



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 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these revised SSAPs has no material effect on the Group's consolidated accounts. Certain presentational changes have been made upon the adoption of these revised SSAPs.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 28 February. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the Board of Directors.

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

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

(c) Joint venture

A joint venture is classified as a jointly controlled entity if it is held as a long term investment and a contractual arrangement between the shareholders establishes joint control over the economic activities of the joint venture. 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 2003. Investment in jointly controlled entity represents the Group's share of the net assets of the jointly controlled entity.



1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Other investment

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

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

(e) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

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

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



1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Fixed assets *(Continued)*

(ii) Other fixed assets

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

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

Buildings	3-4% or over the lease period, whichever is 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) Properties under development for sale

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

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

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

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

No depreciation is provided on properties under development for sale.

(g) Inventories

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

(h) 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.

(i) 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.

(j) 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.



1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) 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, they will then be recognised as a provision.

(l) 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.

(m) Translation of foreign currencies

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

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

(n) 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.

(o) Employee benefits

(i) Employee leave entitlements

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

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



1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Retirement benefits

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

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

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

(p) 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.



1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

- (iii) The recognition of revenue and profits from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed. The revenues and profits recognised in a year are a proportion of the total revenues and profits expected on completion, the proportion used being the percentage of the construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recognised is restricted to the amount of instalments received and receivable.

Where purchasers fail to pay the balances of the purchase price on completion 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) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (v) Management fee is recognised when service is rendered.
- (vi) Dividend income is recognised when the shareholder's right to receive payment is established.

(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 profit and loss account in the year in which they are incurred.

(r) 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.



2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	306,330	334,763
Sales of properties	5,199	-
	<u>311,529</u>	<u>334,763</u>
Other revenues		
Dividend income from other investment	18,613	-
Gross rental income from investment properties	1,936	790
Bank interest income	244	172
Management fee income	-	1,067
Others	-	114
	<u>20,793</u>	<u>2,143</u>
Total revenues	<u><u>332,322</u></u>	<u><u>336,906</u></u>



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

(i) Primary reporting format – geographical segments

	Hong Kong	Mainland China	Others	Total
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>107,794</u>	<u>183,755</u>	<u>19,980</u>	<u>311,529</u>
Segment results	(24,496)	2,903	2,255	(19,338)
Finance costs	(250)	(983)	-	(1,233)
Share of profit of jointly controlled entity	<u>-</u>	<u>1,605</u>	<u>-</u>	<u>1,605</u>
(Loss)/profit before taxation	(24,746)	3,525	2,255	(18,966)
Taxation	<u>-</u>	<u>(4,577)</u>	<u>-</u>	<u>(4,577)</u>
(Loss)/profit attributable to shareholders	<u>(24,746)</u>	<u>(1,052)</u>	<u>2,255</u>	<u>(23,543)</u>
Segment assets	88,171	263,727	6,956	358,854
Investment in jointly controlled entity	<u>-</u>	<u>62,160</u>	<u>-</u>	<u>62,160</u>
	<u>88,171</u>	<u>325,887</u>	<u>6,956</u>	<u>421,014</u>
Segment liabilities	<u>15,820</u>	<u>52,222</u>	<u>316</u>	<u>68,358</u>
Capital expenditure	<u>7,608</u>	<u>3,310</u>	<u>103</u>	<u>11,021</u>
Depreciation	<u>5,929</u>	<u>7,780</u>	<u>77</u>	<u>13,786</u>



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

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

	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	<u>-</u>	<u>10,377</u>	<u>-</u>	<u>10,377</u>
(Loss)/profit before taxation	(81,609)	16,382	2,441	(62,786)
Taxation	<u>4,227</u>	<u>(5,831)</u>	<u>(1)</u>	<u>(1,605)</u>
(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	<u>-</u>	<u>62,926</u>	<u>-</u>	<u>62,926</u>
	<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)*

(ii) Secondary reporting format – business segments

	Turnover	Segment	Total	Capital
	2003	results	assets	expenditure
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sales of shoes	304,162	(33,247)	275,515	10,079
Sales of cosmetic products	2,168	(3,021)	3,794	151
Property development	5,199	16,930	141,705	791
	<u>311,529</u>	<u>(19,338)</u>	<u>421,014</u>	<u>11,021</u>
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	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>



3 OPERATING LOSS

	2003 HK\$'000	2002 HK\$'000
Operating loss is stated after crediting and charging the following:		
Crediting		
Net exchange gain	<u>533</u>	<u>750</u>
Charging		
Auditors' remuneration	872	799
Depreciation	13,786	17,093
Impairment of other properties **	-	19,496
Loss on disposal of fixed assets	294	1,294
Operating lease rentals in respect of land and buildings	49,684	42,917
Outgoings in respect of investment property	468	201
Provision for inventories **	-	14,546
Revaluation deficit on investment properties **	-	21,346
Staff costs (including directors' emoluments) (note 5)	<u>74,539</u>	<u>59,637</u>

** Included in other operating expenses

4 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on short term bank loans and overdrafts	1,197	2,347
Interest on secured long term bank loans	<u>36</u>	<u>341</u>
	<u>1,233</u>	<u>2,688</u>

**5 STAFF COSTS**

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	64,683	55,821
Staff welfare and other benefits	1,895	1,212
Unutilised annual leave	856	–
Termination benefits	3,368	–
Pension costs – defined contribution plans	3,737	2,604
	<u>74,539</u>	<u>59,637</u>

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

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

	2003 HK\$'000	2002 HK\$'000
Fees	248	40
Salaries, housing allowances, other allowances and benefits in kind	6,715	4,955
Contributions to retirement scheme as Directors	193	228
Compensation for loss of office	2,818	–
	<u>9,974</u>	<u>5,223</u>

Emoluments paid to independent Non-executive Directors amounted to HK\$248,000 during the year (2002: HK\$40,000).

The emoluments of the Directors fell within the following bands:

Emoluments band	Number of Directors	
	2003	2002
HK\$Nil – HK\$1,000,000	6	8
HK\$1,000,001 – HK\$1,500,000	3	3
HK\$5,000,001 – HK\$5,500,000	1	–

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

The Directors' emoluments presented above include the emoluments of the four (2002: four) highest paid individuals in the Group. The emoluments of the remaining one (2002: one) highest paid individual were:

	2003 HK\$'000	2002 HK\$'000
Salaries, housing allowances, other allowances, and benefits in kind	<u>744</u>	<u>806</u>
Emoluments band	Number of individuals	
	2003	2002
HK\$ Nil – HK\$1,000,000	1	1

7 RETIREMENT BENEFIT COSTS

Retirement benefit scheme costs amounting to HK\$3,852,000 (2002: HK\$2,892,000) were paid by the Group during the year. Forfeited contributions totalling HK\$115,000 (2002: HK\$288,000) were refunded during the year.

8 TAXATION

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

	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries		
Mainland China	3,973	2,400
Macau	–	1
Hong Kong		
– overprovision in prior years	–	(4,227)
	<u>3,973</u>	<u>(1,826)</u>
Jointly controlled entity		
Mainland China	<u>604</u>	<u>3,431</u>
	<u>4,577</u>	<u>1,605</u>



8 TAXATION *(Continued)*

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the year (2002: 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 (2002: Nil).

9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$82,778,000 (2002: a profit of HK\$4,902,000).

10 LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$23,543,000 (2002: HK\$64,391,000) and on the weighted average number of shares in issue during the year of 448,619,600 (2002: 448,619,600).

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

**11 FIXED ASSETS**

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1 March 2002	29,466	93,360	38,140	48,222	27,624	4,361	241,173
Exchange differences	-	-	486	1,570	308	66	2,430
Additions	-	-	7,832	152	1,955	1,082	11,021
Disposals	-	-	(4,482)	-	(17)	(1,346)	(5,845)
At 28 February 2003	29,466	93,360	41,976	49,944	29,870	4,163	248,779
Accumulated depreciation and accumulated impairment							
At 1 March 2002	-	31,246	31,453	15,936	20,844	2,524	102,003
Exchange differences	-	-	391	511	176	32	1,110
Charge for the year	-	1,477	5,316	3,506	2,887	600	13,786
Disposals	-	-	(4,161)	-	(5)	(943)	(5,109)
At 28 February 2003	-	32,723	32,999	19,953	23,902	2,213	111,790
Net book value							
At 28 February 2003	29,466	60,637	8,977	29,991	5,968	1,950	136,989
At 28 February 2002	29,466	62,114	6,687	32,286	6,780	1,837	139,170

**11 FIXED ASSETS (Continued)**

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

	2003 HK\$'000	2002 HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	45,633	46,334
Outside Hong Kong held on:		
Freehold	6,450	6,350
Leases of between 10 to 50 years	38,020	38,896
	<u>90,103</u>	<u>91,580</u>

Investment properties are stated at the professional valuation made on an open market value basis at 28 February 2003 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 amounting to HK\$43,432,000 (2002: HK\$44,100,000) have been pledged to secure bank loan facilities of HK\$124,000,000 (2002: HK\$86,121,000) granted to certain subsidiaries of the Group.

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	107,657	107,657
Less: Provision for impairment losses	(79,258)	-
	<u>28,399</u>	107,657
Amounts due by subsidiaries	283,259	286,495
	<u>311,658</u>	<u>394,152</u>

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

**12 INVESTMENTS IN SUBSIDIARIES** *(Continued)*

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

Name	Place of incorporation and kind of legal entity	Issued and paid up capital/ registered capital	Principal activities	Group's percentage of equity interest %
Blooming On Limited	Hong Kong	HK\$2	Property holding	100
Brightly Investment Limited	Hong Kong	HK\$2	Property holding	100
Brilliant Investment Holdings Limited	British Virgin Islands	US\$1	Trading of shoes	100
Guangzhou Le Saunda Company Limited	The People's Republic of China ("PRC"), limited liability company	RMB7,000,000	Retailing of shoes	100
廣州銘高鞋服有限公司	PRC, limited liability company	RMB500,000	Retailing of shoes	100
Guangzhou Shungo Shoes Fashion Company Limited	PRC, limited liability company	RMB3,750,950	Retailing of shoes	100
Le Saunda (B.V.I.) Limited <i>(note (a))</i>	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 Ltd.	Hong Kong	HK\$100	Investment holding	100



12 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 Merchandising (International) Limited	Hong Kong	HK\$2	Merchandising of shoes	100
Le Saunda Licensing Limited	Bahamas	US\$5,000	Holding and licensing of trade marks and names	100
Le Saunda Management Limited	Hong Kong	HK\$2	Provision of management services	100
Le Saunda Real Estate Limited	Hong Kong	HK\$2	Investment holding	100
L.S. Retailing Limited (note (b))	Hong Kong	HK\$20,002,000	Retailing of shoes	100
Maior Limited	Hong Kong	HK\$2,000,000	Trading and investment holding	100
Master Benefit Limited	Hong Kong	HK\$3,000,000	Provision of management services	100
Multiple Reward Limited	Hong Kong	HK\$100	Provision of financial services	100
Parklink Investment Development Limited	Hong Kong	HK\$2	Property holding	100
Shunde Daxin Shoe-Making Company Limited	PRC, limited liability company	RMB8,711,084	Manufacturing and trading of shoes	100



12 INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

**13 INVESTMENT IN JOINTLY CONTROLLED ENTITY**

	2003 HK\$'000	2002 HK\$'000
Registered capital at cost, unlisted	36,386	36,386
Share of undistributed post-acquisition reserves	25,774	26,540
Share of net assets	<u>62,160</u>	<u>62,926</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 2003, 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:

	2003 HK\$'000	2002 HK\$'000
Operating results		
Turnover	<u>41,009</u>	<u>72,699</u>
Profit before taxation	<u>3,210</u>	<u>20,754</u>
Group's share of profit before taxation	<u>1,605</u>	<u>10,377</u>
Financial position		
Long term assets	582	471
Current assets	236,587	207,070
Current liabilities	(75,094)	(81,214)
Long term liabilities	<u>(37,700)</u>	<u>-</u>
Shareholders' funds	<u>124,375</u>	<u>126,327</u>

14 OTHER INVESTMENT

	2003 HK\$'000	2002 HK\$'000
Registered capital at cost, unlisted	2,356	2,273
Loan to investee company	<u>2,356</u>	<u>2,273</u>
	<u>4,712</u>	<u>4,546</u>

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%



14 OTHER INVESTMENT *(Continued)*

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 PROPERTIES UNDER DEVELOPMENT FOR SALE/LAND HELD FOR DEVELOPMENT

	2003 HK\$'000	2002 HK\$'000
Land	52,724	52,724
Development expenditure plus attributable profit	18,326	-
Less: sales instalments received and receivable	(10,948)	-
	<u>60,102</u>	<u>52,724</u>

These represent residential properties under development in Shunde, Mainland China for sale. As at 28 February 2003, no properties under development for sale or land held for development were pledged as security for bank loan facilities granted to the Group (2002: Nil).

16 INVENTORIES

	2003 HK\$'000	2002 HK\$'000
Raw materials	12,703	20,661
Work in progress	7,019	6,915
Finished goods	40,058	53,117
	<u>59,780</u>	<u>80,693</u>

As at 28 February 2003, the carrying amount of inventories that are carried at net realisable value amounting to HK\$Nil (2002: HK\$9,947,000).



17 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:

	2003 HK\$'000	2002 HK\$'000
Trade receivables		
Current to 30 days	19,077	16,809
31 to 60 days	5,812	1,060
61 to 90 days	1,964	1,913
Over 90 days	252	226
	<u>27,105</u>	<u>20,008</u>
Other receivables	<u>5,392</u>	<u>6,185</u>
Total	<u><u>32,497</u></u>	<u><u>26,193</u></u>

18 CREDITORS AND ACCRUALS

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

	2003 HK\$'000	2002 HK\$'000
Trade creditors		
Current to 30 days	21,562	6,513
31 to 60 days	227	2,319
61 to 90 days	495	2,338
91 to 120 days	11	14
Over 120 days	229	-
	<u>22,524</u>	<u>11,184</u>
Accruals	<u>44,112</u>	<u>17,849</u>
Total	<u><u>66,636</u></u>	<u><u>29,033</u></u>



19 SHORT TERM BANK LOANS

	2003 HK\$'000	2002 HK\$'000
Unsecured	-	21,912
Secured	1,722	24,864
	<u>1,722</u>	<u>46,776</u>

20 SHARE CAPITAL

	2003 HK\$'000	2002 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>

21 SHARE OPTIONS

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

Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. During the year, 1,160,000 share options granted on 19 August 1994 and 700,000 share options granted on 8 February 1996 were cancelled upon resignation of two Executive Directors and an employee.



21 SHARE OPTIONS *(Continued)*

Details of outstanding share options granted and being accepted under the Old Scheme as of 28 February 2003 were as follows:

Date of share options granted/accepted	Number of outstanding share options granted as at 28 February 2003	Subscription price per share	Subscription period
19 August 1994	650,000	HK\$0.767	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
8 February 1996	1,250,000	HK\$0.67	Exercisable 12 months on or after dates of acceptance and expiring on the 10th anniversary from dates of acceptance
	<hr/> <u>1,900,000</u>		



22 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 2001	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	-	-	-	(4,486)	-	(4,486)
At 28 February 2002	253,319	(3,399)	-	63,866	4,261	318,047
Analysis of reserves:						
Company and subsidiaries	253,319	(3,399)	-	37,326	4,261	291,507
Jointly controlled entity	-	-	-	26,540	-	26,540
At 28 February 2002	253,319	(3,399)	-	63,866	4,261	318,047
At 1 March 2002	253,319	(3,399)	-	63,866	4,261	318,047
Exchange differences on translation of the accounts of foreign subsidiaries and jointly controlled entity	-	6,889	-	-	-	6,889
Loss for the year	-	-	-	(23,543)	-	(23,543)
At 28 February 2003	253,319	3,490	-	40,323	4,261	301,393
Analysis of reserves:						
Company and subsidiaries	253,319	1,005	-	17,034	4,261	275,619
Jointly controlled entity	-	2,485	-	23,289	-	25,774
At 28 February 2003	253,319	3,490	-	40,323	4,261	301,393

**22 RESERVES (Continued)****Company**

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit/ (accumulated loss) HK\$'000	Total HK\$'000
At 1 March 2001	253,319	76,157	19,348	348,824
Profit for the year	-	-	4,902	4,902
2001 final dividend paid	-	-	(4,486)	(4,486)
	<u>253,319</u>	<u>76,157</u>	<u>19,764</u>	<u>349,240</u>
At 28 February 2002	253,319	76,157	19,764	349,240
Loss for the year	-	-	(82,778)	(82,778)
	<u>253,319</u>	<u>76,157</u>	<u>(63,014)</u>	<u>266,462</u>
At 28 February 2003	253,319	76,157	(63,014)	266,462

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 2003 amounted to HK\$13,143,000 (2002: HK\$95,921,000).

23 LONG TERM BANK LOANS – SECURED

	2003 HK\$'000	2002 HK\$'000
Secured bank loans wholly repayable within five years	-	3,334
Amount due within one year included under current liabilities	-	(2,574)
	<u>-</u>	<u>760</u>
The maturity of the long term bank loans is as follows:		
- within one year	-	2,574
- in the second year	-	760
	<u>-</u>	<u>3,334</u>



24 CONTINGENT LIABILITIES

- (a) The local tax authorities in Mainland China have been carrying out investigations in connection with certain value added tax payments made by the Group's subsidiaries operating in Mainland China. Having discussed with the local tax officers and based on a notification received from a local tax authority in Mainland China, additional payments for value added tax amounting to HK\$15,674,000 have been accrued in the accounts. The Directors consider that certain subsidiaries are still being under investigation and it is not practicable to assess if the Group is liable for any further liabilities apart from the amount already accrued at the present stage.
- (b) 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 (2002: 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.
- (c) 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\$177,160,000 (2002: HK\$207,482,000) of which HK\$8,376,000 (2002: HK\$54,253,000) was utilised as at 28 February 2003.

25 COMMITMENTS

(a) Capital commitments

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for		
– in respect of investment in a subsidiary	–	4,118
– in respect of investment in jointly controlled entity	1,461	1,461
	<u>1,461</u>	<u>5,579</u>



25 COMMITMENTS (Continued)

(b) Commitments under operating leases

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

	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Not later than one year	46,931	29,107
Later than one year and not later than five years	34,131	10,201
Later than five years	–	81
	<u>81,062</u>	<u>39,389</u>

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

	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Not later than one year	1,703	–
Later than one year and not later than five years	1,240	–
	<u>2,943</u>	<u>–</u>



26 CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(18,966)	(62,786)
Share of profit of jointly controlled entity	(1,605)	(10,377)
Dividend income from other investment	(18,613)	-
Depreciation	13,786	17,093
Loss on disposal of fixed assets	294	1,294
Revaluation deficit on investment properties	-	21,346
Impairment of other properties	-	19,496
Interest income	(244)	(172)
Interest expense	1,233	2,688
	<hr/>	<hr/>
Operating loss before working capital changes	(24,115)	(11,418)
Increase in properties under development for sale	(7,378)	-
Decrease in inventories	20,913	97,676
Increase in trade and other receivables	(6,304)	(2,917)
Decrease in deposits and prepayments	943	3,862
Increase/(decrease) in creditors and accruals	37,603	(27,069)
Decrease in amount due to a related company	-	(313)
Exchange differences	5,086	-
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>26,748</u>	<u>59,821</u>

(b) Analysis of changes in financing during the year

	Short term bank loans HK\$'000	Long term bank loans HK\$'000	Loan to an investee company HK\$'000
At 1 March 2001	33,183	6,347	(34,090)
Net cash inflow/(outflow) from financing	<hr/> 13,593	<hr/> (3,013)	<hr/> 31,817
At 28 February 2002	46,776	3,334	(2,273)
Net cash outflow from financing	(45,054)	(3,334)	-
Effect of foreign exchange rate changes	<hr/> -	<hr/> -	<hr/> (83)
At 28 February 2003	<u>1,722</u>	<u>-</u>	<u>(2,356)</u>



27 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:

	2003 HK\$'000	2002 HK\$'000
Rental expenses to a related company (<i>note a</i>)	<u>1,200</u>	<u>1,288</u>
Rental income from a related company (<i>note b</i>)	<u>192</u>	<u>-</u>
Management fee from a related company (<i>note c</i>)	<u>-</u>	<u>1,067</u>

- (a) During the year, the Group rented a shop located in Macau from Mr. Lee Tze Bun, Marces ("Mr Lee"), a substantial shareholder and Director of the Company, as retail outlet in Macau. The amount is mutually agreed.
- (b) During the year, the Group rented out its investment property located in Hong Kong to Fornari International Limited, of which Mr. Lee is a shareholder. The amount of the aforesaid rental was mutually agreed by the parties.
- (c) During the year ended 28 February 2002, 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.

28 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 20 June 2003.