

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 Institute of Certified Public Accountants (“HKICPA”). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 28 February 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 28 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 28 February 2005. 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.

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 no revenues or profits have been recognised on the basis set out in note 1(q)(ii).

For properties under development for sale with revenue and profits recognised on the basis set out in note 1(q)(iii), they are included in current assets and are stated at cost plus attributable profit less sales instalments received and receivable and provision for any foreseeable losses.

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 first-in, first-out 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.

In prior years, cost was calculated on the weighted average basis. The adoption of first-in, first-out basis represents a change in accounting policy but has no material effect on the Group's results.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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) 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 and deposits held at call with banks.

(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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 entities 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.

(ii) Retirement benefits

The Group contributes to a mandatory provident fund scheme which is a defined contribution retirement scheme and available to all employees. 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.

The Group also contributes to 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.
- (ii) Revenue and profits from the sales of completed properties are recognised when a legally binding contract of sale has been executed.
- (iii) In respect of contracts of sales entered into before 1 January 2005 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.

In accordance with Hong Kong Accounting Standard Interpretation No. 3 “Revenue – Pre-completion Contracts for the Sale of Development Properties” issued by the HKICPA, revenues and profits in respect of contracts of sales of properties under development in advance of completion entered into on or after 1 January 2005 are not recognised until the development of the properties is completed.

Where purchasers fail to pay the balances of the purchase prices 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.

- (iv) Dividend income is recognised when the shareholder’s right to receive payment is established.
- (v) Operating lease rental income is recognised on a straight-line basis.
- (vi) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Segment reporting

In prior years, the Group presented geographical segments as the primary reporting format and business segments as the secondary reporting format. During the year, the Group carried out a review of its internal financial reporting and determined that, in order to better reflect the Group's risks and rates of return, business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparatives presented have been restated to conform to the revised segment 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.

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:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of goods	547,966	394,560
Sales of properties	19,547	69,850
	<u>567,513</u>	<u>464,410</u>
Other revenues		
Gross rental income from investment properties	2,032	1,764
Bank interest income	560	310
	<u>2,592</u>	<u>2,074</u>
Total revenues	<u>570,105</u>	<u>466,484</u>

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(i) Primary reporting format – business segments

	Manufacture and sales of shoes 2005 HK\$'000	Property development 2005 HK\$'000	Others 2005 HK\$'000	Total 2005 HK\$'000
Turnover	546,769	19,547	1,197	567,513
Segment results	77,582	(1,948)	(4,245)	71,389
Finance costs	(259)	–	–	(259)
Share of profit of jointly controlled entity	–	5,573	–	5,573
Profit/(loss) before taxation	77,323	3,625	(4,245)	76,703
Taxation	(4,755)	(1,843)	(6)	(6,604)
Profit/(loss) attributable to shareholders	72,568	1,782	(4,251)	70,099
Segment assets	425,863	84,818	6,946	517,627
Investment in jointly controlled entity	–	59,477	–	59,477
	425,863	144,295	6,946	577,104
Segment liabilities	66,486	30,850	297	97,633
Capital expenditure	15,335	183	281	15,799
Depreciation	11,519	242	110	11,871

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(i) Primary reporting format – business segments (Continued)

	Manufacture and sales of shoes 2004 HK\$'000	Property development 2004 HK\$'000	Others 2004 HK\$'000	Total 2004 HK\$'000
Turnover	391,718	69,850	2,842	464,410
Segment results	39,069	359	(3,641)	35,787
Finance costs	(386)	–	–	(386)
Share of profit of jointly controlled entity	–	5,551	–	5,551
Profit/(loss) before taxation	38,683	5,910	(3,641)	40,952
Taxation	(2,183)	(3,101)	–	(5,284)
Profit/(loss) attributable to shareholders	36,500	2,809	(3,641)	35,668
Segment assets	314,048	69,308	2,265	385,621
Investment in jointly controlled entity	–	65,168	–	65,168
	314,048	134,476	2,265	450,789
Segment liabilities	58,897	8,305	402	67,604
Capital expenditure	3,140	65	–	3,205
Depreciation	12,525	215	8	12,748

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(ii) Secondary reporting format – geographical segments

	Turnover 2005 HK\$'000	Segment results 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
Hong Kong	176,154	37,564	148,193	5,370
Mainland China	307,512	19,894	419,125	10,368
Others	83,847	13,931	9,786	61
	567,513	71,389	577,104	15,799
	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000
Hong Kong	142,928	7,712	95,502	1,418
Mainland China	269,835	18,605	347,999	1,436
Others	51,647	9,470	7,288	351
	464,410	35,787	450,789	3,205

3 OPERATING PROFIT

	2005 HK\$'000	2004 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Revaluation surplus on investment properties	1,238	612
Charging		
Auditors' remuneration	1,184	973
Depreciation	11,871	12,748
Loss on disposal of fixed assets	152	218
Net exchange loss	233	370
Operating lease rentals in respect of land and buildings	46,049	46,049
Outgoings in respect of investment properties	538	520
Staff costs (including directors' emoluments) (Note 5)	93,321	75,012

4 FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on short term bank loans	<u>259</u>	<u>386</u>

5 STAFF COSTS

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	83,540	66,311
Staff welfare and other benefits	3,490	1,924
Termination benefits	27	2,071
Pension costs – defined contribution plans (Note 7)	6,264	4,706
	<u>93,321</u>	<u>75,012</u>

6 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:

	2005 HK\$'000	2004 HK\$'000
Fees	291	240
Salaries, housing allowances, other allowances and benefits in kind	6,854	5,730
Contributions to retirement scheme as Directors	45	51
	<u>7,190</u>	<u>6,021</u>

Emoluments paid to independent Non-executive Directors amounted to HK\$291,000 during the year (2004: HK\$240,000).

In addition to the above, benefits in kind of 3,150,000 share options under the share option schemes of the Company were exercised during the year by certain Directors of the Company. The aggregate difference between the exercise prices and the market prices at the dates of exercise was HK\$997,000.

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The emoluments of the Directors (including benefits in kind of share options) fell within the following bands:

Emoluments band	Number of Directors	
	2005	2004
HK\$Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	2	–
	<u> </u>	<u> </u>

(b) Five highest paid individuals

The Directors' emoluments presented above include the emoluments of the three (2004: four) highest paid individuals in the Group. The emoluments of the remaining two (2004: one) highest paid individuals were:

	2005	2004
	HK\$'000	HK\$'000
Salaries, housing allowances, other allowances and benefits in kind	<u>2,221</u>	<u>882</u>

Emoluments band	Number of individuals	
	2005	2004
HK\$Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	–
	<u> </u>	<u> </u>

7 RETIREMENT BENEFIT COSTS

Retirement benefit scheme costs amounting to HK\$6,341,000 (2004: HK\$5,196,000) were paid by the Group during the year. Forfeited contributions totalling HK\$77,000 (2004: HK\$490,000) were refunded during the year.

8 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2005	2004
	HK\$'000	HK\$'000
Company and subsidiaries		
Mainland China	10,908	10,696
Hong Kong		
– overprovision in prior years	–	(4,992)
Deferred taxation relating to the origination and reversal of temporary differences	(6,143)	(2,530)
Deferred taxation resulting from an increase in tax rate	–	(433)
	4,765	2,741
Share of taxation attributable to the jointly controlled entity		
Mainland China	1,839	2,543
	6,604	5,284

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 (2004: Nil).

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:

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	76,703	40,952
Calculated at a tax rate of 17.5% (2004: 17.5%)	13,423	7,167
Effect of different tax rates in Mainland China	3,476	3,705
Income not subject to taxation	(733)	(20)
Expenses not deductible for taxation purposes	3,189	2,857
Utilisation of previously unrecognised tax losses	(9,030)	–
Recognition of previously unrecognised tax losses	(3,721)	(3,000)
Overprovision in prior years	–	(4,992)
Increase in opening net deferred tax assets resulting from an increase in tax rate	–	(433)
Taxation charge	6,604	5,284

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$59,981,000 (2004: HK\$16,706,000).

10 DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim, paid, of HK 2.0 cents (2004: Nil) per ordinary share	9,036	–
Final, proposed, of HK4.5 cents (2004: HK 2.0 cents) per ordinary share	22,580	8,972
	31,616	8,972

At a meeting held on 17 June 2005, the Directors proposed a final dividend of HK4.5 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 2006.

11 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to shareholders of HK\$70,099,000 (2004: HK\$35,668,000).

The basic earnings per share is based on the weighted average number of 459,720,970 (2004: 448,619,600) ordinary shares in issue during the year. The diluted earnings per share is based on 479,235,173 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 19,514,203 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share was not presented for the year ended 29 February 2004 as the exercise prices of the outstanding share options of the Company were higher than the market price.

12 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 2004	30,078	93,360	40,187	50,979	30,345	3,941	248,890
Additions	-	-	12,449	946	1,972	432	15,799
Transfers	(6,191)	6,191	-	-	-	-	-
Revaluation	1,238	-	-	-	-	-	1,238
Disposals	-	-	(3,469)	(5)	(22)	(175)	(3,671)
At 28 February 2005	25,125	99,551	49,167	51,920	32,295	4,198	262,256
Accumulated depreciation and accumulated impairment							
At 1 March 2004	-	34,200	34,886	23,514	26,176	2,441	121,217
Charge for the year	-	1,639	4,627	3,514	1,674	417	11,871
Disposals	-	-	(3,147)	(1)	(20)	(168)	(3,336)
At 28 February 2005	-	35,839	36,366	27,027	27,830	2,690	129,752
Net book value							
At 28 February 2005	25,125	63,712	12,801	24,893	4,465	1,508	132,504
At 29 February 2004	30,078	59,160	5,301	27,465	4,169	1,500	127,673

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

	2005 HK\$'000	2004 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	45,698	45,589
Outside Hong Kong held on:		
Freehold	6,850	6,550
Leases of between 10 to 50 years	36,289	37,099
	88,837	89,238

Investment properties are stated at the professional valuation made on an open market value basis at 28 February 2005 by independent professional valuers, Chung, Chan & Associates and Zhong Shan Lian Cheng Appraisal Co., Ltd.

12 FIXED ASSETS (Continued)

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

Investment properties and other properties with a total net book value of HK\$42,729,000 (2004: HK\$43,338,000) have been pledged to secure bank loan facilities of HK\$67,500,000 (2004: HK\$63,500,000) granted to certain subsidiaries of the Group.

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	107,657	107,657
Less: Provision for impairment losses	–	(61,238)
	107,657	46,419
Amounts due by subsidiaries	315,840	281,810
	423,497	328,229

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

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

13 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 %
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
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

13 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 %
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 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

Notes:

- (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.

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	2005 HK\$'000	2004 HK\$'000
Registered capital at cost, unlisted	36,386	36,386
Share of undistributed post-acquisition reserves	23,091	28,782
Share of net assets	59,477	65,168

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 28 February 2005, LSRE had contributed US\$4.8 million (approximately HK\$36,386,000) to SSQ.

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Operating results		
Turnover	46,918	192,477
Profit before taxation	11,145	11,102
Group's share of profit before taxation	5,573	5,551
Financial position		
Long term assets	406	535
Current assets	156,129	148,398
Current liabilities	(37,525)	(18,597)
Shareholders' funds	119,010	130,336

15 OTHER INVESTMENT

	2005 HK\$'000	2004 HK\$'000
Registered capital at cost, unlisted	2,356	2,356
Loan to investee company	2,356	2,356
	4,712	4,712

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.

16 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2004: 17.5%).

The movement on the deferred tax assets account is as follows:

	Unrealised profits on inventories		Tax losses		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	4,584	4,621	3,000	–	7,584	4,621
Credited/(charged) to profit and loss account	2,422	(37)	3,721	3,000	6,143	2,963
At end of year	7,006	4,584	6,721	3,000	13,727	7,584

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\$120,679,000 (2004: HK\$202,945,000) to carry forward against future taxable income. These tax losses have no expiry date.

17 PROPERTIES UNDER DEVELOPMENT FOR SALE

	2005 HK\$'000	2004 HK\$'000
Land	6,009	23,957
Development expenditure plus attributable profit	60,560	–
Less: Sales instalments received and receivable	(17,286)	–
	49,283	23,957

These represent residential properties under development in Shunde, Mainland China for sale. As at 28 February 2005, no properties under development for sale were pledged as security for bank loan facilities granted to the Group (2004: Nil).

18 COMPLETED PROPERTIES HELD FOR SALE

These represent completed residential properties held for sale in Shunde, Mainland China. As at 28 February 2005, no completed properties held for sale were pledged as security for bank loan facilities granted to the Group (2004: Nil) and all completed properties are carried at cost.

19 INVENTORIES

	2005	2004
	HK\$'000	HK\$'000
Raw materials	17,758	12,803
Work in progress	9,280	4,311
Finished goods	79,224	47,149
	106,262	64,263

At 28 February 2005 and 29 February 2004, all inventories are carried at cost.

20 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:

	2005	2004
	HK\$'000	HK\$'000
Trade receivables		
Current to 30 days	43,421	28,127
31 to 60 days	5,476	4,894
61 to 90 days	1,944	2,507
Over 90 days	966	2,647
	51,807	38,175
Other receivables	2,643	3,428
Total	54,450	41,603

21 CREDITORS AND ACCRUALS

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

	2005	2004
	HK\$'000	HK\$'000
Trade creditors		
Current to 30 days	39,183	29,712
31 to 60 days	9,223	1,850
61 to 90 days	4,762	–
91 to 120 days	1,787	17
Over 120 days	2,629	135
	57,584	31,714
Accruals	37,399	29,402
Total	94,983	61,116

22 SHARE CAPITAL

	2005		2004	
	Number of Ordinary shares	HK\$'000	Number of ordinary shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	800,000,000	80,000	800,000,000	80,000
Issued and fully paid:				
At beginning of year	448,619,600	44,862	448,619,600	44,862
Exercise of share options (note 23)	3,150,000	315	–	–
Placement of new shares (note a)	50,000,000	5,000	–	–
At end of year	501,769,600	50,177	448,619,600	44,862

- (a) On 22 December 2004, 50,000,000 ordinary shares of HK\$0.10 each were issued at a subscription price of HK\$1.04 for cash for future investment purposes. These shares rank pari passu with the existing shares.

23 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 Old Scheme. The number of shares in respect of which options might be granted under the Old Scheme should not exceed 10% of the issued share capital of the Company from time to time.

Each share option under the Old Scheme entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. At 28 February 2005, there was no outstanding share option under the Old Scheme.

At the special general meeting of the Company held on 22 July 2002, the shareholders of the Company approved the termination of the Old Scheme and the adoption of the new share option scheme (the “New Scheme”) pursuant to which the Directors may grant options to Eligible Persons (as defined under the New Scheme) to subscribe for shares in the Company in accordance with the terms of the New Scheme. The number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the issued share capital of the Company as at the date of shareholders’ approval. The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

23 SHARE OPTIONS (Continued)

Each share option under the New Scheme entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a price, which is to be determined by the board of Directors provided always that it shall be at least the higher of: (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the Eligible Person), which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant.

Details of the movements of the outstanding share options granted and being accepted under the Old Scheme and the New Scheme were as follows:

Date of share options granted	Number of share options					Outstanding as at 28 February 2005	Exercise price
	Outstanding as at 1 March 2004	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year		
Under the Old Scheme							
19 August 1994	650,000	–	(600,000)	(50,000)	–	–	HK\$0.767 (a)
8 February 1996	750,000	–	(750,000)	–	–	–	HK\$0.67 (a)
Under the New Scheme							
13 April 2004	–	39,550,000	(1,800,000)	–	(2,800,000)	34,950,000	HK\$0.38 (b)

(a) Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance.

(b) Exercisable from a range of dates between 26 July 2004 and 13 April 2007 and expiring on the 10th anniversary from date of acceptance.

24 RESERVES

Group	Share premium	Exchange translation reserve	Retained profits	Capital reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 March 2003	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>
Representing:					
2004 proposed final dividend			8,972		
Others			<u>71,640</u>		
			<u>80,612</u>		
At 1 March 2004	253,319	3,490	80,612	4,261	341,682
Profit for the year	–	–	70,099	–	70,099
Dividends	–	–	(18,008)	–	(18,008)
Issue of shares	<u>48,332</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>48,332</u>
At 28 February 2005	<u>301,651</u>	<u>3,490</u>	<u>132,703</u>	<u>4,261</u>	<u>442,105</u>
Analysis of reserves:					
Company and subsidiaries	301,651	1,005	112,097	4,261	419,014
Jointly controlled entity	–	2,485	20,606	–	23,091
At 28 February 2005	<u>301,651</u>	<u>3,490</u>	<u>132,703</u>	<u>4,261</u>	<u>442,105</u>
Representing:					
2005 proposed final dividend			22,580		
Others			<u>110,123</u>		
			<u>132,703</u>		

24 RESERVES (Continued)

Company	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
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>
Representing:				
2004 proposed final dividend		8,972		
Others		<u>67,185</u>		
		<u>76,157</u>		
At 1 March 2004	253,319	76,157	(46,308)	283,168
Profit for the year	–	–	59,981	59,981
Dividends	–	(8,972)	(9,036)	(18,008)
Issue of shares	<u>48,332</u>	<u>–</u>	<u>–</u>	<u>48,332</u>
At 28 February 2005	<u>301,651</u>	<u>67,185</u>	<u>4,637</u>	<u>373,473</u>
Representing:				
2005 proposed final dividend		22,580		
Others		<u>44,605</u>		
		<u>67,185</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 28 February 2005 amounted to HK\$71,822,000 (2004: HK\$29,849,000).

25 CONTINGENT LIABILITIES

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\$73,740,000 (2004: HK\$63,500,000) of which HK\$9,697,000 (2004: HK\$18,071,000) was utilised as at 28 February 2005.

26 COMMITMENTS

(a) Capital commitments

	2005 HK\$'000	2004 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 the date of the year end, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2005 HK\$'000	2004 HK\$'000
Land and buildings:		
Not later than one year	49,847	36,070
Later than one year and not later than five years	<u>44,879</u>	<u>19,630</u>
	<u>94,726</u>	<u>55,700</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.

- (ii) At the date of the year end, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2005 HK\$'000	2004 HK\$'000
Land and buildings:		
Not later than one year	1,394	1,945
Later than one year and not later than five years	<u>619</u>	<u>1,919</u>
	<u>2,013</u>	<u>3,864</u>

27 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash generated from operations

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	76,703	40,952
Share of profit of jointly controlled entity	(5,573)	(5,551)
Depreciation	11,871	12,748
Loss on disposal of fixed assets	152	218
Revaluation surplus on investment properties	(1,238)	(612)
Interest income	(560)	(310)
Interest expense	259	386
Operating profit before working capital changes	81,614	47,831
(Increase)/decrease in properties under development for sale	(25,326)	36,145
Decrease/(increase) in completed properties held for sale	6,264	(11,260)
Increase in inventories	(41,999)	(4,483)
Increase in trade and other receivables	(12,847)	(9,106)
(Increase)/decrease in deposits and prepayments	(6,211)	1,614
Increase/(decrease) in creditors and accruals	33,867	(5,520)
Net cash generated from operations	35,362	55,221

(b) Analysis of changes in financing during the year

	Short term bank loans HK\$'000
At 1 March 2003	1,722
New bank loans	4,766
At 29 February 2004	6,488
Repayments of bank loans	(3,838)
At 28 February 2005	2,650

28 RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK\$'000	HK\$'000
Rental expenses payable to:		
– to a related party (<i>note a</i>)	1,299	1,200
– to a related company (<i>note b</i>)	642	–

(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, the Group rented an office premise located in Mainland China from Genda Investment Limited, a company controlled by Mr. Lee. The amount is mutually agreed.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 17 June 2005.