



le saunda holdings Ltd.

利信達集團有限公司

interim report 2010/11

(Stock Code : 0738)



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In this report, all monetary values are stated in Hong Kong dollars unless stated otherwise.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lee Tze Bun, Marces (*Chairman*)
Lau Shun Wai (*Chief Executive Officer*)
Wong Sau Han
Chu Tsui Lan
Chui Kwan Ho, Jacky (*Managing Director*)
(*resigned on 1 September 2010*)
Wong Tai Chung, Kenneth
(*resigned on 22 June 2010*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Siu Lun, Simon
Leung Wai Ki, George
Hui Chi Kwan

AUDIT COMMITTEE

Lam Siu Lun, Simon (*Chairman*)
Leung Wai Ki, George
Hui Chi Kwan

REMUNERATION COMMITTEE

Lam Siu Lun, Simon (*Chairman*)
Leung Wai Ki, George
Hui Chi Kwan
Lee Tze Bun, Marces

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Wong Tai Chung, Kenneth
(*resigned on 22 June 2010*)

COMPANY SECRETARY

Yuen Chee Wing
(*appointed on 17 September 2010*)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited
Standard Chartered Bank (HK) Limited

AUDITOR

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

LEGAL ADVISERS

Wilkinson & Grist
6th Floor, Prince's Building
Chater Road
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

17/F Fortis Centre
1063 King's Road
Quarry Bay
Hong Kong

REGISTRAR (IN BERMUDA)

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

REGISTRAR (IN HONG KONG)

Computershare Hong Kong Investor Services Limited
Unit 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

LISTING INFORMATION

Listing :The Stock Exchange of Hong Kong Limited
Stock Code : 0738
Board Size : 2,000 Shares

INVESTOR RELATIONS

Email address : ir@lesaunda.com.hk

WEBSITE ADDRESS

<http://www.lesaunda.com.hk>

OVERVIEWS

The board of Directors (the “Board”) of Le Saunda Holdings Limited (the “Company”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2010. The unaudited condensed consolidated interim financial statements for the six months ended 31 August 2010 were reviewed by the Company’s audit committee but have not been reviewed by the Company’s auditors.

The Group delivered a strong business performance for the first half of the fiscal year 2010/11. The rollout of a series of economic stimulus packages by the Chinese government in 2009 led to a robust rebound in China’s economy and confidence, in particular, of the retail sector continued to pick up in the first half of 2010/11 fiscal year. The Group has successfully taken this opportunity to enlarge its retail market share in Mainland China. Meanwhile, the retail business in Hong Kong and Macau also saw a turnaround amidst increased consumer spending during the period under review.



OVERVIEWS (CONTINUED)

For the six months ended 31 August 2010, the Group's consolidated revenue reached HK\$533.7 million, a solid growth of 29.4% year-on-year. The increase was mainly attributable to the Group's strong retail operations in Mainland China, which achieved a growth of 42.8% year-on-year. Consolidated gross profit increased 34.4% to HK\$319.1 million, while gross profit margin rose 2.2 percentage points to 59.8% in the period. Consolidated profit attributable to equity holders of the Company was HK\$60.4 million, a year-on-year increase of 66.4%. The increase was the combined effect of the growth of underlying operating profit, which reflects the performance of the Group's core footwear business, of 71.5% to HK\$66.9 million and a share of HK\$8.0 million profit of a jointly controlled entity.

The Board resolved to declare an interim dividend of HK4.3 cents per ordinary share for the six months ended 31 August 2010 (2009: HK3.0 cents).

Note: Underlying operating profit is a performance indicator of the Group's core sale of footwear business. It is arrived at by excluding the rental income and foreign currency exchange gains from the operating profits of continuing operations.

BUSINESS REVIEW

Retail Operations

Our retail operations continued to be the major revenue contributor, accounting for 86.6 % of the consolidated revenue.

| Consolidated revenue | Six months ended 31 August 2010 | | |
|------------------------------|---------------------------------|--------------|-------------------------|
| | (HK\$ Million) | % to Total | Year-on-year Growth (%) |
| Retail Operations: | | | |
| Mainland China | 396.8 | 74.4 | +42.8 |
| Hong Kong and Macau | 65.1 | 12.2 | +5.3 |
| Retail Sub-total | 461.9 | 86.6 | +36.0 |
| Export | 71.8 | 13.4 | -1.3 |
| Group's Total Revenue | 533.7 | 100.0 | +29.4 |

The network expansion strategy in Mainland China continued to roll out efficiently. To capture opportunities brought along by the improving consumer sentiment, the Group also set up more retail outlets in Hong Kong during the record period. As at 31 August 2010, the Group had a network of 647 retail outlets in Hong Kong, Macau and Mainland China, 165 more compared to last August.

| Number of Outlets by Region | As at 31 August 2010 | | |
|---|----------------------|------------|------------|
| | Self-owned | Franchise | Total |
| Mainland China | 480 | 152 | 632 |
| • Northern, Northern East & Northern West | 87 | 94 | 181 |
| • Eastern | 148 | 12 | 160 |
| • Central & Southern West | 105 | 30 | 135 |
| • Southern | 140 | 16 | 156 |
| Hong Kong and Macau | 15 | — | 15 |
| Total | 495 | 152 | 647 |





BUSINESS REVIEW (CONTINUED)

Retail Operations (Continued)

In terms of product mix, ladies' footwear remained the Group's largest revenue contributor by product category, recording a 43.0% growth during the record period. Men's footwear also demonstrated enormous growth potential, recording a 24.0% growth in revenue.

| Product Category | Retail operations | |
|-------------------------|--------------------------------|----------------------|
| | Year-on-Year Growth (%) | Sales Mix (%) |
| Ladies' footwear | +43.0 | 75.7 |
| Ladies' handbags | +12.2 | 12.1 |
| Men's footwear | +24.0 | 12.2 |
| Total | +35.9 | 100.0 |

As at 31 August 2010, stock turnover days increased to 172 as compared with 150 last year, mainly as a result of opening of more outlets. Overall stock level remained healthy as over 85% of our stock ages within one year. To control the retail stock level, the Group also operated factory outlets in Mainland China to clear off-season items. During the period under review, factory outlets sales increased by 49.0% while the gross profit margin grew by 2.9 percentage points.

Hong Kong and Macau

With increased consumer spending, total revenue generated from Hong Kong and Macau increased 5.3% year-on-year to HK\$65.1 million. Same-store sales recorded a growth of 38.3%, with some retail outlets recording same-store sales growth of over 50%.

Two new retail outlets were opened in the prime tourist spots of Hong Kong in the first half of 2010/11, one in Haiphong Road, Tsim Sha Tsui and another in Telford Plaza, Kowloon Bay, bringing the total number of outlets in Hong Kong and Macau to 15. The Group also rolled out a series of promotional activities and marketing initiatives, including fashion shows held in big shopping plazas, to enhance our brand image and recognition.

Mainland China

During the period, the Group continued to speed up its expansion in second-tier cities. The Group set up 109 outlets and closed 32 in the period. As at 31 August 2010, there were a total of 480 self-owned outlets and 152 franchised outlets. Currently, our presence spans across all provinces and municipalities in Mainland China with our foothold further extended to Wuxi, Yangzhou, Changshu, Hengyang, Zhang Jia Gang and Kunshan in the reporting period.

BUSINESS REVIEW (CONTINUED)

Retail Operations (Continued)

A combination of strong domestic consumption, expanded sales network, higher brand awareness and better product mix drove revenue from Mainland China operations up by as much as 42.8% to HK\$396.8 million, accounting for 74.4% of the total revenue. Same-store sales in China grew by 13.0%.

To enhance brand awareness and publicity in the Mainland China, the Group actively carried out a series of marketing campaigns and promotional activities during the record period, including various star-studded fashion shows, store-opening events for retail outlets in the second-tier cities, new collections exhibitions and advertising campaigns.

To support the steady growth of our retail business, the Group successfully expanded the scale of its production bases in Shunde and Gaoming. The new production base in Gaoming started pilot production in July 2010 to supplement Shunde's production capacity.

Export Business

During the reporting period under review, our OEM segment, which the Group intends to phase out, was still adversely affected by the global financial crisis of 2008. The demand in Europe remained weak and directly hit our exports. The Group's revenue and gross profit in the OEM segment declined 36.5% and 48.1% respectively. To cope with the decline, the Group has vigorously monitored the overall production costs and administrative expenses.

In response to the changing market environment, we have broadened our revenue base by exploring the OBM market since mid-2009. During the reporting period, our OBM segment grew steadily with new orders from Switzerland, Turkey, U.S., New Zealand and Australia generating 4.8% of the total revenue of the Group. Through referrals and trade fairs, particularly the MICAM SHOEVENT in Milan, Italy in March 2010, the Group has successfully established our brand and reputation internationally. As at 31 August 2010, the Group had over 100 outlets selling Le Saunda branded products in Russia, Eastern Europe, Japan, Australia and New Zealand.





PROSPECTS

While the Group is optimistic about the consumer market, it sees challenges in the second half of this fiscal year, as there will be a gradual winding down of stimulus policies by the PRC government amidst increasing inflation risks. Rising labor and raw material costs, as well as rental expenses in Hong Kong are all expected to increase the Group's operating costs. Leveraging our successful business platform and brand values, we will adopt a cautious approach in consolidating our business position in the second half. However, the growth rate achieved in the first half of the current fiscal year may not be sustained in the second half, given the higher base last year.

The Group will continue to focus on developing its retail business in Mainland China, and seek for reasonably priced locations to set up new stores in first- and second-tier cities. To ensure the cost effectiveness of its store operations in Mainland China, the Group has fine-tuned its target to operate 750 stores by the end of this fiscal year. In view of the high purchasing power in big cities, and in line with its strategic development, the Group has planned to launch a series of mid- to high-end women shoes labels in fall and winter next year. The shoes are to be sold at specialty outlets which the Group plans to open at prime department stores or shopping malls in first- and second-tier cities. In addition, the Group will continue to monitor regularly the performances of its self-owned stores and franchised outlets to achieve operational efficiency.

In view of the positive operating environment in Hong Kong, the Group has added a new retail outlet in Parklane Shopper's Boulevard, one of the busiest streets in Tsim Sha Tsui in September 2010 to capture more growth. However, as the rental cost is rising rapidly, the Group will adopt a more cautious store optimization strategy in establishing new retail outlets in prime locations.

In order to boost Le Saunda's brand awareness, the Group will put more resources in carrying out various kinds of brand-building initiatives, such as fashion shows, roadshows and exhibitions on latest product collection, and extensive advertising campaigns across our network.

The Group will also step up its efforts to expand its product portfolio. We will further broaden the product offering and collections of men's footwear and accessory products. New men's footwear and ladies' handbags, using both Italian design and materials, are expected to be unveiled in mid-2011.

Compared to the strong purchasing power in Mainland China, Europe and USA's markets were recovering slowly. The overall export business in the second half is expected to remain sluggish. The Group will continue to develop its OBM business through collaborations with big OBM partners.

The Group plans to add one production line in the new production base in Gaoming by the end of this fiscal year to meet the increasing demand from our retail business. We are also working on a series of reforms to improve supply chain management in order to further enhance operational efficiency.

Looking forward, we still see a promising outlook with growth potential despite challenges ahead posed by inflation risks and the withdrawal of stimulus policies. The Group is confident to tackle new challenges by implementing strategic operational initiatives in a timely manner.



FINANCIAL REVIEW

Liquidity Ratio

As at 31 August 2010, the Group's cash position remains strong and healthy with net cash balance of HK\$248.2 million as compared with HK\$285.3 million as at 28 February 2010. Total equity is maintained at HK\$934.7 million, along with a quick ratio of 1.7 times.

Pledge of Assets

As at 31 August 2010, bank deposits of HK\$1.7 million (28 February 2010: HK\$1.7 million) have been pledged as rental deposits for certain subsidiaries of the Group.

Capital Structure and Financial Resources

During the six months ended 31 August 2010, the Group's cash and bank balances were in Hong Kong dollars, US dollars, Euro and Renminbi and were deposited in leading banks with maturity dates falling within one year. The Group did not borrow any bank loan during the period. Forward contracts will be used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. The Group did not enter into any forward contract to hedge its foreign exchange risk during the period. In addition, working capital requirements for business operations in Mainland China will be financed, if necessary, by local bank loans, denominated in Renminbi.

Based on the Group's steady cash inflow from operations and coupled with its existing cash and bank facilities, the Group has adequate financial resources to fund its future expansion.



INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK4.3 cents per ordinary share for the six months ended 31 August 2010 (2009: HK3.0 cents) payable on Friday, 26 November 2010 to all shareholders of the Company whose names appear on the Register of Members of the Company on Monday, 22 November 2010.

CORPORATE GUARANTEES

The Company has given guarantees in favour of banks for banking facilities granted to certain subsidiaries on letters of credit and bank loan to the extent of HK\$70.0 million (28 February 2010: HK\$50.0 million) of which HK\$51.8 million (28 February 2010: HK\$20.4 million) was utilised as at 31 August 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2010, the Group had a staff force of 5,352 people. Of this, 165 were based in Hong Kong and 5,187 in Mainland China. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees comprised basic salaries, bonuses and long-term incentives. Total staff costs for the six months ended 31 August 2010, including directors' emoluments and net pension contributions, amounted to HK\$116.6 million (2009: HK\$88.7 million). The Group has all along organized structured and diversified training programmes for staff of different levels. Outside consultants would be invited to broaden the contents of the programmes.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 31 August 2010

| | | Unaudited | |
|--|------|----------------------------|----------------------|
| | | Six months ended 31 August | |
| | Note | 2010 HK\$'000 | 2009 HK\$'000 |
| Revenue | 4 | 533,683 | 412,400 |
| Cost of sales | | <u>(214,569)</u> | <u>(174,899)</u> |
| Gross profit | | 319,114 | 237,501 |
| Other income | 5 | 899 | 1,695 |
| Other gains | 5 | 1,357 | 4,448 |
| Selling and distribution costs | | <u>(183,495)</u> | <u>(138,584)</u> |
| General and administrative expenses | | <u>(68,776)</u> | <u>(60,000)</u> |
| Operating profit | 6 | 69,099 | 45,060 |
| Finance income | | 813 | 533 |
| Share of profit of a jointly controlled entity | | <u>8,029</u> | <u>—</u> |
| Profit before income tax | | 77,941 | 45,593 |
| Income tax expense | 7 | <u>(17,424)</u> | <u>(9,311)</u> |
| Profit for the period | | <u><u>60,517</u></u> | <u><u>36,282</u></u> |
| Profit attributable to: | | | |
| – equity holders of the Company | | 60,365 | 36,282 |
| – non-controlling interests | | <u>152</u> | <u>—</u> |
| | | <u><u>60,517</u></u> | <u><u>36,282</u></u> |
| Earnings per share attributable to equity holders of the Company | | | |
| – Basis (HK cents) | 8 | <u>9.4</u> | <u>5.7</u> |
| – Diluted (HK cents) | 8 | <u>9.4</u> | <u>5.7</u> |
| Interim dividend | 9 | <u>27,488</u> | <u>19,172</u> |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2010

| | Unaudited | |
|---|-----------------------------------|----------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Profit for the period | 60,517 | 36,282 |
| Other comprehensive income | | |
| Currency translation differences | 2,319 | 2,632 |
| Other comprehensive income for the period, net of tax | 2,319 | 2,632 |
| Total comprehensive income for the period | 62,836 | 38,914 |
| Total comprehensive income for the period, attributable to: | | |
| – equity holders of the Company | 62,661 | 38,914 |
| – non-controlling interests | 175 | – |
| | 62,836 | 38,914 |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 31 August 2010

| | <i>Note</i> | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 (Restated) |
|--|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | 10 | 43,964 | 43,964 |
| Property, plant and equipment | 10 | 224,945 | 218,990 |
| Leasehold land and land use rights | 10 | 33,837 | 34,226 |
| Long-term deposits and prepayments | | 7,814 | 9,621 |
| Interest in a jointly controlled entity | | 46,329 | 38,109 |
| Interest in and amount due from an available-for-sale financial asset | | 4,575 | 4,553 |
| Deferred tax assets | | 24,243 | 24,407 |
| | | 385,707 | 373,870 |
| Current assets | | | |
| Inventories | | 369,185 | 244,884 |
| Trade and other receivables | 11 | 120,980 | 141,257 |
| Deposits and prepayments | | 29,428 | 19,394 |
| Cash and bank balances | | 248,220 | 285,308 |
| | | 767,813 | 690,843 |
| Total assets | | 1,153,520 | 1,064,713 |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 31 August 2010

| | <i>Note</i> | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|--|-------------|--|--|
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 13 | 63,926 | 63,926 |
| Reserves | | | |
| Proposed dividend | | 27,488 | 44,749 |
| Others | | 837,430 | 802,257 |
| | | 928,844 | 910,932 |
| Non-controlling interests | | 5,865 | — |
| Total equity | | 934,709 | 910,932 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 4,697 | 4,697 |
| Current liabilities | | | |
| Trade payables and accruals | 12 | 205,944 | 139,165 |
| Current income tax liabilities | | 8,170 | 9,919 |
| | | 214,114 | 149,084 |
| Total liabilities | | 218,811 | 153,781 |
| Total equity and liabilities | | 1,153,520 | 1,064,713 |
| Net current assets | | 553,699 | 541,759 |
| Total assets less current liabilities | | 939,406 | 915,629 |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2010

| | Unaudited | | | | | | | | | |
|--|---|---------------------------|--|-------------------------------|-------------------------------|-----------------------------|---|-------------------|--------------------------------------|--------------------------|
| | Attributable to equity holders of the Company | | | | | | | | | |
| | Share capital HK\$'000 | Share premium HK\$'000 | Exchange translation reserve HK\$'000 | Statutory reserve HK\$'000 | Retained earnings HK\$'000 | Capital reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Total HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| Balance at 1 March 2010 | 63,926 | 416,522 | 37,754 | 23,311 | 365,022 | 4,261 | 136 | 910,932 | — | 910,932 |
| Profit for the period | — | — | — | — | 60,365 | — | — | 60,365 | 152 | 60,517 |
| Other comprehensive income | | | | | | | | | | |
| – Currency translation differences | — | — | 2,296 | — | — | — | — | 2,296 | 23 | 2,319 |
| Total comprehensive income for the period ended 31 August 2010 | — | — | 2,296 | — | 60,365 | — | — | 62,661 | 175 | 62,836 |
| Transactions with non-controlling interests | — | — | — | — | — | — | — | — | 5,690 | 5,690 |
| Dividends relating to 2010 paid in July 2010 (Note 9) | — | — | — | — | (44,749) | — | — | (44,749) | — | (44,749) |
| | — | — | — | — | (44,749) | — | — | (44,749) | 5,690 | (39,059) |
| Balance at 31 August 2010 | 63,926 | 416,522 | 40,050 | 23,311 | 380,638 | 4,261 | 136 | 928,844 | 5,865 | 934,709 |
| Representing: | | | | | | | | | | |
| Share capital | | | | | | | | | | 63,926 |
| 2010 proposed interim dividend | | | | | | | | | | 27,488 |
| Others | | | | | | | | | | 837,430 |
| Non-controlling interests | | | | | | | | | | 5,865 |
| | | | | | | | | | | 934,709 |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2010

| | Unaudited | | | | | | | | Total equity HK\$'000 |
|---|---|------------------------------|--|----------------------------------|----------------------------------|--------------------------------|------------------------------------|--|-----------------------------|
| | Attributable to equity holders of the Company | | | | | | | | |
| | Share capital HK\$'000 | Share premium HK\$'000 | Exchange translation reserve HK\$'000 | Statutory reserve HK\$'000 | Retained earnings HK\$'000 | Capital reserve HK\$'000 | Revaluation reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | |
| Balance at 1 March 2009 | 63,906 | 416,277 | 34,810 | 21,415 | 276,349 | 4,261 | 15,501 | 227 | 832,746 |
| Profit for the period | – | – | – | – | 36,282 | – | – | – | 36,282 |
| Other comprehensive income | | | | | | | | | |
| – Currency translation differences | – | – | 2,632 | – | – | – | – | – | 2,632 |
| Total comprehensive income for the period ended 31 August 2009 | – | – | 2,632 | – | 36,282 | – | – | – | 38,914 |
| Dividends relating to 2009 paid in July 2009 (Note 9) | – | – | – | – | (28,758) | – | – | – | (28,758) |
| Balance at 31 August 2009 | <u>63,906</u> | <u>416,277</u> | <u>37,442</u> | <u>21,415</u> | <u>283,873</u> | <u>4,261</u> | <u>15,501</u> | <u>227</u> | <u>842,902</u> |
| Representing: | | | | | | | | | |
| Share capital | | | | | | | | | 63,906 |
| 2009 proposed interim dividend | | | | | | | | | 19,172 |
| Others | | | | | | | | | 759,824 |
| | | | | | | | | | <u>842,902</u> |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 31 August 2010

| | Unaudited | |
|--|----------------------------|----------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Net cash inflows from operating activities | 25,854 | 39,751 |
| Net cash outflows from investing activities | (19,244) | (11,560) |
| Net cash outflows from financing activities | (39,003) | (28,745) |
| Net decrease in cash and cash equivalents | (32,393) | (554) |
| Effect of foreign exchange rate changes, net | 304 | 1,387 |
| Cash and cash equivalents at 1 March | 277,995 | 198,436 |
| Cash and cash equivalents at 31 August | 245,906 | 199,269 |
| Analysis of the cash and bank balances: | | |
| Cash and cash equivalents | 245,906 | 199,269 |
| Add: Cash restricted for specific purposes | 2,314 | 1,084 |
| Cash and bank balances at 31 August | 248,220 | 200,353 |

The notes on pages 25 to 42 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Le Saunda Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) are principally engaged in manufacturing and sales of shoes. The Group mainly operates in Hong Kong, Macau and Mainland China.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed consolidated interim financial information are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated. These condensed consolidated interim financial information has been approved for issue by the Board of Directors on 27 October 2010.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 31 August 2010 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 28 February 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 28 February 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 ACCOUNTING POLICIES (continued)

(a) Amended standard adopted by the Group

The following amendment to standard is mandatory for the first time for the financial year beginning 1 March 2010:

- HKAS 17 (amendment), 'Leases', removes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "leasehold land and land use rights", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 March 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 March 2010 on the basis of information existing at the inception of those leases, and recognized the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land and land use rights from operating lease to finance lease.

The accounting for land interest classified as finance lease is as below:

- If the property interest is held for own use, that land interest is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.
- If the property interest is held to earn rentals and/or for capital appreciation, that land interest is accounted for as investment property and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.

3 ACCOUNTING POLICIES (continued)

(a) Amended standard adopted by the Group (continued)

The effect of the adoption of this amendment is as follows:

| | 31 August 2010 HKD'000 | 28 February 2010 HKD'000 |
|--|---------------------------------------|--------------------------------|
| Increase in property, plant and equipment | 7,696 | 7,800 |
| Decrease in leasehold land and land use rights | (7,696) | (7,800) |

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HKAS 27 (amendment) — Consolidated and separate financial statements
- HKAS 39 (amendment) — Eligible hedged items
- HKFRS 1 (amendment) — Additional exemptions for first-time adopters
- HKFRS 2 (amendment) — Group cash-settled share-based payment transactions
- HKFRS 3 (revised) — Business combinations
- HKFRS 5 (amendment) — Non-current assets held for sale and discontinued operations
- HK(IFRIC) — Int 17 — Distributions of non-cash assets to owners
- Second improvements to HKFRS (2009)

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 March 2010 and have not been early adopted:

- HKAS 24 (revised) — Related party disclosures
- HKAS 32 (amendment) — Classification of rights issues
- HKFRS 1 (amendment) — Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
- HKFRS 9 — Financial instruments
- HK(IFRIC) — Int 14 (amendment) — Prepayments of a minimum funding requirement
- HK(IFRIC) — Int 19 — Extinguishing financial liabilities with equity instruments
- Third improvements to HKFRS (2010)

4 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sales of shoes.

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors review the Group's financial information mainly from retail and export perspective. For the retail business, the Executive Directors further assess the performance of operations on a geographical basis (Hong Kong, Macau and Mainland China). The reportable segments are classified in a manner consistent with the information reviewed by the Executive Directors.

The Executive Directors assess the performance of the operating segments based on a measure of reportable segment profit. This measurement basis excludes other income, net exchange gains, finance income, share of profit of a jointly controlled entity and unallocated expenses.

Segment assets mainly exclude interest in a jointly controlled entity, interest in and amount due from an available-for-sale financial asset, deferred tax assets and other assets that are managed on a central basis.

Segment liabilities mainly exclude current income tax liabilities, deferred tax liabilities and other liabilities that are managed on a central basis.

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 based on the country where the assets are located.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 REVENUE AND SEGMENT INFORMATION (continued)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 31 August 2010 is as follows:

| | Unaudited | | | Total |
|--|---------------------------------|----------------|------------|----------|
| | Six months ended 31 August 2010 | | | |
| | Retail | | Export | |
| | HK & Macau | Mainland China | (Note (a)) | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 65,076 | 396,834 | 71,773 | 533,683 |
| Reportable segment profit | 6,516 | 50,069 | 10,312 | 66,897 |
| Other income | | | | 899 |
| Finance income | | | | 813 |
| Net exchange gains | | | | 1,357 |
| Share of profit of a jointly controlled entity | | | | 8,029 |
| Unallocated expenses | | | | (54) |
| Profit before income tax | | | | 77,941 |
| Income tax expense | | | | (17,424) |
| Profit for the period | | | | 60,517 |
| Depreciation and amortisation | 1,996 | 15,331 | 1,970 | 19,297 |
| Additions to non-current assets (Note (b)) | 1,202 | 20,721 | 3,132 | 25,055 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 REVENUE AND SEGMENT INFORMATION (continued)

The segment information for the six months ended 31 August 2009 is as follows:

| | Unaudited | | | Total | |
|--|---------------------------------|----------------|------------|----------|--|
| | Six months ended 31 August 2009 | | | | |
| | Retail | | Export | | |
| | HK & Macau | Mainland China | (Note (a)) | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Revenue from external customers | 61,790 | 277,884 | 72,726 | 412,400 | |
| Reportable segment profit | (6,674) | 34,281 | 11,394 | 39,001 | |
| Other income | | | | 1,695 | |
| Finance income | | | | 533 | |
| Net exchange gains | | | | 4,448 | |
| Unallocated expenses | | | | (84) | |
| Profit before income tax | | | | 45,593 | |
| Income tax expense | | | | (9,311) | |
| Profit for the period | | | | 36,282 | |
| Depreciation and amortisation | 2,386 | 9,064 | 2,712 | 14,162 | |
| Additions to non-current assets (Note (b)) | 1,760 | 20,566 | 1,711 | 24,037 | |

(a) The revenue from external customers of export are mainly derived from Europe and other parts of the world, including Russia, Spain, Italy, the Middle East, Japan, Australia and New Zealand.

(b) Amount comprises additions to property, plant and equipment (including prepayments).

Revenues from external customers are derived from the sales of shoes on a retail and export basis. The breakdowns of retail and export results are provided above. The retail sales of shoes mainly relates to the Group's own brand, Le Saunda and CnE. The export sales of shoes relates to the Group's own brand and the other shoe brands which are not owned by the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 REVENUE AND SEGMENT INFORMATION (continued)

An analysis of the Group's assets and liabilities as at 31 August 2010 by reportable segment is set out below:

| | Unaudited as at 31 August 2010 | | | Total HK\$'000 |
|--|-----------------------------------|-------------------|----------|-------------------|
| | Retail | | Export | |
| | HK & Macau | Mainland China | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | |
| Segment assets | 118,292 | 815,178 | 144,565 | 1,078,035 |
| Interest in a jointly controlled entity | | | | 46,329 |
| Interest in and amount due from an available-for-sale financial asset | | | | 4,575 |
| Deferred tax assets | | | | 24,243 |
| Unallocated assets | | | | 338 |
| Total assets per condensed consolidated balance sheet | | | | <u>1,153,520</u> |
| Segment liabilities | 11,856 | 157,469 | 36,552 | 205,877 |
| Current income tax liabilities | | | | 8,170 |
| Deferred tax liabilities | | | | 4,697 |
| Unallocated liabilities | | | | 67 |
| Total liabilities per condensed consolidated balance sheet | | | | <u>218,811</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 REVENUE AND SEGMENT INFORMATION (continued)

An analysis of the Group's assets and liabilities as at 28 February 2010 by reportable segment is set out below:

| | Audited as at 28 February 2010 | | | Total HK\$'000 |
|---|-----------------------------------|----------------------------|----------|-------------------|
| | Retail | | Export | |
| | HK & Macau HK\$'000 | Mainland China HK\$'000 | HK\$'000 | |
| Segment assets | 173,572 | 698,355 | 124,905 | 996,832 |
| Interest in a jointly controlled entity | | | | 38,109 |
| Interest in and amount due from an available-for-sale financial asset | | | | 4,553 |
| Deferred tax assets | | | | 24,407 |
| Unallocated assets | | | | 812 |
| Total assets per condensed consolidated balance sheet | | | | <u>1,064,713</u> |
| Segment liabilities | 12,085 | 108,969 | 17,965 | 139,019 |
| Current income tax liabilities | | | | 9,919 |
| Deferred tax liabilities | | | | 4,697 |
| Unallocated liabilities | | | | 146 |
| Total liabilities per condensed consolidated balance sheet | | | | <u>153,781</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 REVENUE AND SEGMENT INFORMATION (continued)

The revenue from external customers of the Group by geographical segments is as follows :

REVENUE

| | Unaudited | |
|----------------------------|-----------------------------------|----------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 57,257 | 56,273 |
| Mainland China | 396,834 | 277,884 |
| Macau | 7,819 | 5,517 |
| Russia | 41,942 | 26,807 |
| Italy | 1,676 | 11,010 |
| Other countries (Note (a)) | 28,155 | 34,909 |
| Total | 533,683 | 412,400 |

(a) The revenue from other countries are mainly derived from Europe and other parts of the world, including Spain, the Middle East, Japan, Australia and New Zealand.

For the six months ended 31 August 2010, there was no transaction with a single external customer that amounted to 10 percent or more of the Group's revenue (2009: HK\$ Nil).

An analysis of the non-current assets (other than deferred tax assets) of the Group by geographical segments is as follows :

NON-CURRENT ASSETS

| | Unaudited | Audited |
|----------------|------------------|-------------|
| | 31 August | 28 February |
| | 2010 | 2010 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 24,805 | 27,399 |
| Mainland China | 296,874 | 281,949 |
| Macau | 39,785 | 40,115 |
| Total | 361,464 | 349,463 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. OTHER INCOME AND OTHER GAINS

| | Unaudited | |
|--|----------------------------|--------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Other income | | |
| Gross rental income from investment properties | 899 | 1,695 |
| Other gains | | |
| Net exchange gains (Note (a)) | 1,357 | 4,448 |
| | 2,256 | 6,143 |

(a) Net exchange gains arose from the settlement of transactions denominated in foreign currencies and from the translation at period-end exchange rates of monetary assets and liabilities, including inter-company balances, denominated in foreign currencies.

6. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

| | Unaudited | |
|--|----------------------------|------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Auditors' remuneration | 785 | 996 |
| Amortisation of leasehold land and land use rights | 446 | 229 |
| Depreciation of property, plant and equipment | 18,851 | 13,933 |
| Loss on disposal of property, plant and equipment | 1,463 | 2,934 |
| Cost of inventories recognised as expenses | | |
| included in cost of sales | 185,980 | 147,988 |
| Operating lease rentals in respect of land and buildings | | |
| – minimum lease payments | 28,921 | 32,264 |
| – contingent rent | 1,115 | 895 |
| Freight charges | 6,274 | 3,831 |
| Concessionaire fee | 71,381 | 46,452 |
| Impairment/(write-back of impairment) of inventories | 5,732 | (257) |
| Direct operating expenses arising from investment | | |
| properties that generated rental income | 140 | 833 |
| Staff costs (including directors' emoluments) | 116,629 | 88,740 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. INCOME TAX EXPENSE

The amount of income tax charged to the condensed consolidated income statement represents:

| | Unaudited | |
|---|----------------------------|--------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Current income tax | | |
| People's Republic of China ("PRC") corporate income tax | 17,259 | 6,921 |
| Deferred taxation | 165 | 2,390 |
| | <u>17,424</u> | <u>9,311</u> |

No Hong Kong profits tax has been provided for the period as the Group had sufficient tax losses brought forward to offset the estimated assessable profit (2009: HK\$ Nil).

PRC corporate income tax is levied on the profits of the Group's subsidiaries in PRC at a range from 22% to 25% (2009: range from 20% to 25%), except for one of the subsidiaries of the Company established in the PRC that is entitled to two years' exemption from the PRC corporate income tax of 25% followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward (at most five years). Accordingly, the subsidiary was fully exempted from the PRC corporate income tax in 2007 and 2008, and subject to a reduced tax rate of 12.5% in 2009 and 2010.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), under which all domestic-invested enterprises and foreign investment enterprises will be subject to a standard corporate income tax rate of 25% in a period of 5 years starting from 1 January 2008. According to the New CIT Law, enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Unaudited | |
|--|-----------------------------------|----------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to equity holders of the Company | <u>60,365</u> | <u>36,282</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>639,266</u> | <u>639,066</u> |
| Basic earnings per share (HK cents) | <u>9.4</u> | <u>5.7</u> |

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company had share options outstanding during the period which were dilutive potential ordinary shares. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | Unaudited | |
|--|-----------------------------------|----------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to equity holders of the Company | <u>60,365</u> | <u>36,282</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>639,266</u> | <u>639,066</u> |
| Adjustments for share options ('000) | <u>31</u> | <u>4</u> |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | <u>639,297</u> | <u>639,070</u> |
| Diluted earnings per share (HK cents) | <u>9.4</u> | <u>5.7</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9. DIVIDENDS

| | Unaudited | |
|---|----------------------------|---------------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Interim dividend of HK4.3 cents (six months ended 31 August 2009 : HK3.0 cents) per share | <u>27,488</u> | <u>19,172</u> |

A dividend of HK\$44,749,000 that related to the financial year ended 28 February 2010 was paid in July 2010 (2009: HK\$28,758,000).

At the board of Directors meeting held on 27 October 2010, the board of Directors has resolved to declare an interim dividend of HK4.3 cents per share. This interim dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings of the Company for the year ending 28 February 2011.

10. INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

| | Unaudited | | | |
|-------------------------------|---------------------------------|-------------------------------|------------------------------------|----------------|
| | Six months ended 31 August 2010 | | | |
| | Investment properties | Property, plant and equipment | Leasehold land and land use rights | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 March 2010 | 43,964 | 218,990 | 34,226 | 297,180 |
| Additions | — | 25,055 | — | 25,055 |
| Disposals | — | (1,463) | — | (1,463) |
| Exchange differences | — | 1,214 | 57 | 1,271 |
| Depreciation and amortisation | — | (18,851) | (446) | (19,297) |
| At 31 August 2010 | <u>43,964</u> | <u>224,945</u> | <u>33,837</u> | <u>302,746</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS (continued)

| | Unaudited | | | Total HK\$'000 |
|-------------------------------|--------------------------------------|--|--|-------------------|
| | Six months ended 31 August 2009 | | | |
| | Investment properties HK\$'000 | Property, plant and equipment HK\$'000 (Restated) | Leasehold land and land use rights HK\$'000 (Restated) | |
| At 1 March 2009 | 100,893 | 203,718 | 35,014 | 339,625 |
| Additions | — | 24,037 | — | 24,037 |
| Disposals | — | (2,934) | — | (2,934) |
| Exchange differences | — | 522 | 72 | 594 |
| Depreciation and amortisation | — | (13,933) | (229) | (14,162) |
| At 31 August 2009 | <u>100,893</u> | <u>211,410</u> | <u>34,857</u> | <u>347,160</u> |

11. TRADE AND OTHER RECEIVABLES

The ageing analysis of the trade receivables based on invoice date, is as follows:

| | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|------------------------------|--|--|
| Trade receivables (Note (a)) | | |
| Current to 30 days | 97,062 | 111,277 |
| 31 to 60 days | 13,053 | 23,859 |
| 61 to 90 days | 4,682 | 2,354 |
| Over 90 days | 3,063 | 1,282 |
| | <u>117,860</u> | <u>138,772</u> |
| Other receivables | 3,120 | 2,485 |
| Total | <u>120,980</u> | <u>141,257</u> |

(a) The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on average credit period of 90 days.

The carrying amounts of trade and other receivables approximate their fair values. There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. TRADE PAYABLES AND ACCRUALS

The credit periods granted by suppliers generally range from 7 to 60 days. The ageing analysis of the trade creditors is as follows:

| | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|--------------------|--|--|
| Trade creditors | | |
| Current to 30 days | 81,706 | 33,823 |
| 31 to 60 days | 23,062 | 14,745 |
| 61 to 90 days | 3,617 | 3,928 |
| 91 to 120 days | 402 | 695 |
| Over 120 days | 2,970 | 1,535 |
| | 111,757 | 54,726 |
| Accruals | 94,187 | 84,439 |
| Total | 205,944 | 139,165 |

13. SHARE CAPITAL

| | Unaudited 31 August 2010 | | Audited 28 February 2010 | |
|--|--|-----------------|---------------------------------|----------|
| | Number of ordinary shares | HK\$'000 | Number of ordinary shares | HK\$'000 |
| Authorised: | | | | |
| Shares of HK\$0.10 each | 800,000,000 | 80,000 | 800,000,000 | 80,000 |
| Issued and fully paid: | | | | |
| At beginning of period/year | 639,265,600 | 63,926 | 639,065,600 | 63,906 |
| Exercise of share options (Note 14) | — | — | 200,000 | 20 |
| At end of period/year | 639,265,600 | 63,926 | 639,265,600 | 63,926 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. SHARE OPTIONS

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

| | Unaudited for the six months ended 31 August 2010 | | Audited for the year ended 28 February 2010 | |
|--------------------------------|---|---|---|---|
| | 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 period/year | 0.87 | 48 | 0.87 | 248 |
| Exercised | — | — | 0.87 | (200) |
| At end of period/year | 0.87 | 48 | 0.87 | 48 |

The Group has no legal or constructive obligation to repurchase or settle the options in cash. No option was exercised for the six months ended 31 August 2010. For the year ended 28 February 2010, 200,000 shares were issued at an average exercise price at HK\$0.87 each as a result of the exercise of share options. The related weighted average share price at the time of exercise was HK\$1.704 per share.

- (b) Share options outstanding at the end of the period/year have the following expiry dates and exercise prices:

| Expiry date at | Exercise price | Number of share options as at | |
|------------------------|---------------------|-------------------------------|---------------------------------|
| | per share (HK\$) | 31 August 2010 (thousands) | 28 February 2010 (thousands) |
| 15 January 2016 (Note) | 0.87 | 48 | 48 |

Note : Become exercisable from 7 March 2008 and expiring on the 10th anniversary from date of grants.

15. CORPORATE GUARANTEES

The Company has given guarantees in favour of banks for banking facilities granted to certain subsidiaries on letters of credit and bank loan to the extent of HK\$70,000,000 (28 February 2010: HK\$50,000,000) of which HK\$51,818,000 (28 February 2010: HK\$20,391,000) was utilised as at 31 August 2010.

16. COMMITMENTS

(a) Capital commitments

| | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|--|--|--|
| Contracted but not provided for, in respect of | | |
| – purchase of property, plant and equipment | 1,846 | 2,867 |
| – unpaid capital contributions to a subsidiary | 10,292 | 10,244 |
| | <u>12,138</u> | <u>13,111</u> |

(b) Commitments under operating leases

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

| | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|---|--|--|
| Land and buildings: | | |
| Not later than one year | 55,504 | 45,592 |
| Later than one year and not later than five years | 32,819 | 28,643 |
| | <u>88,323</u> | <u>74,235</u> |

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 period end, the Group had future aggregate minimum rental receivable under non-cancellable operating leases as follows:

| | Unaudited 31 August 2010 HK\$'000 | Audited 28 February 2010 HK\$'000 |
|---|--|--|
| Land and buildings: | | |
| Not later than one year | 913 | 3,127 |
| Later than one year and not later than five years | 77 | 182 |
| | <u>990</u> | <u>3,309</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. PLEDGE OF ASSETS

As at 31 August 2010, bank deposits of HK\$1,658,000 (28 February 2010: HK\$1,658,000) have been pledged as rental deposits for certain subsidiaries of the Group.

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

| | Unaudited | |
|---------------------------------|----------------------------|----------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Rental expenses charged by: | | |
| - a related party (Note (i)) | 780 | 780 |
| - related companies (Note (ii)) | 386 | 979 |

(i) During the period, 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 period, the Group rented office premises located in Mainland China from Genda Investment Limited and Super Billion Properties Limited, companies controlled by Mr. Lee.

(b) Key management compensation

| | Unaudited | |
|--------------------------------------|----------------------------|----------|
| | Six months ended 31 August | |
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Salaries and other employee benefits | 4,826 | 4,196 |
| Contributions to retirement scheme | 28 | 36 |
| | 4,854 | 4,232 |

19. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend proposed are given in Note 9.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 August 2010, the interests and short positions of the Directors and chief executives of the Company in the shares of HK\$0.10 each in the capital of the Company (the "Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows :

Long positions in Shares

| Name of Directors | Number of Shares | | | | Total | Approximate percentage of the issued share capital of the Company |
|---|--------------------|------------------|-----------------------------|-------------------------|-------------|---|
| | Personal interests | Family interests | Corporate interests | Other interests | | |
| Mr. Lee Tze Bun, Marces ("Mr. Lee") | 34,642,000 | — | 31,384,000 (Notes 1 & 2) | 205,000,000 (Note 3) | 271,026,000 | 42.40% |
| Ms. Lau Shun Wai ("Ms. Lau") | 1,400,000 | — | — | — | 1,400,000 | 0.22% |
| Ms. Chui Kwan Ho, Jacky ("Ms. Chui") | 3,946,000 | — | — | 50,000,000 (Note 4) | 53,946,000 | 8.44% (Note 5) |
| Ms. Wong Sau Han ("Ms. Wong") | 964,000 | 350,000 | — | — | 1,314,000 | 0.21% (Note 6) |
| Ms. Chu Tsui Lan ("Ms. Chu") | 2,100,000 | — | — | — | 2,100,000 | 0.33% |

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Long positions in shares in associated corporation of the Company

| Name of associated corporation | Name of Director | Personal interests | Approximate percentage of the issued share capital of the associated corporation of the Company |
|--------------------------------|------------------|---|---|
| L. S. Retailing Limited | Mr. Lee | 20,000 non-voting deferred shares (Note 7) | 100% (in respect of non-voting deferred shares) |

Notes :

- 30,000,000 Shares are held by Succex Limited, which is wholly owned by Mr. Lee. Therefore, Mr. Lee is deemed to be interested in those Shares.
- 1,384,000 Shares are held by Xin Chuan Middle School Foundation Limited ("Xin Chuan"), of which Mr. Lee is a governor. Therefore, Mr. Lee is deemed to be interested in those Shares.
- Stable Gain Holdings Limited ("Stable Gain") holds 205,000,000 Shares, representing approximately 32.07% of the issued share capital of the Company. The entire issued share capital of Stable Gain is registered in the name of LGT Trustees Ltd. ("LGT") (which changed its name in October 2010 and is currently known as First Advisory Trustees Ltd.) as trustee of The Lee Keung Family Trust ("Lee Family Trust"), a discretionary trust, of which Mr. Lee is the founder and an eligible beneficiary thereunder. Therefore, Mr. Lee is deemed to be interested in those Shares.
- Ms. Chui, Ms. Tsui Oi Kuen ("Ms. Tsui") and Ms. Lee Wing Kam, Rowena Jackie ("Ms. Lee") (the daughter of Mr. Lee), being the trustees of The Lee Keung Charitable Foundation ("the Charitable Foundation"), jointly hold 50,000,000 Shares, representing approximately 7.82% of the issued share capital of the Company. Therefore, Ms. Chui, Ms. Tsui and Ms. Lee are deemed to be interested in those Shares.
- Ms. Chui personally holds 3,946,000 Shares. Together with the Shares mentioned in (4) above, Ms. Chui is interested in an aggregate of 53,946,000 Shares, representing approximately 8.44% of the issued share capital of the Company.
- Ms. Wong personally holds 964,000 Shares. Together with 350,000 Shares owned by the husband of Ms. Wong in which Ms. Wong is deemed to be interested, Ms. Wong is interested in an aggregate of 1,314,000 Shares, representing approximately 0.21% of the issued share capital of the Company.
- Mr. Lee beneficially owns 20,000 non-voting deferred shares in L. S. Retailing Limited, a wholly-owned subsidiary of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Long positions in underlying shares and debentures of the Company

Share Option Scheme

At the special general meeting of the Company held on 22 July 2002, the shareholders of the Company approved the adoption of a share option scheme (the "Scheme") pursuant to Chapter 17 of the Listing Rules.

Pursuant to the Scheme, the Company granted share options to certain Directors and employees of the Company to subscribe for the Shares. There are no movement of the outstanding share options under the Scheme during the six months ended 31 August 2010 set out below :

| Name or Category of Participant | Date of share options granted | Number of Shares | | | Outstanding as at 31 August 2010 | Exercise price per Share | Exercise period |
|---------------------------------------|-------------------------------------|---|-----------------------------------|-----------------------------------|---|--------------------------------|--------------------------------|
| | | Outstanding as at 1 March 2010 | Exercised during the period | Cancelled during the period | | | |
| <i>(Notes 1 & 2)</i> | | | | | | | |
| Employee in aggregate | 16 January 2006 | 48,000 | – | – | 48,000 | HK\$0.87 | 7 March 2008 – 15 January 2016 |

As at 31 August 2010, none of the Directors or chief executives held any share options of the Company granted under a share option scheme adopted by the Company.

Notes :

- The vesting period of the above share options is from the date of the grant until the commencement of the exercise period.
- The closing price of the Shares immediately before 16 January 2006 on which the share options was granted was HK\$0.87 per Share.

Save as disclosed above, as at 31 August 2010, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the interests disclosed under the heading "Disclosure of Interests" above, (a) at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and (b) none of the Directors or any of their spouses or children under 18 years of age had any right to subscribe for Shares or debt securities of the Company, or had exercised any such rights during the period.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS

As at 31 August 2010, according to the register of interests in Shares and short positions of the Company required to be kept under section 336 of the SFO, the following persons or corporations (other than the Director or chief executive of the Company) had an interest or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

| Name | Note | Number of Shares | | | Total | Approximate percentage of the issued share capital of the Company |
|---|------|--------------------|---------------------|-----------------|-------------|---|
| | | Personal interests | Corporate interests | Other interests | | |
| LGT | 1 | — | 205,000,000 | — | 205,000,000 | 32.07% |
| Stable Gain | 1 | 205,000,000 | — | — | 205,000,000 | 32.07% |
| Ms. Lee | 2 | 6,350,000 | — | 50,000,000 | 56,350,000 | 8.81% |
| Ms. Tsui | 3 | 1,180,000 | — | 50,000,000 | 51,180,000 | 8.01% |
| Ms. Chui, Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation | 4 | — | — | 50,000,000 | 50,000,000 | 7.82% |

Notes :

1. Stable Gain holds 205,000,000 Shares, representing approximately 32.07% of the issued share capital of the Company. The entire issued share capital of Stable Gain is registered in the name of LGT as trustee of the Lee Family Trust. Therefore, LGT is deemed to be interested in those Shares.
2. Ms. Lee is interested in an aggregate of 56,350,000 Shares (comprising 6,350,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Chui and Ms. Tsui as trustees of the Charitable Foundation), representing approximately 8.81% of the issued share capital of the Company.
3. Ms. Tsui is interested in an aggregate of 51,180,000 Shares (comprising 1,180,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Chui and Ms. Lee as trustees of the Charitable Foundation), representing approximately 8.01% of the issued share capital of the Company.
4. Ms. Chui, Ms. Tsui and Ms. Lee jointly hold 50,000,000 Shares as trustees of the Charitable Foundation, representing 7.82% of the issued share capital of the Company.

Save as disclosed above, as at 31 August 2010, the Company has not been notified of any other person or corporation who had an interest directly or indirectly and/or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group continues to commit itself to maintaining a high standard of corporate governance with an emphasis on enhancing transparency and accountability and ensuring the application of these principles within the Group and thereby, enhancing shareholder value and benefiting our stakeholders at large.

During the period under review, the Company has complied with the provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

AUDIT COMMITTEE

During the six months ended 31 August 2010, the Audit Committee was constituted by three independent non-executive Directors, Mr. Lam Siu Lun, Simon, who presided as the chairman, Mr. Leung Wai Ki, George and Mr. Hui Chi Kwan. No member of the Audit Committee is a member of the former or external auditors of the Company. One of the members possesses recognized professional qualifications in accounting and has wide experience in audit, accounting and financial management.

The primary responsibilities of the Audit Committee include overseeing the relationship with the Company’s external auditors, review of financial information of the Group, overseeing the Group’s financial reporting system, internal control procedures and risk management and making relevant recommendations to the Board.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial information for the six months ended 31 August 2010.

The role and authorities of the Audit Committee were clearly set out in its terms of reference which are available on request to shareholders of the Company and are posted on the Company’s website: <http://www.lesaunda.com.hk>.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

During the six months ended 31 August 2010, the Remuneration Committee was constituted by three independent non-executive Directors, Mr. Lam Siu Lun, Simon, who presided as the chairman, Mr. Leung Wai Ki, George and Mr. Hui Chi Kwan, and one executive Director, Mr. Lee Tze Bun, Marces.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management and to ensure that executive Directors and senior management could be retained and motivated by being fairly rewarded for their individual contribution to the Group's overall performance as measured against corporate objectives, having regard to the interests of shareholders. The principal duties include the revision of the terms of the remuneration packages of all Directors and senior management as well as reviewing and approving performance-based remuneration on the basis of their merit, qualification and competence by reference to corporate goals and objectives resolved by the Board from time to time.

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board. No Director or senior management or any of his associate will be involved in deciding his own remuneration.

The role and authorities of the Remuneration Committee were clearly set out in its terms of reference which are available on request to shareholders of the Company and are posted on the Company's website: <http://www.lesaunda.com.hk>.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group is committed to set up and maintain a good system of internal control which is devised to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board also acknowledges that it has overall responsibility for the Company's internal control, financial control and risk management system and shall monitor its effectiveness from time to time.

The internal audit department of the Group reports directly to the Chief Executive Officer and the Audit Committee and is independent of the Group's daily operations. It supports the management by carrying out systematic and periodic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively.

During the period, the internal audit department performs reviews of the Group's internal controls of selected key business processes in various locations. Findings and recommendations on internal control deficiencies were well communicated with management and action plans were developed by management to address the issues identified.

Key findings of each internal audit assignment were reported to and reviewed by the Audit Committee on a regularly basis.

INVESTOR RELATIONS

The Group is committed to fostering productive and long-term relationships with shareholders and investors of the Company through open and prompt communication. Various channels have been established to facilitate transparency. In addition to the Annual General Meeting in which shareholders can put questions to Directors about the Group's performance, the Group also seeks opportunities to communicate its business performance, strategies and future direction to investors and the public through regular meetings with fund managers and potential investors, as well as through press interviews and press releases.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct (the "Code of Conduct") regarding securities transactions by the Directors since 4 October 2005. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors, any employee of the Company, or a director or employee of a subsidiary or holding company of the Company, who, by reason of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standard set out in the Model Code during the six months ended 31 August 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 August 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

For the payment of interim dividend, the Register of Members of the Company will be closed from Friday, 19 November 2010 to Monday, 22 November 2010, both days inclusive, during such period no transfer of shares will be effected. In order to qualify for the interim dividend which will be payable on Friday, 26 November 2010, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Unit 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 18 November 2010.

ACKNOWLEDGEMENT

On behalf of the Board, I would also like to take this opportunity to express my gratitude to all our staff for their dedication and hard work, plus my sincere appreciation to all customers, business partners and shareholders for their continuing supports.

By Order of the Board
Lee Tze Bun, Marces
Chairman

Hong Kong, 27 October 2010