General Information

Le Saunda Holdings Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in manufacturing and sale of shoes and property development. The Group's operations are mainly within Hong Kong and Mainland China.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are prepared in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 June 2006.

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost conventions modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS

In the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 31, 33, 36, 40, HKAS-Int 15 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of share of after-tax results of the jointly controlled entity and other disclosures.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

— HKASs 2, 7, 8, 10, 16, 23, 27, 31, 33, 36, 40, HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance in the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the Group's investments are classified into available-for-sale financial asset. The classification depends on the purpose for which the investments were acquired. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the available-for-sale revaluation reserves. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through income statement, to be carried at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)
The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities or assets arising from the revaluation of investment properties. Such deferred tax liabilities or assets are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 28 February 2005, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 March 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 which had not yet vested on 1 March 2005 was expensed retrospectively in the income statement of the respective periods (Note 1(t)(iii)).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 — does not permit the Group to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 March 2005.

— HKAS 40 — since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 March 2005, including the reclassification of any amount held in revaluation surplus for investment property.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

— HKAS-Int 15 — does not require the recognition of incentives for leases beginning before 1 March 2005.

— HKFRS 2 — only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 March 2005.

The impact of changes in accounting policies to the Group for the year ended 28 February 2006:

	HKAS 1 HK$'000	HKAS 17 HK$'000	HKAS 39 HK$'000	HKAS-Int 21 HK$'000	HKFRS 2 HK$'000	Total HK$'000
Increase/(decrease)						
Income statement items for the year ended 28 February 2006:						
Cost of sales	—	26	—	—	—	26
General and administrative expenses	—	—	—	—	2,801	2,801
Share of profit of a jointly controlled entity	(2,362)	(103)	—	—	—	(2,465)
Taxation	(2,362)	(34)	—	640	(491)	(2,247)
Profit attributable to shareholders	—	(95)	—	(640)	(2,310)	(3,045)
Earnings per share of profit attributable to shareholders						
– Basic (HK cents)	—	(0.0)	—	(0.1)	(0.5)	(0.6)
– Diluted (HK cents)	—	(0.0)	—	(0.1)	(0.5)	(0.6)
Balance sheet items as at 28 February 2006:						
Property, plant and equipment	—	(41,709)	—	—	—	(41,709)
Leasehold land and land use rights	—	41,709	—	—	—	41,709
Interests in a jointly controlled entity	—	(2,692)	—	—	—	(2,692)
Other investment	—	—	(4,822)	—	—	(4,822)
Available-for-sale financial asset	—	—	4,822	—	—	4,822
Deferred tax assets	—	—	—	2,242	619	2,861
Properties under development for sale	—	(284)	—	—	—	(284)
Completed properties held for sale	—	(392)	—	—	—	(392)
Total assets	—	(3,368)	—	2,242	619	(507)
Employee share-based compensation reserve	—	—	—	—	3,533	3,533
Other reserves	—	(3,368)	—	2,242	(2,914)	(4,040)
Total equity	—	(3,368)	—	2,242	619	(507)

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)
The impact of changes in accounting policies to the Group for the year ended 28 February 2005:

(i) Consolidated income statement

	As previously reported HK$'000	HKAS 1 HK$'000	HKAS 17 HK$'000	HKAS-Int 21 HK$'000	HKFRS 2 HK$'000	Restated HK$'000
Turnover	567,513	—	—	—	—	567,513
Cost of sales	(254,048)	—	(85)	—	—	(254,133)
Gross profit	313,465					313,380
Other gains	2,592	678	—	—	—	3,270
Selling and distribution costs	(165,007)	—	—	—	—	(165,007)
General and administrative expenses	(79,661)	(1,238)	—	—	(1,550)	(82,449)
Operating profit	71,389					69,194
Bank interest income	—	560	—	—	—	560
Finance costs	(259)	—	—	—	—	(259)
Share of profit of a jointly controlled entity	5,573	(1,839)	(268)	—	—	3,466
Profit before taxation	76,703					72,961
Taxation (charge)/credit	(6,604)	1,839	—	(326)	271	(4,820)
Profit attributable to shareholders	70,099	—	(353)	(326)	(1,279)	68,141
Earnings per share of profit attributable to shareholders						
– Basic (HK cents)	15.2	—	(0.1)	(0.0)	(0.3)	14.8
– Diluted (HK cents)	14.6	—	(0.1)	(0.0)	(0.3)	14.2

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

(ii) Consolidated balance sheet

	As previously reported HK$'000	HKAS 1 HK$'000	HKAS 17 HK$'000	HKAS-Int 21 HK$'000	HKFRS 2 HK$'000	Restated HK$'000
ASSETS						
Non-current assets						
Fixed assets	132,504	—	(132,504)	—	—	—
Investment properties	—	—	25,125	—	—	25,125
Property, plant and equipment	—	—	64,558	—	—	64,558
Leasehold land and land use rights	—	—	42,821	—	—	42,821
Long term deposits and prepayments	—	13,263	—	—	—	13,263
Interests in a jointly controlled entity	59,477	—	(2,589)	—	—	56,888
Other investment	4,712	—	—	—	—	4,712
Deferred tax assets	13,727	—	—	2,882	271	16,880
	210,420	13,263	(2,589)	2,882	271	224,247
Current assets						
Properties under development for sale	49,283	—	(565)	—	—	48,718
Completed properties held for sale	4,996	—	(70)	—	—	4,926
Inventories	106,262	—	—	—	—	106,262
Trade and other receivables	54,450	—	—	—	—	54,450
Deposits and prepayments	26,092	(13,263)	—	—	—	12,829
Cash and cash equivalents	139,328	—	—	—	—	139,328
	380,411	(13,263)	(635)	—	—	366,513
Total assets	590,831	—	(3,224)	2,882	271	590,760

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

(ii) Consolidated balance sheet (continued)

	As previously reported HK$'000	HKAS 1 HK$'000	HKAS 17 HK$'000	HKAS-Int 21 HK$'000	HKFRS 2 HK$'000	Restated HK$'000
EQUITY						
Share capital	50,177	—	—	—	—	50,177
Reserves						
Proposed final dividend	22,580	—	—	—	—	22,580
Other reserves	419,525	—	(3,224)	2,882	271	419,454
Total equity	492,282	—	(3,224)	2,882	271	492,211
LIABILITIES						
Current liabilities						
Creditors and accruals	94,983	—	—	—	—	94,983
Taxation payable	916	—	—	—	—	916
Short term bank loans, secured	2,650	—	—	—	—	2,650
Total liabilities	98,549	—	—	—	—	98,549
Total equity and liabilities	590,831	—	(3,224)	2,882	271	590,760

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised HKFRS (continued)

(iii) The impact of changes in accounting policies to the Company for the years ended 28 February 2005 and 2006

	Company Effect of adoption of HKFRS 2 HK$'000
Increase/(decrease)	
Income statement items for the year ended 28 February 2006:	
General and administrative expenses	2,801
Loss before taxation	2,801
Taxation	(491)
Loss attributable to shareholders	2,310
Balance sheet items as at 28 February 2006:	
Deferred tax assets	619
Total assets	619
Employee share-based compensation reserve	3,533
Other reserves	(2,914)
Total equity	619
Income statement items for the year ended 28 February 2005:	
General and administrative expenses	1,550
Profit before taxation	(1,550)
Taxation	(271)
Profit attributable to shareholders	(1,279)
Balance sheet items as at 28 February 2005:	
Deferred tax assets	271
Total assets	271
Employee share-based compensation reserve	1,550
Other reserves	(1,279)
Total equity	271

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but which the Group has not early adopted, as follows:

— HKAS 1 (Amendment), "Capital Disclosures"

— HKAS 19 (Amendment), "Actuarial Gain and Losses, Group Plans and Disclosures"

— HKAS 39 (Amendment), "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"

— HKAS 39 (Amendment), "The Fair Value Option"

— HKAS 39 and HKFRS 4 (Amendments), "Financial Guarantee Contracts"

— HKFRSs 1 & 6 (Amendments), "First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources"

— HKFRS 6, "Exploration for and Evaluation of Mineral Resources"

— HKFRS 7, "Financial Instruments: Disclosures"

— HKFRS-Int 4, "Determining whether an Arrangement contains a Lease"

Management is currently assessing the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

1 Summary of significant accounting policies (continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 28 February. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All significant intercompany transactions and balances and unrealised gains on transactions 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 jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

(d) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease. Investment property is measured initially at its cost, including related transaction costs.

1 Summary of significant accounting policies (continued)

(d) Investment properties (continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Changes in fair values are recognised in the income statement.

In prior years, the increases in fair value were credited to the investment properties revaluation reserve; decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

If an investment property becomes owner-occupied, it is classified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

(e) Property, plant and equipment

Buildings comprise mainly factories, retail outlets and office. They are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, at the following annual rates:

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%

1 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(g)).

The gain or loss on disposal is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(f) Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 to 70 years from the date the respective right was granted. Amortisation of leasehold land and land use rights is calculated on a straight-line basis over the period of the rights.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

From 1 March 2004 to 28 February 2005:

The Group classified its investments in securities, other than subsidiaries and joint ventures, as other investment.

Other investment was stated at cost less provision for impairment losses.

1 Summary of significant accounting policies (continued)

(h) Financial assets (continued)

From 1 March 2005 onwards:

The Group classifies its other investment as available-for-sale financial asset. Available-for-sale financial asset is included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial asset is carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale security are recognised in equity. When a security classified as available-for-sale is sold or impaired, the accumulated fair value adjustments are included in the income statement. If the available-for-sale financial asset is an unlisted financial asset whose fair value cannot be reliably measured, it is stated at cost less impairment, if any.

(i) 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(v)(iii).

Properties under development for sale with revenue and profits recognised on the basis set out in Note 1(v)(iii), 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.

The 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.

The cost of acquiring land held under operating leases and land use rights is amortised on a straight line basis over the lease term. During the course of development of the property, the amortisation charge is included as part of the costs of the property under development. In all other cases, the amortisation charge is recognised in the income statement immediately.

1 Summary of significant accounting policies (continued)

(j) 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 price less costs to be incurred in selling the property.

(k) 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. It excludes borrowing costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated direct selling expenses.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(n) 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 income statement on a straight-line basis over the lease periods.

1 Summary of significant accounting policies (continued)

(o) 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 an 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 financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) 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 income statement in the year in which they are incurred.

1 Summary of significant accounting policies (continued)

(r) 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.

(s) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars ("HK$") while all other major group companies maintain their books and records in Renminbi ("RMB"). The consolidated financial statements are presented in HK$, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the fair value reserve in equity.

1 Summary of significant accounting policies (continued)

(s) Translation of foreign currencies (continued)

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

(t) Employee benefits

(i) Employee benefit entitlements

Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Pension obligations

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 governments 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 income statement as incurred.

1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan.

The Group recognises the fair value of the employee services received in exchange for the share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an employee share-based compensation reserve. The related employee share-based compensation reserve is transferred to share capital and share premium together with the exercise price, when the option holder exercises its rights. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

HKFRS 2 has been applied retrospectively with comparatives restated in accordance with HKFRS 2 except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options :

(1) options granted on or before 7 November 2002; and

(2) all options granted after 7 November 2002 but which had vested before 1 March 2005.

1 Summary of significant accounting policies (continued)

(u) Provisions

Provisions for restoration and restructuring costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(v) 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 sale of completed properties are recognised when a legally binding contract of sale has been executed.

(iii) In respect of contracts of sale entered into before 1 January 2005 for the sale 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 sale 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.

1 Summary of significant accounting policies (continued)

(v) Revenue recognition (continued)

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 using the effective interest method.

(w) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

Segment assets consist primarily of investment properties, property, plant and equipment, leasehold land and land use rights, deposits and prepayments, property under development for sale, completed properties held for sale, inventories, receivables and operating cash, and mainly exclude interests in joint ventures and defend tax assets. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights and investment properties.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are where the assets are located.

1 Summary of significant accounting policies (continued)

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Financial risk management

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk.

(a) Foreign exchange risk

Certain of the subsidiaries of the Group operate in Mainland China with most of these transactions denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China government.

Management monitors exchange rate movements closely to ascertain if any material exposure may arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or via major credit cards. The carrying amount of the trade receivables included in the consolidated balance sheets represents the Group's maximum exposure to credit risk. The Group also performs periodic assessments of the trade receivables and believes that adequate provision for uncollectible receivables has been made.

2 Finance risk management (continued)

2.1 Financial risk factors (continued)

(c) Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) Cash flow and fair value interest rate risk

As the Group has significant interest-bearing bank balances, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

2.2 Fair value estimation

The Group has investment properties in Hong Kong and Mainland China. In accordance with HKAS 40 "Investment Property", all investment properties are carried at fair value. The fair value is based on active market prices which in turn depend on the property market conditions and the economic environment in the area in which such properties are located. As the movements in the fair value of investment properties are recognised in the income statement, the Group's results are exposed to the risk of fluctuation of such fair values.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

(a) Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment.

This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

3 Critical accounting estimates and judgements (continued)

(a) Useful lives and impairment of property, plant and equipment (continued)

The impairment loss for property, plant and equipment is recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 1(g). The recoverable amounts are determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that is obtainable at each balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

(b) Taxes

The Group is subject to various taxes. Significant judgement is required in determining the provision for these taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation of each balance sheet date.

(d) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the estimation on each balance sheet date.

4 Turnover and segment information

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

	2006 HK$'000	2005 HK'000
Sales of goods	661,450	547,966
Sales of properties	58,927	19,547
	720,377	567,513

Primary reporting format - business segments

The Group is organised into two main business segments:

- Manufacture and sales of shoes
- Property development

There were no sales between the business segments.

Secondary reporting format - geographical segments

The Group's business segments operate in two main geographical areas:

- Mainland China — manufacturing and retailing of shoes and property development
- Hong Kong — retailing of shoes

There were no sales between the geographical segments.

4 Turnover and segment information (continued)

(i) Primary reporting format - business segments

	Manufacture and sales of shoes 2006 HK$'000	Property development 2006 HK$'000	Others 2006 HK$'000	Total 2006 HK$'000
Turnover	653,031	58,927	8,419	720,377
Segment results	73,887	17,211	(8,852)	82,246
Bank interest income	1,110	683	1	1,794
Finance costs	(180)	—	—	(180)
Share of profit of a jointly controlled entity	—	4,726	—	4,726
Profit/(loss) before taxation	74,817	22,620	(8,851)	88,586
Taxation credit/(charge)	1,578	—	(8)	1,570
Profit/(loss) attributable to shareholders	76,395	22,620	(8,859)	90,156
Segment assets	475,789	91,097	14,180	581,066
Interests in a jointly controlled entity	—	53,374	—	53,374
	475,789	144,471	14,180	634,440
Segment liabilities	77,302	25,281	2,019	104,602
Capital expenditure	17,345	17	4,258	21,620
Depreciation	15,902	258	1,134	17,294
Amortisation	1,112	—	—	1,112

4 Turnover and segment information (continued)

(i) Primary reporting format - business segments (continued)

	Manufacture and sales of shoes 2005 (Restated) HK$'000	Property development 2005 (Restated) HK$'000	Others 2005 (Restated) HK$'000	Total 2005 (Restated) HK$'000
Turnover	546,769	19,547	1,197	567,513
Segment results	75,797	(2,351)	(4,252)	69,194
Bank interest income	235	318	7	560
Finance costs	(259)	—	—	(259)
Share of profit of a jointly controlled entity	—	3,466	—	3,466
Profit/(loss) before taxation	75,773	1,433	(4,245)	72,961
Taxation charge	(4,810)	(4)	(6)	(4,820)
Profit/(loss) attributable to shareholders	70,963	1,429	(4,251)	68,141
Segment assets	421,151	88,895	6,946	516,992
Interests in a jointly controlled entity	—	56,888	—	56,888
	421,151	145,783	6,946	573,880
Segment liabilities	66,486	30,850	297	97,633
Capital expenditure	15,335	183	281	15,799
Depreciation	10,777	242	110	11,129
Amortisation	742	—	—	742

4 Turnover and segment information (continued)

(ii) Secondary reporting format - geographical segments

	Turnover 2006 HK$'000	Segment results 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
Hong Kong	**185,971**	**14,110**	**119,793**	**9,110**
Mainland China	**421,962**	**47,180**	**495,084**	**12,172**
Others	**112,444**	**20,956**	**19,563**	**338**
	720,377	**82,246**	**634,440**	**21,620**

	2005 HK$'000	2005 (Restated) HK$'000	2005 (Restated) HK$'000	2005 HK$'000
Hong Kong	176,154	36,005	148,193	5,370
Mainland China	307,512	19,282	415,901	10,368
Others	83,847	13,907	9,786	61
	567,513	69,194	573,880	15,799

5 Other gains

	2006 **HK$'000**	2005 (Restated) HK'000
Gross rental income from investment properties	**2,195**	2,032
Dividend income from available-for-sale financial assets	**20,312**	—
Fair value gains on investment properties (Note 15)	**2,801**	1,238
	25,308	3,270

6 Expenses by nature

Expenses included in cost of sales, selling and distribution costs and general and administrative expenses are analysed as follows:

	2006 HK$'000	2005 (Restated) HK'000
Auditors' remuneration	**1,360**	1,184
Amortisation of leasehold land and land use rights (Note 17)	**1,112**	742
Depreciation of property, plant and equipment (Note 16)	**17,294**	11,129
Loss on disposal of property, plant and equipment	**737**	152
Net exchange (gain)/loss	**(1,360)**	233
Operating lease rentals in respect of land and buildings	**63,904**	46,049
Direct operating expenses arising from investment properties that generated rental income	**540**	538
Staff costs (including directors' emoluments) (Note 8)	**116,370**	94,871

7 Finance costs

	2006 HK$'000	2005 HK'000
Interest on short term bank loans	**180**	259

8 Staff costs (including directors' emoluments)

	2006 HK$'000	2005 (Restated) HK'000
Wages and salaries	**100,723**	83,540
Staff welfare and other benefits	**4,874**	3,490
Share options granted to Directors and employees	**2,801**	1,550
Termination benefits	**—**	27
Pension costs — defined contribution plans (Note 10)	**7,972**	6,264
	116,370	94,871

9 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each of the Directors of the Company for the year ended 28 February 2006 is set out below:

Name of Director	**Fees**	***Salary, bonus, other allowances, share options and benefits in kind**	**Contributions to retirement scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Mr. Lee Tze Bun, Marces	—	650	—	650
Mr. Wan Tat Wah	—	2,896	12	2,908
Ms. Chui Kwan Ho, Jacky	—	1,967	12	1,979
Ms. Tsui Oi Kuen	—	1,577	12	1,589
Mr. Ven Kam Cheong, Eric (resigned on 1 February 2006)	—	2,157	11	2,168
Independent non-executive Directors				
Mr. Law King Wan	120	—	—	120
Mr. Leung Wai Ki, George	120	—	—	120
Mr. Lam Siu Lun, Simon (appointed on 16 January 2006)	14	—	—	14
Mr. Wong Kong Chi (resigned on 16 January 2006)	120	—	—	120

9 Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

The remuneration of each of the Directors of the Company for the year ended 28 February 2005 is set out below:

Name of Director	Fees	*Salary, bonus, allowances, other allowances, share options and benefits in kind (Restated)	Contributions to retirement scheme	Total (Restated)
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Mr. Lee Tze Bun, Marces	—	—	—	—
Mr. Wan Tat Wah	—	2,772	12	2,784
Ms. Chui Kwan Ho, Jacky	—	1,928	12	1,940
Ms. Tsui Oi Kuen	—	1,598	12	1,610
Mr. Ven Kam Cheong, Eric (appointed on 13 December 2004)	—	785	3	788
Ms. Lau Shun Wai (resigned on 10 August 2004)	—	505	6	511
Independent non-executive Directors				
Mr. Wong Kong Chi	120	—	—	120
Mr. Law King Wan	120	—	—	120
Mr. Leung Wai Ki, George (appointed on 28 September 2004)	51	—	—	51

* Included in these amounts was share-based compensation, which was determined based on the fair value of the share options granted to the relevant Directors at the date of grant and recognised over the vesting period. During the year ended 28 February 2006, 5,700,000 (2005: 1,800,000 (New Scheme)) options have been exercised by the Directors.

9 Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The Directors' emoluments presented above include the emoluments of the four (2005: three) highest paid individuals in the Group. The emoluments of the remaining one (2005: two) highest paid individual was:

	2006	2005
		(Restated)
	HK$'000	HK'000
Salaries, bonus, other allowances, share options and benefits in kind	**2,027**	2,515
Contributions to retirement scheme	**12**	12

Emolument bands	**Number of individuals**	
	2006	2005
HK$1,000,001 - HK$1,500,000	**—**	2
HK$2,000,001 - HK$2,500,000	**1**	—

10 Retirement benefit costs

Retirement benefit scheme costs amounting to HK$8,087,000 (2005: HK$6,341,000) were paid by the Group during the year. Forfeited contributions totalling HK$115,000 (2005: HK$77,000) were refunded during the year.

11 Taxation credit/(charge)

The amount of taxation credited/(charged) to the consolidated income statement represents:

	2006	2005
		(Restated)
	HK$'000	HK'000
Current taxation		
Mainland China enterprise income tax	**(11,403)**	(10,908)
Deferred taxation (Note 22)	**12,973**	6,088
	1,570	(4,820)

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 (2005: 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.

11 Taxation credit/(charge) (continued)

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

	2006	2005
		(Restated)
	HK$'000	HK'000
Profit before taxation, less share of profit of a jointly controlled entity	83,860	69,495
Calculated at a tax rate of 17.5% (2005: 17.5%)	14,676	12,162
Effect of different tax rates in different tax jurisdictions	2,514	3,622
Income not subject to taxation	(3,889)	(516)
Expenses not deductible for taxation purposes	374	226
Utilisation of previously unrecognised tax losses	(9,347)	(6,953)
Recognition of previously unrecognised tax losses	(5,898)	(3,721)
Taxation (credit)/charge	(1,570)	4,820

12 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK$4,096,000 (2005: profit of HK$58,702,000 as restated).

13 Dividends

	2006	2005
	HK$'000	HK'000
Interim, paid, of HK2.8 cents (2005: HK 2.0 cents) per ordinary share	14,200	9,036
Final, proposed, of HK4.5 cents (2005: HK 4.5 cents) per ordinary share	22,957	22,580
	37,157	31,616

At a meeting held on 20 June 2006, the Directors proposed a final dividend of HK4.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of contributed surplus of the Company for the year ending 28 February 2007.

14 Earnings per share

The calculations of basic and diluted earnings per share are based on the profit attributable to shareholders of HK$90,156,000 (2005: HK$68,141,000 as restated).

The basic earnings per share is based on the weighted average number of 506,291,463 (2005: 459,720,970) ordinary shares in issue during the year. The diluted earnings per share is based on 526,391,899 (2005: 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 20,100,436 (2005: 19,514,203) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

15 Investment properties

	2006 HK$'000	2005 HK'000
At beginning of year	**25,125**	30,078
Fair value gains on investment properties (Note 5)	**2,801**	1,238
Transfer to other properties	**—**	(6,191)
At the end of year	**27,926**	25,125

Investment properties are stated at the professional valuation made on an open market value basis at 28 February 2006 by independent professional valuer, Chung, Chan & Associates.

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

	2006 HK$'000	2005 HK'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**17,387**	17,317
Outside Hong Kong held on:		
Freehold	**8,900**	6,850
Leases of between 10 to 50 years	**1,639**	958
	27,926	25,125

16 Property, plant and equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 March 2004						
Cost	34,807	40,187	50,979	30,345	3,941	160,259
Accumulated depreciation and accumulated impairment	(15,434)	(34,886)	(23,514)	(26,176)	(2,441)	(102,451)
Net book amount	19,373	5,301	27,465	4,169	1,500	57,808
Year ended 28 February 2005						
Opening net book amount	19,373	5,301	27,465	4,169	1,500	57,808
Additions	—	12,449	946	1,972	432	15,799
Transfer from investment properties	2,415	—	—	—	—	2,415
Disposals	—	(322)	(4)	(2)	(7)	(335)
Depreciation	(897)	(4,627)	(3,514)	(1,674)	(417)	(11,129)
Closing net book amount	20,891	12,801	24,893	4,465	1,508	64,558
At 28 February 2005						
Cost	37,222	49,167	51,920	32,295	4,198	174,802
Accumulated depreciation and accumulated impairment	(16,331)	(36,366)	(27,027)	(27,830)	(2,690)	(110,244)
Net book amount	20,891	12,801	24,893	4,465	1,508	64,558
Year ended 28 February 2006						
Opening net book amount	20,891	12,801	24,893	4,465	1,508	64,558
Exchange difference	—	183	515	75	19	792
Additions	—	16,871	2,003	2,477	269	21,620
Transfers	—	97	—	(97)	—	—
Disposals	—	(707)	—	—	(33)	(740)
Depreciation	(75)	(11,315)	(3,918)	(1,500)	(486)	(17,294)
Closing net book amount	20,816	17,930	23,493	5,420	1,277	68,936
At 28 February 2006						
Cost	37,222	53,960	55,023	24,745	3,807	174,757
Accumulated depreciation and accumulated impairment	(16,406)	(36,030)	(31,530)	(19,325)	(2,530)	(105,821)
Net book amount	20,816	17,930	23,493	5,420	1,277	68,936

17 Leasehold land and land use rights

	2006 HK$'000	2005 (Restated) HK'000
At beginning of year	**42,821**	39,787
Transfer from investment properties	**—**	3,776
Amortisation	**(1,112)**	(742)
At end of year	**41,709**	42,821

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2006 HK$'000	2005 (Restated) HK'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**17,135**	17,747
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**19,021**	19,527
Leases of over 50 years	**5,553**	5,547
	41,709	42,821

18 Long term deposits and prepayments

The amounts include a prepayment for land use rights of approximately HK$26,122,000 which is situated in Shunde, Mainland China for residential property development.

19 Investments in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**107,657**	107,657
Amounts due from subsidiaries	**280,262**	315,840
	387,919	423,497

The amounts due from 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
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
廣州市韋柏貿易有限公司	PRC, limited liability company	RMB3,500,000	Retailing of shoes	100

19 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 (B.V.I.) Limited *(note (a))*	British Virgin Islands	US$31,500	Investment holding	100
利信達商業（中國）有限公司	PRC, limited liability company	HK$8,000,000	Retailing of shoes	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
利信達貿易（深圳）有限公司	PRC, limited liability company	HK$5,000,000	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

19 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 %
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
佛山市順德區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
億才商業（上海）有限公司	PRC, limited liability company	US$1,000,000	Retailing of shoes	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 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 which operate in the PRC, all subsidiaries operate principally in their places of incorporation.

20 Interests in a jointly controlled entity

	2006	2005 (Restated)
	HK$'000	HK$'000
Registered capital at cost, unlisted	**36,386**	36,386
Share of undistributed post-acquisition reserves	**16,988**	20,502
Share of net assets	**53,374**	56,888
At beginning of year, as previously reported	**59,477**	65,168
Effect of adoption of HKAS 17	**(2,589)**	(2,321)
At beginning of year, as restated	**56,888**	62,847
Share of result of a jointly controlled entity		
- profit before taxation	**7,054**	5,173
- taxation	**(2,328)**	(1,707)
	4,726	3,466
	61,614	66,313
Dividend	**(9,425)**	(9,425)
Exchange differences	**1,185**	—
At end of year	**53,374**	56,888

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%

20 Interests in a jointly controlled entity (continued)

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 US$5 million (equivalent to approximately HK$38,650,000) capital in SSQ and share the results of SSQ equally. Up to 28 February 2006, LSRE had contributed US$4.8 million (approximately HK$36,386,000) to SSQ.

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

	2006	2005 (Restated)
	HK$'000	HK$'000
Operating results		
Turnover	61,467	46,918
Profit for the year	9,452	6,932
Group's share of profit for the year	4,726	3,466
Financial position		
Non-current assets	263	406
Current assets	162,232	148,401
Current liabilities	(55,747)	(35,031)
Net assets	106,748	113,776

21 Available-for-sale financial asset/other investment

(a) Available-for-sale financial asset

	2006 **HK$'000**
At beginning of year	**4,712**
Exchange differences	**110**
At end of year	**4,822**

(b) Other investment

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

Details of available-for-sale financial asset/other investment is as follows:

Name	**Place of establishment/ operation**	**Principal activities**	**Group's percentage of equity interest %**
佛山市順德區陳村鎮 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.

22 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2005: 17.5%).

	Group		Company	
	2006	2005	**2006**	2005
		(Restated)		(Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year,				
as previously reported	**13,727**	7,584	**—**	—
Effect of adoption of HKFRS 2	**271**	—	**271**	—
Effect of adoption of HKAS-Int 21	**2,882**	3,208	**—**	—
At beginning of year, as restated	**16,880**	10,792	**271**	—
Credited to income statement (Note 11)	**12,973**	6,088	**491**	271
Charged to reserve (Note 32)	**(143)**	—	**(143)**	—
At end of year	**29,710**	16,880	**619**	271

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

Group

	Unrealised profits on inventories		Tax losses		Revaluation of Investment properties		Share-based compensation		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
						(Restated)		(Restated)		(Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At beginning of year	**7,006**	4,584	**6,721**	3,000	**2,882**	3,208	**271**	—	**16,880**	10,792
Credited/ (charged) to income statement	**8,480**	2,422	**4,642**	3,721	**(640)**	(326)	**491**	271	**12,973**	6,088
Charged to reserve	**—**	—	**—**	—	**—**	—	**(143)**	—	**(143)**	—
At end of year	**15,486**	7,006	**11,363**	6,721	**2,242**	2,882	**619**	271	**29,710**	16,880

22 Deferred taxation (continued)

Company

	Share-based compensation	
	2006	2005
		(Restated)
	HK$'000	HK$'000
At beginning of year	**271**	—
Credited to income statement	**491**	271
Charged to reserve	**(143)**	—
At end of year	**619**	271

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of HK$83,368,000 (2005: HK$120,679,000) to carry forward against future taxable income. These tax losses have no expiry date.

23 Properties under development for sale

	2006	2005
		(Restated)
	HK$'000	HK$'000
Land use rights	**5,828**	20,768
Development costs	**5,944**	27,950
	11,772	48,718

These represent residential properties under development in Shunde, Mainland China for sale.

24 Completed properties held for sale

	2006 HK$'000	2005 (Restated) HK$'000
Land use rights	**1,378**	1,720
Development costs	**3,211**	3,206
	4,589	4,926

These represent completed residential properties held for sale in Shunde, Mainland China. The cost of completed properties held for sale recognised as expense and included in cost of sales amounted to HK$58,811,000 (2005: HK$18,737,000 as restated).

25 Inventories

	2006 HK$'000	2005 HK$'000
Raw materials	**18,427**	17,758
Work in progress	**15,310**	9,280
Finished goods	**127,934**	79,224
	161,671	106,262

The cost of inventories recognised as expense and included in cost of sales amounted to HK$293,066,000 (2005: HK$234,995,000).

26 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:

	2006 **HK$'000**	2005 HK$'000
Trade receivables		
Current to 30 days	**48,258**	43,421
31 to 60 days	**16,239**	5,476
61 to 90 days	**2,480**	1,944
Over 90 days	**3,597**	1,795
	70,574	52,636
Less: provision	**(847)**	(829)
	69,727	51,807
Other receivables	**3,123**	2,643
Total	**72,850**	54,450

The amounts approximated to the fair value at 28 February 2006. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

27 Restricted bank deposits/cash and cash equivalents

As at 28 February 2006, the Group's bank deposits of approximately HK$9,386,000 (2005: Nil) were restricted by the Mainland China local authorities in respect of payment of construction costs to contractors and receipts of advance payments from buyers of the Group's properties.

The carrying amounts of the restricted bank deposits are denominated in RMB.

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**82,974**	120,478	**103**	127
Short-term bank deposits	**25,140**	18,850	**—**	—
Cash and cash equivalents	**108,114**	139,328	**103**	127
Denominated in:				
HK$	**16,352**	61,118	**103**	127
RMB	**73,025**	67,897	**—**	—
US$	**5,587**	5,451	**—**	—
EURO	**13,054**	4,713	**—**	—
Others	**96**	149	**—**	—
	108,114	139,328	**103**	127

The effective interest rate on short-term bank deposits was 2.4% (2005: 1.7%); these deposits have a maturity ranging from 1 week to 3 months.

28 Creditors and accruals

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

	2006 HK$'000	2005 HK$'000
Trade creditors		
Current to 30 days	**32,526**	39,183
31 to 60 days	**15,076**	9,223
61 to 90 days	**4,521**	4,762
91 to 120 days	**2,443**	1,787
Over 120 days	**2,234**	2,629
	56,800	57,584
Accruals	**43,340**	37,399
Total	**100,140**	94,983

29 Short term bank loans, secured

The carrying amounts of the borrowings are denominated in the following currencies:

	2006 HK$'000	2005 HK$'000
EURO	**2,507**	2,363
US$	**1,955**	287
	4,462	2,650

The carrying amounts of the borrowings approximate their fair values.

The effective interest rates of the short term bank loans at the balance sheet dates were as follows:

	2006 HK$'000	2005 HK$'000
EURO	**3.7%**	3.7%
US$	**5.5%**	4.0%

29 Short term bank loans, secured (continued)

The Group has the following undrawn borrowing facilities:

	2006 **HK$'000**	2005 HK$'000
Floating rate		
- expiring within one year	**50,890**	64,043

The facilities expiring within one year are annual facilities subject to review at various dates during 2006 and 2007.

30 Share capital

	2006 Number of ordinary shares	**2006** HK$'000	2005 Number of ordinary shares	2005 HK$'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	**501,769,600**	**50,177**	448,619,600	44,862
Exercise of share options (Note 31)	**8,380,000**	**838**	3,150,000	315
Placement of new shares (Note a)	**—**	**—**	50,000,000	5,000
At end of year	**510,149,600**	**51,015**	501,769,600	50,177

Note:

(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.

31 Share options

At the special general meeting of the Company held on 22 July 2002, the shareholders of the Company approved the adoption of the share option scheme (the "Scheme") pursuant to which the Directors may grant options to eligible persons (as defined under the Scheme) to subscribe for shares in the Company in accordance with the terms of the Scheme. The number of shares in respect of which options may be granted under the 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 Scheme and any other share option schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

Each share option under the 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 sheets 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 preceeding the date of offer of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price per share (HK$)	**Number of share options (thousands)**	Average exercise price per share (HK$)	Number of share options (thousands)
At beginning of year	**0.38**	**34,950**	0.72	1,400
Granted	**1.07**	**13,320**	0.38	39,550
Forfeited	**0.98**	**(8,950)**	0.38	(2,800)
Exercised	**0.38**	**(8,380)**	0.52	(3,150)
Lapsed	**—**	**—**	0.77	(50)
At end of year	**0.50**	**30,940**	0.38	34,950

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

31 Share options (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date at	Exercise price per share (HK$)	Number of share options as at 2006 (thousands)	2005 (thousands)
12 April 2014 (Note a)	0.38	**23,870**	34,950
6 March 2015 (Note b)	1.24	**1,000**	—
15 January 2016 (Note c)	0.87	**6,070**	—

Note:

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

(b) Exercisable on 1 September 2007 and expiring on the 10th anniversary from date of acceptance.

(c) Exercisable from a range of dates between 16 January 2006 and 7 March 2008 and expiring on the 10th anniversary from date of acceptance.

On 16 January 2006, the Group granted 6,130,000 share options to employees who surrendered the same number of share options granted on 7 March 2005 at exercise price of HK$1.24. In this connection, the incremental fair value of HK$373,000 will be expensed over the vesting period. The Group used the inputs noted below to measure the fair value of such share options.

The fair value of options was determined using the Black-Scholes Pricing model which was performed by an independent valuer, Amercian Apprasial China Limited. Significant inputs into the model were as follows:

Share price (HK$)	0.38	1.23	0.86
Exercise price (HK$)	0.38	1.24	0.87
Date of options granted	13 April 2004	7 March 2005	16 January 2006
Fair value of options grants (HK$)	0.12	0.39	0.31
Expiry date	12 April 2014	6 March 2015	15 January 2016
Expected life of options (years)	5.8	5.9	5.1
Standard deviation	50%	50%	58%
Days for calculating volatility	2,190	2,190	1,825
Expected dividend yield	5%	5%	5%
Annual risk-free interest rate	2.70%	3.33%	4.02%

31 Share options (continued)

The Black-Scholes option pricing model was developed to estimate the fair value of publicly traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Any changes in the subjective input assumptions may materially affect the estimation of the fair value of an option.

32 Reserves

Group

	Share premium HK$'000	Exchange translation reserve HK$'000	Retained earnings HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 March 2004, as previously reported	253,319	3,490	80,612	4,261	—	341,682
Effect of adoption of HKAS 17	—	—	(2,871)	—	—	(2,871)
Effect of adoption of HKAS-Int 21	—	—	3,208	—	—	3,208
At 1 March 2004, as restated	253,319	3,490	80,949	4,261	—	342,019
Effect of adoption of HKFRS 2						
- value of service provided	—	—	—	—	1,550	1,550
Profit for the year	—	—	68,141	—	—	68,141
Dividends	—	—	(18,008)	—	—	(18,008)
Issue of shares :						
- exercise of share options	1,332	—	—	—	—	1,332
- placement of new shares	47,000	—	—	—	—	47,000
At 28 February 2005, as restated	301,651	3,490	131,082	4,261	1,550	442,034
Representing:						
2005 proposed final dividend			22,580			
Others			108,502			
			131,082			

32 Reserves (continued)
Group (continued)

	Share premium HK$'000	Exchange translation reserve HK$'000	Retained earnings HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 March 2005, as previously reported	301,651	3,490	132,703	4,261	—	442,105
Effect of adoption of HKFRS 2						
- value of service provided	—	—	(1,550)	—	1,550	—
- deferred tax effect	—	—	271	—	—	271
Effect of adoption of HKAS 17	—	—	(3,224)	—	—	(3,224)
Effect of adoption of HKAS-Int 21	—	—	2,882	—	—	2,882
At 1 March 2005, as restated	301,651	3,490	131,082	4,261	1,550	442,034
Share option scheme:						
- value of service provided	—	—	—	—	2,801	2,801
- exercise of share options	3,022	—	—	—	(675)	2,347
- deferred tax effect on exercise of share options	—	—	—	—	(143)	(143)
Profit for the year	—	—	90,156	—	—	90,156
Dividends	—	—	(37,021)	—	—	(37,021)
Currency translation differences	—	5,907	—	—	—	5,907
At 28 February 2006	304,673	9,397	184,217	4,261	3,533	506,081
Representing:						
2006 proposed final dividend			22,957			
Others			161,260			
			184,217			

32 Reserves (continued)

Company

	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/ retained earnings HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 March 2004, as previously reported	253,319	76,157	(46,308)	—	283,168
Effect of adoption of HKFRS 2					
- value of service provided	—	—	—	1,550	1,550
Profit for the year	—	—	58,702	—	58,702
Dividends	—	(8,972)	(9,036)	—	(18,008)
Issue of shares					
- exercise of share option	1,332	—	—	—	1,332
- placement of new shares	47,000	—	—	—	47,000
At 28 February 2005, as restated	301,651	67,185	3,358	1,550	373,744
Representing:					
2005 proposed final dividend		22,580			
Others		44,605			
		67,185			

32 Reserves (continued)
Company (continued)

	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/ retained earnings HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 March 2005, as previously reported	301,651	67,185	4,637	—	373,473
Effect of adoption of HKFRS 2					
- value of service provided	—	—	(1,550)	1,550	—
- deferred tax effect	—	—	271	—	271
At 1 March 2005, as restated	301,651	67,185	3,358	1,550	373,744
Share option scheme:					
- value of service provided	—	—	—	2,801	2,801
- exercise of share option	3,022	—	—	(675)	2,347
- deferred tax effect on exercise of share options	—	—	—	(143)	(143)
Loss for the year	—	—	(4,096)	—	(4,096)
Dividends	—	(37,021)	—	—	(37,021)
At 28 February 2006	304,673	30,164	(738)	3,533	337,632
Representing:					
2006 proposed final dividend		22,957			
Others		7,207			
		30,164			

32 Reserves (continued)

Company (continued)

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 2006 amounted to HK$29,426,000 (2005: HK$70,543,000 as restated).

33 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$65,000,000 (2005: HK$73,740,000) of which HK$14,110,000 (2005: HK$9,697,000) was utilised as at 28 February 2006.

34 Commitments

(a) Capital commitments

	2006 HK$'000	2005 HK$'000
Contracted but not provided for, in respect of		
- interests in a jointly controlled entity	**1,493**	1,461
- purchase of property, plant and equipment	**3,301**	—
	4,794	1,461

(b) Commitments under operating leases

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

	2006 HK$'000	2005 HK$'000
Land and buildings:		
Not later than one year	**66,262**	49,847
Later than one year and not later than five years	**59,708**	44,879
	125,970	94,726

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

(ii) At the year end, the Group had future aggregate minimum rental receivable under non-cancellable operating leases as follows:

	2006 HK$'000	2005 HK$'000
Land and buildings:		
Not later than one year	**2,427**	1,394
Later than one year and not later than five years	**2,283**	619
	4,710	2,013

35 Consolidated cash flow statement

Reconciliation of profit before taxation to net cash generated from operations

	2006	2005 (Restated)
	HK$'000	HK$'000
Profit before taxation	**88,586**	72,961
Share of profit of a jointly controlled entity	**(4,726)**	(3,466)
Amortisation of leasehold land and land use rights	**1,112**	742
Depreciation of property, plant and equipment	**17,294**	11,129
Loss on disposal of property, plant and equipment	**737**	152
Fair value gains on investment properties	**(2,801)**	(1,238)
Share option scheme benefits	**2,801**	1,550
Interest income	**(1,794)**	(560)
Interest expense	**180**	259
Dividend received from available-for-sale financial asset	**(20,312)**	—
Operating profit before working capital changes	**81,077**	81,529
Decrease/(increase) in properties under development for sale	**36,946**	(25,311)
Decrease in completed properties held for sale	**337**	6,334
Increase in inventories	**(55,409)**	(41,999)
Increase in trade and other receivables	**(18,400)**	(12,847)
Increase in deposits and prepayments	**(7,652)**	(6,211)
Increase in creditors and accruals	**5,157**	33,867
Net cash generated from operations	**42,056**	35,362

36 Pledge of assets

Investment properties, buildings included in property, plant and equipment and leasehold land and land use rights with a total net book value of HK$27,142,000 (2005: HK$42,729,000) have been pledged to secure bank loan facilities of HK$45,000,000 (2005: HK$67,500,000) granted to certain subsidiaries of the Group.

At 28 February 2006 and 2005, no properties under development for sale and no completed properties held for sale were pledged as security for bank loan facilities granted to the Group.

37 Related party transactions

(a) 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.

37 Related party transactions (continued)

(b) Transactions with related parties

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

	2006 HK$'000	2005 HK$'000
Rental paid to:		
- a related party (note i)	**1,428**	1,299
- a related company (note ii)	**541**	642

(i) 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.

(ii) During the year, the Group rented office premises located in Mainland China from Genda Investment Limited, a company controlled by Mr. Lee.

(c) Year-end balances with related parties

	2006 HK$'000	2005 HK$'000
Payable to a related party	**—**	432

(d) Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries and other employee benefits	**8,825**	6,853
Contributions to retirement scheme	**47**	45
Share-based payments	**422**	735
	9,294	7,633

38 Approval of financial statements

The financial statements were approved by the board of Directors on 20 June 2006.