

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1 July 2000)
SSAP 26	:	Segment reporting
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 28 February. A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Joint venture

A joint venture is classified as a jointly controlled entity if it is held as a long term investment and a contractual arrangement between the shareholders establishes joint control over the economic activities of the joint venture. Results of the jointly controlled entity are incorporated in the consolidated accounts to the extent of the Group's share of the post acquisition results calculated from its accounts made up to 28 February 2002. Investment in joint venture represents the Group's share of the net assets of the jointly controlled entity.

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

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

(iii) Land held for development

Land held for development is stated at cost less provision for impairment losses.

(iv) 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 and land held for development 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) Inventories

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

(g) 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.

(h) Cash and cash equivalents

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

(i) 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.

Note 26(b) to the accounts has disclosed lease commitments as defined under SSAP 14 (revised). The revised SSAP 14 requires the aggregate future minimum lease payments analysed into the following periods:

- (i) not later than one year
- (ii) later than one year and not later than five years
- (iii) later than five years

This is a change from the previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expires within that year, in the second to fifth year inclusive and over five years from the balance sheet date.

Comparative figures have been restated to conform with the current year's presentation.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) **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 outflow is probable, it will then be recognised as a provision.

(k) **Deferred taxation**

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

(l) **Translation of foreign currencies**

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

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

(m) **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.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Retirement benefits

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) 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.

(q) Segment reporting

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

Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude item such as taxation. Capital expenditure represents additions to fixed assets (note 11).

(r) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 23, this change has resulted in an increase in opening retained earnings at 1 March 2001 by HK\$4,486,000 (1 March 2000: HK\$8,972,000) which is the reversal of the provision for 2001 (2000) proposed final dividend previously recorded as a liability as at 28 February 2001 (29 February 2000) although not declared until after the balance sheet date.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods	<u>334,763</u>	<u>356,823</u>
Other revenues		
Gross rental income from investment properties	790	438
Bank interest income	172	1,015
Management fee income	1,067	1,038
Others	<u>114</u>	<u>-</u>
	<u>2,143</u>	<u>2,491</u>
Total revenues	<u><u>336,906</u></u>	<u><u>359,314</u></u>

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2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Primary reporting format - geographical segments

	Hong Kong	Mainland China	Others	Total
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>139,985</u>	<u>180,579</u>	<u>14,199</u>	<u>334,763</u>
Segment results	(79,586)	6,670	2,441	(70,475)
Finance costs	(2,023)	(665)	-	(2,688)
Share of profit of jointly controlled entity	-	10,377	-	10,377
(Loss)/profit before taxation	(81,609)	16,382	2,441	(62,786)
Taxation	4,227	(5,831)	(1)	(1,605)
(Loss)/profit attributable to shareholders	<u>(77,382)</u>	<u>10,551</u>	<u>2,440</u>	<u>(64,391)</u>
Segment assets	87,140	293,477	6,637	387,254
Investment in jointly controlled entity	-	62,926	-	62,926
	<u>87,140</u>	<u>356,403</u>	<u>6,637</u>	<u>450,180</u>
Segment liabilities	<u>31,767</u>	<u>47,555</u>	<u>379</u>	<u>79,701</u>
Capital expenditure	<u>1,158</u>	<u>4,843</u>	<u>-</u>	<u>6,001</u>
Depreciation	<u>8,740</u>	<u>8,288</u>	<u>65</u>	<u>17,093</u>

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Primary reporting format - geographical segments *(Continued)*

	Hong Kong	Mainland China	Others	Total
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>168,085</u>	<u>177,772</u>	<u>10,966</u>	<u>356,823</u>
Segment results	(21,751)	33,676	69	11,994
Finance costs	(946)	(731)	-	(1,677)
Share of profit of jointly controlled entity	-	8,373	-	8,373
(Loss)/profit before taxation	(22,697)	41,318	69	18,690
Taxation	-	(13,521)	(12)	(13,533)
(Loss)/profit attributable to shareholders	<u>(22,697)</u>	<u>27,797</u>	<u>57</u>	<u>5,157</u>
Segment assets	189,262	287,362	6,731	483,355
Investment in jointly controlled entity	-	59,163	-	59,163
	<u>189,262</u>	<u>346,525</u>	<u>6,731</u>	<u>542,518</u>
Segment liabilities	<u>34,109</u>	<u>61,973</u>	<u>420</u>	<u>96,502</u>
Capital expenditure	<u>4,801</u>	<u>9,983</u>	<u>210</u>	<u>14,994</u>
Depreciation	<u>8,954</u>	<u>9,932</u>	<u>75</u>	<u>18,961</u>

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2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Secondary reporting format – business segments

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
Manufacture and sales of shoes	333,595	(66,710)	326,886	5,401
Sales of cosmetic products	1,168	(3,765)	2,086	237
Property development	-	-	121,208	363
	<u>334,763</u>	<u>(70,475)</u>	<u>450,180</u>	<u>6,001</u>
	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000
Manufacture and sales of shoes	352,213	23,872	489,317	11,944
E-commerce business	4,610	(11,878)	(5,962)	3,050
Property development	-	-	59,163	-
	<u>356,823</u>	<u>11,994</u>	<u>542,518</u>	<u>14,994</u>

During the year ended 28 February 2001, the Group resolved to terminate its e-commerce business which mainly included the introduction of a specific series of products for sales through internet and designated shops.

3. OPERATING (LOSS)/PROFIT

	2002 HK\$'000	2001 HK\$'000
Operating (loss)/profit is stated after crediting and charging the following:		
Crediting		
Net exchange gain	<u>750</u>	<u>-</u>
Charging		
Auditors' remuneration	799	901
Depreciation	17,093	18,961
Impairment of other properties (Note)	19,496	-
Loss on disposal of fixed assets	1,294	2,035
Net exchange loss	-	641
Operating lease rentals in respect of land and buildings	42,917	43,731
Outgoings in respect of investment property	201	197
Provision for closure of retail outlets	-	2,759
Provision for inventories (Note)	14,546	2,760
Revaluation deficit on investment properties (Note)	21,346	-
Staff costs	<u>47,723</u>	<u>47,129</u>

Note: Included in other operating expenses

4. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on short term bank loans and overdrafts	2,347	1,079
Interest on secured long term bank loans	<u>341</u>	<u>598</u>
	<u>2,688</u>	<u>1,677</u>

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5. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

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

	2002 HK\$'000	2001 HK\$'000
Fees	40	60
Salaries, housing allowances, other allowances and benefits in kind	4,955	4,420
Contributions to retirement scheme as Directors	228	192
	<u>5,223</u>	<u>4,672</u>

Emoluments paid to independent Non-executive Directors amounted to HK\$40,000 during the year (2001: HK\$60,000).

The emoluments of the Directors fell within the following bands:

Emoluments band	Number of Directors	
	2002	2001
HK\$Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	3	2

(b) Five highest paid individuals

The Directors' emoluments presented above include the emoluments of the four (2001: three) highest paid individuals in the Group. The emoluments of the remaining one (2001: two) highest paid individual were:

	2002 HK\$'000	2001 HK\$'000
Salaries, housing allowances, other allowances, and benefits in kind	<u>806</u>	<u>1,742</u>

Emoluments band	Number of individuals	
	2002	2001
HK\$ Nil – HK\$1,000,000	1	2

6. RETIREMENT BENEFIT COSTS

Retirement benefit scheme costs amounted to HK\$1,399,000 (2001: HK\$1,005,000) were paid by the Group during the year. Forfeited contributions totalling HK\$288,000 (2001: HK\$1,070,000) were refunded during the year.

7. TAXATION

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

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries		
Mainland China	2,400	3,404
Macau	1	12
Hong Kong		
– overprovision in prior years	<u>(4,227)</u>	<u>-</u>
	<u>(1,826)</u>	<u>3,416</u>
Jointly controlled entity		
Mainland China		
– current year	3,431	2,885
– underprovision in prior years	<u>-</u>	<u>7,232</u>
	<u>3,431</u>	<u>10,117</u>
	<u>1,605</u>	<u>13,533</u>

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year (2001: HK\$Nil).

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

There was no material unprovided deferred taxation for the year (2001: HK\$Nil).

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$4,902,000 (2001: loss of HK\$1,268,000).

9. DIVIDEND

	2002 HK\$'000	2001 HK\$'000
Proposed final dividend of HK\$Nil (2001: HK1.0 cent) per share	<u> -</u>	<u> 4,486</u>

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 29 February 2000 and 28 February 2001 were HK\$8,972,000 and HK\$4,486,000 respectively. Under the Group's new accounting policy as described in note 1(r), these have been written back against opening reserves as at 1 March 2000 and 2001 in note 23 and are now charged in the years in which they were proposed.

10. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders of HK\$64,391,000 (2001: profit attributable to shareholders of HK\$5,157,000) and on the weighted average number of shares in issue during the year of 448,619,600 (2001: 448,619,600).

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

11. 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 2001	6,200	148,455	40,101	47,603	27,927	3,546	273,832
Additions	-	-	3,016	619	1,551	815	6,001
Deficit on revaluation	(24,143)	-	-	-	-	-	(24,143)
Transfers	47,409	(55,095)	-	-	-	-	(7,686)
Disposals	-	-	(4,977)	-	(1,854)	-	(6,831)
At 28 February 2002	29,466	93,360	38,140	48,222	27,624	4,361	241,173
Accumulated depreciation							
At 1 March 2001	-	16,458	27,148	13,157	19,495	2,141	78,399
Charge for the year	-	2,978	8,000	2,779	2,953	383	17,093
Impairment charge	-	19,496	-	-	-	-	19,496
Transfers	-	(7,686)	-	-	-	-	(7,686)
Disposals	-	-	(3,695)	-	(1,604)	-	(5,299)
At 28 February 2002	-	31,246	31,453	15,936	20,844	2,524	102,003
Net book value							
At 28 February 2002	29,466	62,114	6,687	32,286	6,780	1,837	139,170
At 28 February 2001	6,200	131,997	12,953	34,446	8,432	1,405	195,433

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

	2002 HK\$'000	2001 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	46,334	90,817
Outside Hong Kong held on:		
Freehold	6,350	6,200
Leases of between 10 to 50 years	38,896	41,180
	91,580	138,197

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11. FIXED ASSETS (Continued)

Investment properties are stated at the professional valuation made on an open market value basis at 28 February 2002 by independent professional valuers, Chung, Chan & Associates and Zhong Shan Kelian Assets Appraisal Office Co. Ltd.

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

Net book value of investment properties and other properties amounted to HK\$44,100,000 (2001: HK\$110,510,000) have been pledged to secure short term bank loan and long term bank loan facilities of HK\$80,500,000 (2001: HK\$49,545,000) and HK\$5,621,000 (2001: HK\$23,238,000) respectively granted to certain subsidiaries of the Group.

12. SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	107,657	107,657
Amounts due by subsidiaries	286,495	286,199
	394,152	393,856

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

12. 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 %
Guangzhou Le Saunda Company Limited	The People's Republic of China ("PRC"), limited liability company	RMB7,000,000	Retailing of shoes	100
Guangzhou Shungo Shoes Fashion Company Limited	PRC, limited liability company	RMB3,750,950	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

NOTES TO THE ACCOUNTS

12. 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 Real Estate Limited	Hong Kong	HK\$2	Investment holding	100
L.S. Retailing Limited (note (b))	Hong Kong	HK\$20,002,000	Retailing of shoes	100
Maior Limited	Hong Kong	HK\$2,000,000	Trading and investment holding	100
Master Benefit Limited	Hong Kong	HK\$3,000,000	Provision of management services	100
Multiple Reward Limited	Hong Kong	HK\$100	Provision of financial services	100
Parklink Investment Development Limited	Hong Kong	HK\$2	Property holding	100
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
Shunde Yihensin Shoe-Making Factory	PRC, limited liability company	RMB5,645,382	Manufacturing and trading of shoes	100

NOTES TO THE ACCOUNTS

12. 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 %
Trend Door Company Limited	Hong Kong	HK\$2	Property holding	100
Trend Light Trading Company Limited	Hong Kong	HK\$2	Property holding	100
Shunde Ying Da Shoes Company Limited	PRC, limited liability company	RMB8,667,951	Manufacturing and trading of shoes	100
廣州角度化妝品有限公司	PRC, limited liability company	RMB500,000	Trading	100
順德市北滘鎮凱裕貿易有限公司	PRC, limited liability company	RMB500,000	Wholesales of shoes	100

NOTES TO THE ACCOUNTS

- (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 operate 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.

13. INVESTMENT IN JOINTLY CONTROLLED ENTITY

	2002 HK\$'000	2001 HK\$'000
Registered capital at cost, unlisted	36,386	36,386
Share of undistributed post-acquisition reserves	26,540	22,777
	<u>62,926</u>	<u>59,163</u>

The details of the joint venture are as follows:

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

The joint venture 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 which has already commenced operations is for a period of 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 2002, LSRE had contributed US\$4.8 million (approximately HK\$36,386,000) to SSQ.

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

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

	2002 HK\$'000	2001 HK\$'000
Operating results		
Turnover	<u>72,699</u>	<u>37,298</u>
Profit before taxation	<u>20,754</u>	<u>16,746</u>
Group's share of profit before taxation	<u>10,377</u>	<u>8,373</u>
Financial position		
Long term assets	471	565
Current assets	207,070	190,659
Current liabilities	<u>(81,214)</u>	<u>(72,273)</u>
Shareholders' funds	<u>126,327</u>	<u>118,951</u>

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14. OTHER INVESTMENT

	2002 HK\$'000	2001 HK\$'000
Registered capital at cost, unlisted	2,273	2,273
Loan to investee company	<u>2,273</u>	<u>34,090</u>
	<u>4,546</u>	<u>36,363</u>

14. OTHER INVESTMENT (Continued)

The 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.

15. LAND HELD FOR DEVELOPMENT

The land held for development is situated in Shunde, PRC for residential property development. The construction work is scheduled to commence in July 2002.

16. INVENTORIES

	2002 HK\$'000	2001 HK\$'000
Raw materials	20,661	55,038
Work in progress	6,915	15,103
Finished goods	53,117	108,228
	<u>80,693</u>	<u>178,369</u>

As at 28 February 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$9,947,000 (2001: HK\$8,548,000).

17. TRADE AND OTHER RECEIVABLES

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

	2002 HK\$'000	2001 HK\$'000
Trade receivables		
Current to 30 days	16,809	12,217
31 to 60 days	1,060	2,380
61 to 90 days	1,913	3,073
Over 90 days	226	387
	<u>20,008</u>	<u>18,057</u>
Other receivables	<u>6,185</u>	<u>5,219</u>
Total	<u><u>26,193</u></u>	<u><u>23,276</u></u>

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18. CREDITORS AND ACCRUALS

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

	2002 HK\$'000	2001 HK\$'000
Trade creditors		
Current to 30 days	6,513	11,649
31 to 60 days	2,319	5,800
61 to 90 days	2,338	687
91 to 120 days	14	419
Over 120 days	-	39
	<u>11,184</u>	<u>18,594</u>
Accruals	<u>17,849</u>	<u>37,508</u>
Total	<u><u>29,033</u></u>	<u><u>56,102</u></u>

19. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest free and had no fixed terms of repayment.

20. SHORT TERM BANK LOANS AND OVERDRAFTS

	2002 HK\$'000	2001 HK\$'000
Unsecured		
Bank loans and overdrafts	22,470	23,404
Secured		
Short term bank loans	24,864	10,336
	<u>47,334</u>	<u>33,740</u>

Included in unsecured bank loans and overdrafts of HK\$10,652,000 (2001: HK\$23,404,000) and secured short term bank loans of HK\$18,500,000 (2001: HK\$5,791,000) are of maturity within 3 months.

21. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
800,000,000 shares of HK\$0.10 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
448,619,600 ordinary shares of HK\$0.10 each	<u>44,862</u>	<u>44,862</u>

NOTES TO THE ACCOUNTS

22. SHARE OPTIONS

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

Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. During the year, 300,000 share options granted on 19 August 1994 and 350,000 share options granted on 8 February 1996 were cancelled upon resignation of an Executive Director.

Details of outstanding share options granted and being accepted under the Scheme as of 28 February 2002 were as follows:

Date of share options granted/ accepted	Number of outstanding share options granted as at 28 February 2002	Subscription price per share	Subscription period
19 August 1994	1,810,000	HK\$0.767	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
8 February 1996	1,950,000	HK\$0.67	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
	<u>3,760,000</u>		

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23. RESERVES

Group

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profit HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1 March 2000 (as previously reported)	253,319	(3,399)	1,697	127,586	4,261	383,464
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	-	8,972	-	8,972
At 1 March 2000 (as restated)	253,319	(3,399)	1,697	136,558	4,261	392,436
Surplus on revaluation	-	-	1,100	-	-	1,100
Profit for the year	-	-	-	5,157	-	5,157
2000 Final dividend paid (Note 9)	-	-	-	(8,972)	-	(8,972)
At 28 February 2001	<u>253,319</u>	<u>(3,399)</u>	<u>2,797</u>	<u>132,743</u>	<u>4,261</u>	<u>389,721</u>
At 1 March 2001 (as previously reported)	253,319	(3,399)	2,797	128,257	4,261	385,235
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	-	4,486	-	4,486
At 1 March 2001 (as restated)	253,319	(3,399)	2,797	132,743	4,261	389,721
Deficit on revaluation	-	-	(2,797)	-	-	(2,797)
Loss for the year	-	-	-	(64,391)	-	(64,391)
2001 Final dividend paid (Note 9)	-	-	-	(4,486)	-	(4,486)
At 28 February 2002	<u>253,319</u>	<u>(3,399)</u>	<u>-</u>	<u>63,866</u>	<u>4,261</u>	<u>318,047</u>
Reserves retained by jointly controlled entity						
At 1 March 2001	-	-	-	22,777	-	22,777
Profit for the year	-	-	-	3,763	-	3,763
At 28 February 2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,540</u>	<u>-</u>	<u>26,540</u>

23. RESERVES (Continued)

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 March 2000 (as previously reported)	253,319	76,157	20,616	350,092
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	8,972	8,972
At 1 March 2000 (as restated)	253,319	76,157	29,588	359,064
Loss for the year	-	-	(1,268)	(1,268)
2000 Final dividend paid (Note 9)	-	-	(8,972)	(8,972)
At 28 February 2001	<u>253,319</u>	<u>76,157</u>	<u>19,348</u>	<u>348,824</u>
At 1 March 2001 (as previously reported)	253,319	76,157	14,862	344,338
Effect of adopting SSAP 9 (Revised) (Note 1(r))	-	-	4,486	4,486
At 1 March 2001 (as restated)	253,319	76,157	19,348	348,824
Profit for the year	-	-	4,902	4,902
2001 Final dividend paid (Note 9)	-	-	(4,486)	(4,486)
At 28 February 2002	<u>253,319</u>	<u>76,157</u>	<u>19,764</u>	<u>349,240</u>

The retained profit includes HK\$Nil (2001: HK\$4,486,000) representing the proposed final dividend for the year.

The contributed surplus represents the difference between the consolidated shareholders' funds of Le Saunda (B.V.I.) Limited at the date on which its shares were acquired by the Company and the nominal value of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. Distributable reserves of the Company at 28 February 2002 amounted to HK\$95,921,000 (2001: HK\$91,019,000).

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24. LONG TERM BANK LOANS – SECURED

	2002 HK\$'000	2001 HK\$'000
Secured bank loans wholly repayable within five years	3,334	6,347
Amount due within one year included under current liabilities	<u>(2,574)</u>	<u>(2,892)</u>
	<u>760</u>	<u>3,455</u>
The maturity of the long term bank loans is as follows:		
- within one year	2,574	2,892
- in the second year	760	2,695
- in the third to fifth year inclusive	<u>-</u>	<u>760</u>
	<u>3,334</u>	<u>6,347</u>

NOTES TO THE ACCOUNTS

25. CONTINGENT LIABILITIES

- (a) The Group unilaterally terminated certain operating lease agreements in respect of land and buildings prior to their natural expiry in previous years. The maximum potential liability arising from such early termination of lease agreements, as estimated by the Directors, amounted to approximately HK\$9 million (2001: HK\$9 million). The Directors are of the opinion that the likelihood for such potential liability being materialised is remote and that adequate disclosures having been made, no provision has been made in the accounts accordingly.
- (b) The Company and several subsidiaries have jointly given guarantees in favour of banks for banking facilities granted to certain subsidiaries to the extent of HK\$207,482,000 (2001: HK\$199,553,000) of which HK\$54,253,000 (2001: HK\$51,626,000), including trade finance, was utilised as at 28 February 2002.

26. COMMITMENTS

(a) Capital commitments

	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for		
- in respect of investment in a subsidiary	4,118	-
- in respect of investment in jointly controlled entity	<u>1,461</u>	<u>1,461</u>
	<u>5,579</u>	<u>1,461</u>

(b) Commitments under operating leases

At 28 February, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 HK\$'000	2001 (As restated) HK\$'000
Land and building:		
Not later than one year	29,107	5,459
Later than one year and not later than five years	10,201	50,885
Later than five years	<u>81</u>	<u>2,015</u>
	<u>39,389</u>	<u>58,359</u>

NOTES TO THE
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27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	(62,786)	18,690
Share of profit of jointly controlled entity	(10,377)	(8,373)
Depreciation	17,093	18,961
Loss on disposal of fixed assets	1,294	2,035
Revaluation deficit on investment properties	21,346	-
Impairment of other properties	19,496	-
Interest income	(172)	(1,015)
Interest expense	2,688	1,677
Decrease/(increase) in inventories	97,676	(52,813)
(Increase)/decrease in trade and other receivables	(2,917)	4,914
Decrease in deposits and prepayments	3,862	22,797
Decrease in creditors and accruals	(27,069)	(4,455)
Decrease in amount due to a related company	(313)	-
Decrease in amount due to a director	-	(6,313)
	<u>59,821</u>	<u>(3,895)</u>
Net cash inflow/(outflow) from operating activities	<u>59,821</u>	<u>(3,895)</u>

(b) Analysis of changes in financing during the year

	Short term bank loans HK\$'000	Long term bank loans HK\$'000	Loan to investee company HK\$'000
Balance at 1 March 2000	-	11,360	-
Net cash inflow/(outflow) from financing	<u>4,545</u>	<u>(5,013)</u>	<u>(34,090)</u>
Balance at 28 February 2001 and at 1 March 2001	4,545	6,347	(34,090)
Net cash inflow/(outflow) from financing	<u>13,637</u>	<u>(3,013)</u>	<u>31,817</u>
Balance at 28 February 2002	<u>18,182</u>	<u>3,334</u>	<u>(2,273)</u>

28. RELATED PARTY TRANSACTIONS

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

	2002 HK\$'000	2001 HK\$'000
Rental income from a related company (<i>note a</i>)	<u> -</u>	<u> 332</u>
Rental expenses to a related company (<i>note b</i>)	<u> 1,288</u>	<u> 1,197</u>
Management fee from a related company (<i>note c</i>)	<u> 1,067</u>	<u> 1,038</u>

- (a) During the year ended 28 February 2001, the Group rented out its investment property located in Macau to G & F Holdings Limited, a company controlled by Mr. Lee Keung (Lee Tze Bun Marces) ("Mr. Lee"), a substantial shareholder of the Group. The amount was mutually agreed.
- (b) During the year, the Group rented a shop located in Macau from Mr. Lee as retail outlet in Macau. The amount was mutually agreed.
- (c) During the year, the Group provided administrative services to Fornari International Limited, in which Mr. Lee is a shareholder. The fee for these services were mainly determined on a cost reimbursement basis.

29. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 3 June 2002.

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