXED ASSETS *(Continued)*

The Group's interests in investment properties and other properties at their net book values are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	45,589	45,633
Outside Hong Kong held on:		
Freehold	6,550	6,450
Leases of between 10 to 50 years	37,099	38,020
	<u>89,238</u>	<u>90,103</u>

Investment properties are stated at the professional valuation made on an open market value basis at 29 February 2004 by independent professional valuers, Chung, Chan & Associates and Zhong Shan Lian Cheng Appraisal Co., Ltd.

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

Investment properties and other properties with a total net book value of HK\$43,338,000 (2003: HK\$43,432,000) have been pledged to secure bank loan facilities of HK\$63,500,000 (2003: HK\$124,000,000) granted to certain subsidiaries of the Group.

### 14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	107,657	107,657
Less: Provision for impairment losses	(61,238)	(79,258)
	<u>46,419</u>	<u>28,399</u>
Amounts due by subsidiaries	281,810	283,259
	<u>328,229</u>	<u>311,658</u>

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

## NOTES TO THE ACCOUNTS

## 14 INVESTMENTS IN 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 and kind of legal entity	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
Guangzhou Le Saunda Company Limited	The People's Republic of China ("PRC"), limited liability company	RMB7,000,000	Retailing of shoes	100
廣州銘高鞋服有限公司	PRC, limited liability company	RMB500,000	Retailing of shoes	100
Guangzhou Shungo Shoes Fashion Company Limited	PRC, limited liability company	RMB3,750,950	Retailing of shoes	100
廣州市宏峻鞋服有限公司	PRC, limited liability company	RMB500,000	Wholesales of shoes	100
廣州市韋柏貿易有限公司	PRC, limited liability company	RMB3,500,000	Retailing of shoes	100
Le Saunda (B.V.I.) Limited (note (a))	British Virgin Islands	US\$31,500	Investment holding	100
Le Saunda Calcado, Limitada	Macau	MOP200,000	Retailing of shoes	100

## NOTES TO THE ACCOUNTS

## 14 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Le Saunda (China) Limited	Hong Kong	HK\$2	Investment holding	100
Le Saunda China Investment Limited	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
L.S. Retailing Limited (note (b))	Hong Kong	HK\$20,002,000	Retailing of shoes	100
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

## NOTES TO THE ACCOUNTS

## 14 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Shunde Daxin Shoe-Making Company Limited	PRC, limited liability company	RMB8,711,084	Manufacturing and trading of shoes	100
Shunde Lixinda Shoes Company Limited	PRC, limited liability company	RMB13,117,034	Manufacturing and trading of shoes	100
順德市信達房地產開發有限公司	PRC, limited liability company	RMB10,643,480	Property development	100
Shunde Yihensin Shoe-Making Factory	PRC, limited liability company	RMB5,645,382	Manufacturing and trading of shoes	100
Shunde Ying Da Shoes Company Limited	PRC, limited liability company	RMB8,667,951	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

- (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 which operates worldwide, and Le Saunda China Investment Limited and Brilliant Investment Holdings Limited which operate in the PRC, all subsidiaries operate principally in their places of incorporation.

## NOTES TO THE ACCOUNTS

## 15 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	2004 HK\$'000	2003 HK\$'000
Registered capital at cost, unlisted	36,386	36,386
Share of undistributed post-acquisition reserves	28,782	25,774
Share of net assets	<u>65,168</u>	<u>62,160</u>

Details of the jointly controlled entity are as follows:

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

The jointly controlled entity is held indirectly by the Company.

By virtue of a joint venture agreement dated 23 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 period is 20 years from the date of issue of business licence, i.e. 21 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 29 February 2004, LSRE had contributed US\$4.8 million (approximately HK\$36,386,000) to SSQ.

## NOTES TO THE ACCOUNTS

15 INVESTMENT IN JOINTLY CONTROLLED ENTITY *(Continued)*

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

	2004 HK\$'000	2003 HK\$'000
Operating results		
Turnover	<u>192,477</u>	<u>41,009</u>
Profit before taxation	<u>11,102</u>	<u>3,210</u>
Group's share of profit before taxation	<u>5,551</u>	<u>1,605</u>
Financial position		
Long term assets	535	582
Current assets	148,398	236,587
Current liabilities	(18,597)	(75,094)
Long term liabilities	-	(37,700)
Shareholders' funds	<u>130,336</u>	<u>124,375</u>

## 16 OTHER INVESTMENT

	2004 HK\$'000	2003 HK\$'000
Registered capital at cost, unlisted	2,356	2,356
Loan to investee company	<u>2,356</u>	<u>2,356</u>
	<u>4,712</u>	<u>4,712</u>



## NOTES TO THE ACCOUNTS

### 16 OTHER INVESTMENT (Continued)

Details of other investment are as follows:

Name	Place of establishment/ operation	Principal activities	Group's percentage of equity interest
順德市陳村鎮碧桂園物業發展有限公司	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.

### 17 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2003: 16%).

The movement on the deferred tax assets/(liabilities) account is as follows:

	Unrealised profits/ (losses) on inventories		Tax losses		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	4,621	(4,917)	-	-	4,621	(4,917)
(Charged)/credited to profit and loss account	(37)	9,538	3,000	-	2,963	9,538
At end of year	<u>4,584</u>	<u>4,621</u>	<u>3,000</u>	<u>-</u>	<u>7,584</u>	<u>4,621</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$202,945,000 (2003: HK\$225,680,000) to carry forward against future taxable income. These tax losses have no expiry date.

## NOTES TO THE ACCOUNTS

## 18 PROPERTIES UNDER DEVELOPMENT FOR SALE

	2004 HK\$'000	2003 HK\$'000
Land	23,957	52,724
Development expenditure plus attributable profit	–	18,326
Less: Sales instalments received and receivable	–	(10,948)
	<u>23,957</u>	<u>60,102</u>

These represent residential properties under development in Shunde, Mainland China for sale. As at 29 February 2004, no properties under development for sale were pledged as security for bank loan facilities granted to the Group (2003: Nil).

## 19 COMPLETED PROPERTIES HELD FOR SALE

These represent completed residential properties held for sale in Shunde, Mainland China. As at 29 February 2004, no completed properties held for sale were pledged as security for bank loan facilities granted to the Group (2003: Nil) and all completed properties are carried at cost.

## 20 INVENTORIES

	2004 HK\$'000	2003 HK\$'000
Raw materials	12,803	12,703
Work in progress	4,311	7,019
Finished goods	47,149	40,058
	<u>64,263</u>	<u>59,780</u>

At 29 February 2004 and 28 February 2003, all inventories are carried at cost.

## NOTES TO THE ACCOUNTS

### 21 TRADE AND OTHER RECEIVABLES

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

	2004 HK\$'000	2003 HK\$'000
Trade receivables		
Current to 30 days	28,127	19,077
31 to 60 days	4,894	5,812
61 to 90 days	2,507	1,964
Over 90 days	2,647	252
	<u>38,175</u>	<u>27,105</u>
Other receivables	<u>3,428</u>	<u>5,392</u>
Total	<u><u>41,603</u></u>	<u><u>32,497</u></u>

### 22 CREDITORS AND ACCRUALS

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

	2004 HK\$'000	2003 HK\$'000
Trade creditors		
Current to 30 days	29,712	21,562
31 to 60 days	1,850	227
61 to 90 days	-	495
91 to 120 days	17	11
Over 120 days	135	229
	<u>31,714</u>	<u>22,524</u>
Accruals	<u>29,402</u>	<u>44,112</u>
Total	<u><u>61,116</u></u>	<u><u>66,636</u></u>

## NOTES TO THE ACCOUNTS

## 23 SHORT TERM BANK LOANS

	2004 HK\$'000	2003 HK\$'000
Secured	<u>6,488</u>	<u>1,722</u>

## 24 SHARE CAPITAL

	2004 HK\$'000	2003 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\$0.10 each	<u>44,862</u>	<u>44,862</u>

## 25 SHARE OPTIONS

On 20 November 1992, the Company adopted a Share Option Scheme ("the Old Scheme") pursuant to which the Directors might 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 might be granted under the Share Option Scheme should 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, 500,000 share options granted on 8 February 1996 were cancelled upon resignation of an Executive Director.

## NOTES TO THE ACCOUNTS

25 SHARE OPTIONS *(Continued)*

Details of outstanding share options granted and being accepted under the Old Scheme as of 29 February 2004 were as follows:

Date of share options granted/accepted	Number of outstanding share options granted as at 29 February 2004	Subscription price per share	Subscription period
19 August 1994	650,000	HK\$0.767	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
8 February 1996	750,000	HK\$0.67	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
	1,400,000		

## NOTES TO THE ACCOUNTS

## 26 RESERVES

## Group

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1 March 2002, as previously reported	253,319	(3,399)	63,866	4,261	318,047
Change in accounting policy on deferred taxation ( <i>note 1(m)</i> )	-	-	(4,917)	-	(4,917)
At 1 March 2002, as restated	253,319	(3,399)	58,949	4,261	313,130
Exchange differences on translation of the accounts of foreign subsidiaries and jointly controlled entity	-	6,889	-	-	6,889
Loss for the year	-	-	(14,005)	-	(14,005)
At 28 February 2003	<u>253,319</u>	<u>3,490</u>	<u>44,944</u>	<u>4,261</u>	<u>306,014</u>
Analysis of reserves:					
Company and subsidiaries	253,319	1,005	21,655	4,261	280,240
Jointly controlled entity	-	2,485	23,289	-	25,774
At 28 February 2003	<u>253,319</u>	<u>3,490</u>	<u>44,944</u>	<u>4,261</u>	<u>306,014</u>
At 1 March 2003, as previously reported	253,319	3,490	40,323	4,261	301,393
Change in accounting policy on deferred taxation ( <i>note 1(m)</i> )	-	-	4,621	-	4,621
At 1 March 2003, as restated	253,319	3,490	44,944	4,261	306,014
Profit for the year	-	-	35,668	-	35,668
At 29 February 2004	<u>253,319</u>	<u>3,490</u>	<u>80,612</u>	<u>4,261</u>	<u>341,682</u>
Analysis of reserves:					
Company and subsidiaries	253,319	1,005	54,315	4,261	312,900
Jointly controlled entity	-	2,485	26,297	-	28,782
At 29 February 2004	<u>253,319</u>	<u>3,490</u>	<u>80,612</u>	<u>4,261</u>	<u>341,682</u>

## NOTES TO THE ACCOUNTS

## 26 RESERVES (Continued)

## Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 March 2002	253,319	76,157	19,764	349,240
Loss for the year	-	-	(82,778)	(82,778)
At 28 February 2003	<u>253,319</u>	<u>76,157</u>	<u>(63,014)</u>	<u>266,462</u>
At 1 March 2003	253,319	76,157	(63,014)	266,462
Profit for the year	-	-	16,706	16,706
At 29 February 2004	<u>253,319</u>	<u>76,157</u>	<u>(46,308)</u>	<u>283,168</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. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Distributable reserves of the Company at 29 February 2004 amounted to HK\$29,849,000 (2003: HK\$13,143,000).

## NOTES TO THE ACCOUNTS

## 27 CONTINGENT LIABILITIES

- (a) The local tax authorities in Mainland China have been carrying out investigations in connection with certain value added tax payments made by the Group's subsidiaries operating in Mainland China. Based on a notification received from a local tax authority in Mainland China, additional payments for value added tax amounting to HK\$15,674,000 had been accrued in the accounts for the year ended 28 February 2003 and were fully paid to the local tax authorities in Mainland China during the year.

Certain subsidiaries are still being under investigation and the Directors believe that the local tax authorities may demand further payments of approximately HK\$6,220,000 from these subsidiaries and accordingly the Directors have accrued these further payments in the accounts. The Directors consider that further liabilities (if any), apart from the amount already accrued, are unlikely to be material.

- (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\$63,500,000 (2003: HK\$177,160,000) of which HK\$18,071,000 (2003: HK\$8,376,000) was utilised as at 29 February 2004.

## 28 COMMITMENTS

## (a) Capital commitments

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for in respect of investment in jointly controlled entity	<u>1,461</u>	<u>1,461</u>

## (b) Commitments under operating leases

- (i) At 29 February, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Land and buildings:		
Not later than one year	36,070	46,931
Later than one year and not later than five years	<u>19,630</u>	<u>34,131</u>
	<u>55,700</u>	<u>81,062</u>

The above operating lease commitments included commitments for fixed rent only. Rentals payable in some cases include an additional rent, calculated according to gross revenue, in excess of a fixed rent.



## NOTES TO THE ACCOUNTS

28 COMMITMENTS *(Continued)*(b) Commitments under operating leases *(Continued)*

- (ii) At 29 February, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Land and buildings:		
Not later than one year	1,945	1,703
Later than one year and not later than five years	1,919	1,240
	<u>3,864</u>	<u>2,943</u>

## 29 CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit/(loss) before taxation to net cash inflow generated from operations

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	40,952	(18,966)
Share of profit of jointly controlled entity	(5,551)	(1,605)
Dividend income from other investment	-	(18,613)
Depreciation	12,748	13,786
Loss on disposal of fixed assets	218	294
Revaluation surplus on investment properties	(612)	-
Interest income	(310)	(244)
Interest expense	386	1,233
	<u>47,831</u>	<u>(24,115)</u>
Operating profit/(loss) before working capital changes	47,831	(24,115)
Decrease/(increase) in properties under development for sale	36,145	(7,378)
Increase in completed properties held for sale	(11,260)	-
(Increase)/decrease in inventories	(4,483)	20,913
Increase in trade and other receivables	(9,106)	(6,304)
Decrease in deposits and prepayments	1,614	943
(Decrease)/increase in creditors and accruals	(5,520)	37,603
Exchange differences	-	5,086
	<u>55,221</u>	<u>26,748</u>
Net cash inflow generated from operations	<u>55,221</u>	<u>26,748</u>

## NOTES TO THE ACCOUNTS

## 29 CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Short term bank loans HK\$'000	Long term bank loans HK\$'000
At 1 March 2002	46,776	3,334
Repayments of bank loans	(45,054)	(3,334)
At 28 February 2003	1,722	-
New bank loans	4,766	-
At 29 February 2004	<u>6,488</u>	<u>-</u>

## 30 RELATED PARTY TRANSACTIONS

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

	2004 HK\$'000	2003 HK\$'000
Rental expenses to a related party (note a)	<u>1,200</u>	<u>1,200</u>
Rental income from a related company (note b)	<u>-</u>	<u>192</u>

- (a) During the year, the Group rented a shop located in Macau from Mr. Lee Tze Bun, Marces ("Mr Lee"), a substantial shareholder and Director of the Company, as retail outlet in Macau. The amount is mutually agreed.
- (b) During the year ended 28 February 2003, the Group rented out its investment property located in Hong Kong to Fornari International Limited, of which Mr. Lee is a shareholder. The amount of the aforesaid rental was mutually agreed by the parties.

## 31 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 25 June 2004.