



le saunda holdings ltd.

利信達集團有限公司

interim report 2012/13

(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

Lau Shun Wai (*Chief Executive Officer*)
Wong Sau Han
Chu Tsui Lan (*Chief Operating Officer*)
An You Ying

NON-EXECUTIVE DIRECTORS

James Ngai (*Chairman*)
(*appointed on 1 June 2012*)
Lee Tze Bun, Marces
(*retired from Chairman and re-designated as non-executive Director on 1 June 2012*)

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

NOMINATION COMMITTEE

(*Established on 19 March 2012*)
Hui Chi Kwan (*Chairman*)
Lam Siu Lun, Simon
Leung Wai Ki, George
James Ngai

COMPANY SECRETARY

Yuen Chee Wing

PRINCIPAL BANKERS

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

AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

CORPORATE INFORMATION

LEGAL ADVISERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

17th Floor
1063 King's Road
Quarry Bay
Hong Kong

SHARE REGISTRAR (IN BERMUDA)

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

SHARE REGISTRAR (IN HONG KONG)

Computershare Hong Kong Investor Services Limited
Units 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>



MANAGEMENT DISCUSSION AND ANALYSIS



OVERVIEW

The Group, which has adopted a vertically-integrated business model, is engaged in the design, development, manufacturing and retail chains of ladies' and men's footwear, handbags and fashion accessories in Hong Kong, Macau and Mainland China. The major self-brands of the Group, including "le saunda", "le saunda MEN", "CNE" and "Linea Rosa", comprises different tiers of customers with distinct product lines.

In the first half of the 2012/13 fiscal year, the total revenue of the Group increased by 13.4% year-on-year to HK\$743.3 million (2011/12: HK\$655.2 million). With consolidated gross profit up 14.6% to HK\$476.1 million (2011/2012: HK\$415.6 million), the Group maintained a gross profit margin of 64.1%, representing 0.7 percentage point higher compared to the corresponding period of last year. Due to the consistent rise in operating costs and the expiration of the PRC tax holiday, consolidated profit attributable to equity holders of the Company decreased by 12.8% year-on-year to HK\$61.1 million.

HK\$ Million	2012/13 1H	2011/12 1H	Changes
Revenue	743.3	655.2	13.4%
Gross Profit	476.1	415.6	14.6%
Gross Profit Margin	64.1%	63.4%	0.7 percentage point
Profit Attributable to Equity Holders	61.1	70.0	(12.8%)





MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

Operating Results

During the period under review, retail operation continued to be the Group's principal revenue contributor, accounting for 95.9% of consolidated revenue. The total revenue of the Group increased by 13.4% year-on-year to HK\$743.3 million (2011/12: HK\$655.2 million). There was a marked decline in revenue growth due to the following factors: first, there was an abrupt slowdown in economic growth in Mainland China since the fourth quarter of 2011, resulting in declines in consumer confidence and purchasing decision. In the first half of 2012, China's total Gross Domestic Product (GDP) increased by 7.8% year-on-year, much lower than the 9.6% growth in the corresponding period of last year. Second, the performance of domestic department stores was dragged down by a recession in the retail sector, which inevitably affected the Group's results negatively as most of our retail outlets in Mainland China were located in department stores. Third, as the Group expected that the unfavourable macroeconomic factors would not be resolved in short-term, resulting in the shutting down some underperforming retail stores, mainly "CNE" stores, so as to maintain a highly efficient core sales network and healthy profit margin. Fourth, there was a slowdown in the growth rate of individual tourists in Hong Kong, and their spending preference shifted from luxury goods to consumer staples, which affected the retail performance in Hong Kong.

Gross Profit & Profitability

During the period under review, despite a prolonged discount period and more aggressive discount rates in the retail markets in general, the Group recorded a gross profit of HK\$476.1 million (2011/2012: HK\$415.6 million), an increase of 14.6%, and successfully maintained a high gross profit margin of 64.1%, 0.7 percentage point higher than the corresponding period of last year. This is attributable to the Group's constant focus on the mid-to-high-end market, which generally offers fewer discounts compared to the mid-to-low-end market.

Selling and distribution expenses increased by 21.7% year-on-year to HK\$318.6 million (2011/12: HK\$261.7 million). The increase in selling and distribution expenses outstripped the pace of growth in revenue mainly due to three factors: First, rents and labour costs were the two major components of selling costs. During the period under review, shop rental expenses in Hong Kong increased by over 10% year-on-year. The concessionaire rate of department stores in Mainland China experiences an upside adjustment every year, posting growth of approximately 1 to 2 percentage points during the period under review. Second, due to the minimum wage policy in China, the pace of growth in the average wages of frontline sales personnel and factory workers outstripped the pace of growth in revenue. Third, there was a one-off write-off with the shutdown of a number of underperforming stores. In terms of sales ratio, selling and distribution expenses accounted for 42.9% of total revenue (2011/12: 39.9%), representing an increase of 3.0 percentage points. However, the Group passed part of the increased costs onto customers by adjusting retail prices.



Linea Rosa
LINEA ROSA

MANAGEMENT DISCUSSION AND ANALYSIS

**FINANCIAL REVIEW** (CONTINUED)**Gross Profit & Profitability (continued)**

General and administrative expenses increased by 18.2% to HK\$82.4 million (2011/12: HK\$69.7 million). During the period under review, in terms of sales ratio, general and administrative expenses accounted for 11.1% of revenue (2011/12: 10.6%), representing an increase of 0.5 percentage point, mainly due to an increase in payroll expenses for administrative staff. Due to high inflation in Mainland China, as well as the competing demand for experienced managerial and administrative talents brought by a number of new foreign companies entering the China market, the upward trend in the salaries of such talents has been intensified.

Consolidated profit attributable to equity holders of the Group was HK\$61.1 million, a decrease of 12.8% from the corresponding period last year. Basic earnings per share decreased by 12.8% year-on-year to HK9.55 cents (2011/12: HK10.95 cents). The Board resolved to declare an interim dividend of HK4.0 cents per ordinary share and a special dividend of HK1.5 cents per ordinary share (2011/12: HK5.0 cents), maintaining a high dividend payout ratio of 57.6% (2011/12: 45.7%).

Impacts on Profit from Change in Tax Rate

Income tax expenses for the period under review amounted to approximately HK\$22.8 million (2011/12: HK\$18.2 million). The increase was mainly due to the preferential PRC income tax policy applicable to the Group's Shunde production base had been expired by the end of 2011. Effective from 2012, all business entities of the Group in the PRC are subject to an income tax rate of 25%. However, the Group is entitled to some supportive preferential policies by the local governments in certain regions in which the Group operates its businesses, and expects to credit certain local governmental subsidies as "Other Income" item at a later date.





CNE

COMFORT n EASY

CNE

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources

The Group's financial position remains strong and healthy. As at 31 August 2012, the Group's cash and bank balance amounted to HK\$398.0 million (29 February 2012: HK\$424.7 million), with a quick ratio of 1.8 times (29 February 2012: 2.3 times). As at the period-end date, the Group had no short-term bank loans (29 February 2012: HK\$Nil). Forward contracts will be used, if necessary, to hedge purchases from overseas, related debts and bank borrowings. The Group did not enter into any forward contracts to hedge its foreign exchange risks 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.

During the six months ended 31 August 2012, the Group held cash and bank balances in Hong Kong dollars, US dollars, Euro and Renminbi, which were deposited in leading banks with maturity dates of less than one year.

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

BUSINESS REVIEW

Retail Business and Network

During the period under review, retail operations remained the Group's principal revenue contributor. Total revenue of the retail segment increased by 12.9% year-on-year to HK\$712.6 million, accounting for 95.9% of the Group's consolidated revenue. The Group's retail business in Hong Kong, Macau and Mainland China reported stable growth, mainly driven by the continuous expansion of its retail network.

Consolidated Revenue	Six months ended	% to Total	Six months ended	% to Total	Year-on-year Growth
	31 August 2012 (HK\$ Million)		31 August 2011 (HK\$ Million)		
Retail Operations:					
Mainland China	618.0	83.2%	548.5	83.7%	12.7%
Hong Kong and Macau	94.6	12.7%	82.4	12.6%	14.8%
Retail Sub-total	712.6	95.9%	630.9	96.3%	12.9%
Export	30.7	4.1%	24.3	3.7%	26.3%
Group's Total Revenue	743.3	100.0%	655.2	100.0%	13.4%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)**Retail Business and Network (continued)**

The Mainland China market remains the Group's major retail revenue driver. As at the period-end date under review, the Group had a retail network covering 897 outlets in Mainland China, Hong Kong and Macau, a net increase of 107 outlets compared to the corresponding period of last year. As at 31 August 2012, the details of retail network coverage were as below:

Number of Outlets by Region	As at 31 August 2012		
	Self-owned (changes over the last corresponding period)	Franchised (changes over the last corresponding period)	Total (changes over the last corresponding period)
Mainland China	728 (+119)	149 (-15)	877 (+104)
• Northern, Northeastern & Northwestern	166 (+45)	94 (-8)	260 (+37)
• Eastern	224 (+31)	4 (-4)	228 (+27)
• Central and Southwestern	129 (+10)	39 (-)	168 (+10)
• Southern	209 (+33)	12 (-3)	221 (+30)
Hong Kong and Macau	20 (+3)	—	20 (+3)
Total	748 (+122)	149 (-15)	897 (+107)

Mainland China

From January to August 2012, total retail sales of consumer goods in Mainland China grew at a nominal rate of 14.1% year-on-year, while effective growth factoring out pricing changes was 11.4%, representing an increase of 0.1 percentage point as compared with the corresponding period of last year. In view of domestic consumer confidence being weakened by the central government's austerity policies, department stores rolled out more promotion initiatives, which inevitably affected our performance adversely as most of our retail outlets are located in department stores in Mainland China. During the period under review, the retail business in Mainland China continued to be the Group's principal source of profit. Affected by the slowdown in economic growth and rising labour costs, the profitability of Group's retail business in Mainland China faced some pressure.

To cope with the complex economic environment, the Group adjusted its strategies and implemented a series of major transformations in order to maximize returns from its streamlined and highly efficient retail network by actively expanding its core brand stores and re-organizing its network layout. The Group's retail network currently focuses on Eastern and Southern China, where it has 748 self-owned outlets and 149 franchised outlets, and will expand to the Northern and Northwestern regions in the future.

The core "le saunda" brand has grown steadily. As at the end of August 2012, the Group added 116 new outlets on a year-on-year basis, bringing the total number of outlets to 630. The "le saunda MEN" brand added 17 new stand-alone counters, bringing the total number of its stand-alone counters to 89. The high-end fashion brand "Linea Rosa" has been rolled out for just one year, with the number of its stores reaching 16, all of which are delegate its premium premises. In response to this unfavorable macroeconomic environment, the Group decided to shut down some underperforming "CNE" outlets so as to prepare for the next round of rapid growth.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)**Retail Business and Network (continued)***Mainland China (continued)*

Online retail has become increasingly popular in China and is now widely recognized and accepted among Chinese consumers. Therefore, the Group has put effort into developing its B2C business. Since the establishment of its e-commerce department in 2010, the Group's online business has been developing rapidly. During the period under review, the Group commenced new cooperation with more than ten online sales platforms, realizing year-on-year revenue growth of more than 60%. Due to its short history, the e-commerce business still accounted for a relatively low proportion of total revenue. Putting emphasis on cultivating and protecting its online brand image, the Group also rolls out more exclusive products to prevent negative pricing impacts of its online business from affecting its retail business and to facilitate the expansion of the niche online business. The Group believes that e-commerce will become increasingly important over time and will generate stable and recurring revenue for the Group.

Hong Kong and Macau

In Hong Kong, total retail sales grew by 10.8% year-on-year for the first eight months of this year, a significant decline as compared with 25.6% for the corresponding period of last year. During the period under review, the Group's retail business in Hong Kong and Macau reported stable growth. Total revenue increased by 14.8% year-on-year to HK\$94.6 million, accounting for 12.7% of the Group's consolidated revenue. Due to a prolonged promotional period, and deeper discount rates in the retail sector in general, as well as the launch of two more factory outlets, the average selling price and gross profit margin in Hong Kong and Macau experienced a decline during the period under review when compared with the corresponding period of last year. In recent years, the significant hike in shop rents in Hong Kong and rising wages have affected the Group's margins. In the future, the Group will maintain its competitiveness by making continuous improvements in operational efficiency, enhancing brand management, relocating stores and opening more stores in shopping malls rather than street-level shops.

Export Business

During the period under review, the Group's export revenue increased by 26.3% year-on-year to HK\$30.7 million (2011/2012: HK\$24.3 million), accounting for 4.1% of the Group's total revenue, a slightly higher percentage compared to 3.7% in the corresponding period of the previous year. The export market is expected to remain sluggish in the second half of the year due to the persistence of weak demand in global consumer markets in the wake of the widening influences of the aggravating European sovereign debt crisis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)**Product Matrix & Category**

In terms of product matrix, ladies' footwear remained the Group's major revenue contributor, achieving year-on-year growth of 12.4% in revenue during the period under review and accounting for 78.3% of the Group's total retail revenue. Revenue from the men's footwear business, another growth driver of the Group, grew by 14.3%, accounting for 12.0% of the Group's retail revenue.

Product Category	Growth Year-on-year (%)	Six months ended 31 August 2012 Sales Mix (%)	Six months ended 31 August 2011 Sales Mix (%)	Changes in Sales Mix (Percentage point)
Ladies' Footwear	12.4	78.3	78.7	(0.4)
Men's Footwear	14.3	12.0	11.9	0.1
Ladies' Handbags and Accessories	17.6	9.7	9.4	0.3
Total		100.0	100.0	

Inventory & Supply Chain Management

As at 31 August 2012, the Group's inventory balance was HK\$492.0 million, up 6.6% year-on-year as compared with HK\$461.4 million for the corresponding period of last year. Inventory turnover days rose to 241 days (31 August 2011: 210 days). A breakdown of the increase in the inventory balance is as follows:

HK\$ (million)	As at 31 August 2012	As at 31 August 2011	Increase in Value	Increase in %
Raw Materials and Work-in-progress	79.8	109.2	(29.4)	(26.9)
Finished Goods	412.2	352.2	60.0	17.0
Total	492.0	461.4	30.6	6.6

During the period under review, the inventory of finished goods increased by 17.0% year-on-year, less than the 19.5% increase in the number of self-owned retail outlets, reflecting that per store inventory levels are gradually under control. However, the Group witnessed an increase in inventory turnover days during the period under review, which was primarily attributable to three factors. First, product mix: the Group has penetrated more into the high-end market since last year by rolling out the high-end Linea Rosa brand and high-end men's "Itauomo" footwear series. High-end products generally see slower turnover rates than mid-end products, thereby slowing down the inventory turnover. Second, the efficiency of new stores has not reached that of established ones. The Group has been actively expanded its sales network of core brands in the past two years, and sufficient inventories are needed when opening new stores. In general, the operational efficiency of new stores is lower than that of established ones, and this is to certain extent affect the inventory turnover. Third, new merchandising policy: the Group has changed its merchandising policies since 2011, requiring the new season products to be delivered two to three months in advance so as to capture market opportunities. The early delivery of winter products in this June, coupled with their higher cost compared to summer products, also contributed to the increase in inventory turnover days. Therefore, an increase in inventory turnover days is a natural consequence of network and business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

Inventory & Supply Chain Management (continued)

Though inventory turnover days are comparatively long, the Group maintains strict control over the age of its inventory. As at 31 August 2012, the value of the Group's inventory of finished goods increased by HK\$60.0 million, the majority of which were current season products. Age analysis shows that the Group's inventory level of finished goods remained healthy, with approximately 87% of inventory aged less than one year (31 August 2011: 89%), 55% of which were aged less than six months.

OUTLOOK

The Group believes that the slowdown in domestic economic growth and the uncertainties in the global economy will not be resolved in the short term, and is expected to continue to dampen consumer sentiment and retail demand. In addition, the PRC government requires that the minimum wage be raised by at least 13% each year from 2011 to 2015. Surging labour costs and spiraling rents will exert pressure on operating margins in the future. Meanwhile, China's economy is transforming from one that has been export and investment oriented to one that is mainly driven by domestic demand. Moreover, the rising minimum wage and steady growth in disposable income, together with the growing middle class and the accelerating urbanization, will benefit the retail market over the mid-to-long term.

The Group is positioning itself as a mid-to-high-end leather goods expert that believes in close attention to product quality, brand building, as well as retail and operational management. The Group is addressing its competitiveness by practicing "efficient direction, progressing stably" to utilize its strengths as immediate short-term goal. In the mid-to-long run, the Group will reform with the goal of "Achieving breakthroughs and moving forward" to carry out the China market strategy "vertically and horizontally".

Short-term Goal – "Efficient Direction, Progressing Stably"

Facing challenges in the macro economy, the Group is implementing the following internal reforms in a timely manner in order to enhance its operating structure and efficiency:

- (1) Reduction of inventories. During the period under review, the Group launched 6 new factory outlets, bringing the total number of factory outlets to 55, which helped to ease inventory levels. The Group aims to restore inventory turnover days to less than 200 days within two years.
- (2) Consolidation of supply chains, optimization of production processes and shortening of replenishment period. During the period under review, the new ERP system was in full operation at our Shunde production base, which enhanced our real-time control over each production process, reduced the storage period of the work-in-progress and improved the accuracy of information retrieval. We expect the ERP system to effectively shorten the production process and to therefore speed up the replenishment cycles. The Group strives to realize market-oriented production by enriching its product offerings in greater numbers of batches, raising the proportion of replenishments and shortening the production lead-time.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)**Short-term Goal – “Efficient Direction, Progressing Stably” (continued)**

- (3) Improvement of per store sales and effectiveness. In China’s colossal retail market, there are major cultural differences across the different regions of the country, resulting in variations in consumer preferences. In recent years, the Group has been active in tapping China’s second- and third-tier cities, and will allocate more resources to product development with a view to optimizing the core products of each brand as well as improving brand awareness and competitiveness. Meanwhile, the Group will also strengthen the management of its logistics and marketing strategies, and will improve per store efficiency through its products matrix and supply chain.

Mid-to-long Term Goal – Widening the Network with Diversified Brand Portfolio

With the strategy of “vertical and horizontal penetration” for the Mainland China market, the Group will continue to target the mid-to-high-end market. Given the fact that each brand has its own growth cycle, it is essential to provide different styles to different target customer groups and to enrich the product offerings of the mid-to-high-end collections so as to maintain long term growth of the brand.

- (1) The Group will continue to strengthen the market value of core “le saunda” brand among professional customers. Apart from deepening its existing market penetration and expanding its product offerings, the Group will enlarge its product collections so as to more deeply penetrate its sales channels and to meet the considerable demand from the fast growing markets in second- and third-tier cities in China. Besides the highly promising mid-end ladies’ footwear market, the Group has also noticed that the footwear market targeting trendy men of the middle class has been booming. The Group will allocate more resources, from product to technological development support for men’s footwear, and will improve its brand image and awareness. The Group has engaged Mr. Louis Koo Tin Lok, a well-known TV and movie star, to be the brand’s endorser, a campaign which has generated a very positive response.
- (2) Our mid-end “CNE” brand has not been progressing as expected since it was established ten years ago. The Group has been involved in restructuring the “CNE” brand with a refined market position for young and stylish girls as well as upgrading the “CNE” store image. The Group is also cooperating with an international entertainment brand to launch the first co-branded ladies’ footwear collection, which is expected to debut at “CNE” stores in Mainland China in the fourth quarter of 2012. We are the first ladies’ footwear company in China to engage in such a cross-over collaboration. Targeting young ladies in the mid-end market, the “CNE” brand will further develop in second- and third-tier cities after two to three quarters of consolidation in order to increase and secure a larger market share.
- (3) As China’s middle class population grows, demand for high-end products and trendy personalized items has surged. Leveraging this market trend, the Group launched the high-end “Linea Rosa” ladies’ footwear brand and the “Itauomo by le saunda” high-end men’s footwear series in 2011, expanding its brand coverage from the mid-to-high-end market to the high-end market. For the high-end “Linea Rosa” brand, the Group will commit to offering novel market-oriented products so as to explore the high-end footwear market.
- (4) With respect to our retail network coverage, most of our stores are located in first- and second-tier cities. In the future, we will extend our market to the fast-growing emerging second- and third-tier cities with the aim of winning a larger market share. At this time, most of our retail stores in Mainland China are located in department stores. With the consumer trend in first- and second-tier cities shifting from department stores to shopping malls, the Group has started to deploy core brand flagship stores and multi-brand integrated stores in such cities, while department stores will continue to play a significant role in the exploration in third-tier cities. The Group will continue its policy of setting up self-owned stores primarily in first- and second-tier cities and establishing franchised stores primarily in third- and fourth-tier cities. The franchised stores will play a pioneering role in penetrating the emerging cities.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)

Mid-to-long Term Goal – Widening the Network with Diversified Brand Portfolio (continued)

- (5) With regard to its new brand layout, to explore the massive mid-to-high-end footwear market, especially in second- and third-tier cities, the Group will capture opportunities to launch new mid-to-high-end brands within two to three years in order to maximize its brand portfolio. As such, the Group will further strengthen its research and development capabilities and improve its product quality. Apart from recruiting local designers and training young designers, the Group also cooperates with a professional design studio in Italy to develop fashionable European style men's and ladies' footwear and leather product collections.

With its professional talents and its sophisticated and standardized management operational procedures, the Group embraces a strong reputation in the industry. It aims to consolidate its current strengths, to achieve a better position in the future, and to leverage innovations and breakthroughs to scale new heights. The Group strives to offer quality products, explore new sales channels, cooperate with world-renowned brands and intensify its brand campaigns by signing brand endorsers and enhancing marketing initiatives, which will enable the Group to sharpen its long-term competitiveness.

Le Saunda was founded by Mr. Marces Lee Tze Bun in 1977 and was listed on the Hong Kong Stock Exchange in 1992. This year is the 35th anniversary of the establishment and the 20th anniversary of the listing of the Group. Mr. Lee retired as Chairman in June this year and was succeeded by Mr. James Ngai. Mr. Lee is fully confident that the professional management team is capable of sustaining the sound development of the Group. The continuous efforts of our staff and the solid support of our shareholders, clients and business partners form the backbone of our success. Our management team believes that our commitment to a prudent and practical operation will bring higher returns to our shareholders over the long run.

PLEDGE OF ASSETS

As at 31 August 2012, bank deposits of HK\$2.8 million (29 February 2012: HK\$1.9 million) have been pledged as rental deposits for certain subsidiaries of the Group.

CORPORATE GUARANTEES

The Company has given corporate guarantees in favour of banks for banking facilities granted to certain subsidiaries on letters of credit and bank loans to the extent of HK\$120.0 million (29 February 2012: HK\$120.0 million) of which HK\$21.7 million (29 February 2012: HK\$9.8 million) was utilised as at 31 August 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK4.0 cents and a special dividend of HK1.5 cents per ordinary share for the six months ended 31 August 2012 (2011/12: HK5.0 cents) payable on Thursday, 22 November 2012 to all shareholders of the Company whose names appear on the Register of Members of the Company on Wednesday, 14 November 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2012, the Group had a staff force of 5,637 people (29 February 2012: 5,529 people). Of this number, 176 were based in Hong Kong and 5,461 in Mainland China. The remuneration level of the Group's employees was in line with market trends and commensurate to the levels 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 2012, including Directors' emoluments, net pension contributions and the value of employee services, amounted to HK\$177.0 million (2011: HK\$162.7 million). The Group has all along organized structured and diversified training programmes for staff at different levels. Outside consultants will be invited to broaden the contents of the programmes.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 31 August 2012

	Note	Unaudited	
		Six months ended 31 August	
		2012 HK\$'000	2011 HK\$'000
Revenue	6	743,345	655,193
Cost of sales		(267,236)	(239,559)
Gross profit		476,109	415,634
Other income	7	1,307	1,298
Other gains	7	4,168	2,105
Selling and distribution expenses		(318,550)	(261,656)
General and administrative expenses		(82,418)	(69,725)
Operating profit	8	80,616	87,656
Finance income		2,154	1,984
Finance costs		—	(5)
Share of profit/(loss) of a jointly controlled entity		248	(1,070)
Profit before income tax		83,018	88,565
Income tax expense	9	(22,815)	(18,212)
Profit for the period		60,203	70,353
Profit attributable to:			
– equity holders of the Company		61,067	70,014
– non-controlling interest		(864)	339
		60,203	70,353
Earnings per share attributable to equity holders of the Company			
– Basic (HK cents)	10	9.55	10.95
– Diluted (HK cents)	10	9.55	10.95
Dividends	11	35,162	31,966

The notes on pages 26 to 44 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 2012

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Profit for the period	<u>60,203</u>	<u>70,353</u>
Other comprehensive income		
Currency translation differences	<u>(9,166)</u>	<u>28,048</u>
Other comprehensive income for the period, net of tax	<u>(9,166)</u>	<u>28,048</u>
Total comprehensive income for the period	<u>51,037</u>	<u>98,401</u>
Total comprehensive income for the period, attributable to:		
– equity holders of the Company	<u>51,997</u>	<u>97,727</u>
– non-controlling interest	<u>(960)</u>	<u>674</u>
	<u>51,037</u>	<u>98,401</u>

The notes on pages 26 to 44 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 31 August 2012

	Note	Unaudited 31 August 2012 HK\$'000	Audited 29 February 2012 HK\$'000
ASSETS			
Non-current assets			
Investment properties	12	72,795	72,795
Property, plant and equipment	12	235,420	240,836
Land use rights	12	32,837	33,394
Long-term deposits and prepayments		14,212	16,745
Interest in a jointly controlled entity		34,103	34,135
Interest in and amount due from an available-for-sale financial asset	13	—	—
Deferred tax assets		45,014	43,573
		434,381	441,478
Current assets			
Inventories		491,950	433,245
Trade and other receivables	14	165,772	134,507
Deposits and prepayments		40,800	37,033
Cash and bank balances		398,026	424,695
		1,096,548	1,029,480
Total assets		1,530,929	1,470,958

The notes on pages 26 to 44 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED
INTERIM BALANCE SHEET

	Note	Unaudited 31 August 2012 HK\$'000	Audited 29 February 2012 HK\$'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	63,931	63,931
Reserves			
Proposed dividend		35,162	55,620
Others		1,086,382	1,064,133
		1,185,475	1,183,684
Non-controlling interest		11,115	12,299
Total equity		1,196,590	1,195,983
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		26,716	26,714
Current liabilities			
Trade payables and accruals	15	243,221	200,777
Amount due to a jointly controlled entity		45,218	30,805
Current income tax liabilities		19,184	16,679
		307,623	248,261
Total liabilities		334,339	274,975
Total equity and liabilities		1,530,929	1,470,958
Net current assets		788,925	781,219
Total assets less current liabilities		1,223,306	1,222,697

The notes on pages 26 to 44 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 2012

	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 2012	63,931	416,695	101,582	39,631	551,579	4,261	6,005	1,183,684	12,299	1,195,983
Profit for the period	-	-	-	-	61,067	-	-	61,067	(864)	60,203
Other comprehensive income										
– Currency translation differences	-	-	(9,070)	-	-	-	-	(9,070)	(96)	(9,166)
Total comprehensive income for the period ended 31 August 2012	-	-	(9,070)	-	61,067	-	-	51,997	(960)	51,037
Employees share option scheme:										
– value of employee services	-	-	-	-	-	-	5,414	5,414	-	5,414
Dividends relating to 2012 paid in August 2012 (Note 11)	-	-	-	-	(55,620)	-	-	(55,620)	(224)	(55,844)
	-	-	-	-	(55,620)	-	5,414	(50,206)	(224)	(50,430)
Balance at 31 August 2012	63,931	416,695	92,512	39,631	557,026	4,261	11,419	1,185,475	11,115	1,196,590
Representing:										
Share capital										63,931
2012 proposed interim dividend										35,162
Others										1,086,382
Non-controlling interest										11,115
										1,196,590

The notes on pages 26 to 44 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	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 2011	63,931	416,695	73,234	32,298	452,296	4,261	–	1,042,715	11,508	1,054,223
Profit for the period	–	–	–	–	70,014	–	–	70,014	339	70,353
Other comprehensive income										
– Currency translation differences	–	–	27,713	–	–	–	–	27,713	335	28,048
Total comprehensive income for the period ended 31 August 2011	–	–	27,713	–	70,014	–	–	97,727	674	98,401
Employees share option scheme:										
– value of employee services	–	–	–	–	–	–	1,587	1,587	–	1,587
Dividends relating to 2011 paid in July 2011 (Note 11)	–	–	–	–	(55,620)	–	–	(55,620)	–	(55,620)
	–	–	–	–	(55,620)	–	1,587	(54,033)	–	(54,033)
Balance at 31 August 2011	63,931	416,695	100,947	32,298	466,690	4,261	1,587	1,086,409	12,182	1,098,591
Representing:										
Share capital										63,931
2011 proposed interim dividend										31,966
Others										990,512
Non-controlling interest										12,182
										1,098,591

The notes on pages 26 to 44 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 31 August 2012

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Net cash inflows from operating activities	57,647	56,911
Net cash outflows from investing activities	(19,061)	(12,883)
Net cash outflows from financing activities	(55,821)	(59,111)
Net decrease in cash and cash equivalents	(17,235)	(15,083)
Effect of foreign exchange rate changes, net	(8,488)	11,235
Cash and cash equivalents at 1 March	420,911	344,620
Cash and cash equivalents at 31 August	395,188	340,772
Analysis of the cash and bank balances:		
Cash and cash equivalents	395,188	340,772
Add: Cash restricted for specific purposes	2,838	5,339
Cash and bank balances at 31 August	398,026	346,111

The notes on pages 26 to 44 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”).

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 25 October 2012.

This condensed consolidated interim financial information has not been audited.

Key event

On 10 July 2012, the Company granted 17,440,000 share options under the Share Option Scheme adopted by the Company on 22 July 2002 to certain eligible persons. Details are disclosed in the Company’s Announcement dated 10 July 2012.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 31 August 2012 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 29 February 2012, 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 29 February 2012, as described in those annual financial statements.

Exceptional items are disclosed and described separately in the financial information where it is necessary to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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

(a) Amended standard adopted by the Group

The following amended standard is mandatory for the first time for the financial year beginning 1 January 2012:

- HKAS 12 (Amendment) — Deferred Tax: Recovery of Underlying Assets

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (continued)

(b) The following new and amended standards have been issued but are not effective for the financial year beginning 1 March 2012 and have not been early adopted:

- HKAS 1 (Amendment) — Presentation of Financial Statements¹
- HKAS 19 (Amendment) — Employee Benefits²
- HKAS 27 (Revised) — Separate Financial Statements²
- HKAS 28 (Revised) — Investment in Associates and Joint Ventures²
- HKAS 32 (Amendment) — Offsetting Financial Assets and Financial Liabilities³
- HKFRS 1 (Amendment) — Government Loans²
- HKFRS 9 — Financial Instruments⁴
- HKFRS 10 — Consolidated Financial Statements²
- HKFRS 11 — Joint Arrangements²
- HKFRS 12 — Disclosure of Interests in Other Entities²
- HKFRS 13 — Fair Value Measurements²

¹ Changes effective for annual periods beginning on or after 1 July 2012

² Changes effective for annual periods beginning on or after 1 January 2013

³ Changes effective for annual periods beginning on or after 1 January 2014

⁴ Changes effective for annual periods beginning on or after 1 January 2015

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group for the year ended 29 February 2012.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), liquidity risk and credit risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 29 February 2012.

There have been no changes in the risk management policies of the Group since the year ended 29 February 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (continued)

5.2. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, which is mainly generated from the operating cash flow, and the availability of funding from an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Less than 1 year		
Trade payables and accruals	243,221	200,777
Amount due to a jointly controlled entity	45,218	30,805
	288,439	231,582

6 REVENUE AND SEGMENT INFORMATION

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, other gains, finance income, finance costs, share of profit/loss of a jointly controlled entity and unallocated income/expenses.

Segment assets mainly exclude interest in a jointly controlled entity, deferred tax assets and other assets that are managed on a central basis.

Segment liabilities mainly exclude amount due to a jointly controlled entity, 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

6 REVENUE AND SEGMENT INFORMATION (continued)

The segment information provided to the Executive Directors for the reportable segments for the six months ended 31 August 2012 is as follows:

	Unaudited Six months ended 31 August 2012			
	Retail		Export	Total
	HK & Macau HK\$'000	Mainland China HK\$'000	(Note (a)) HK\$'000	HK\$'000
Revenue from external customers	<u>94,641</u>	<u>618,035</u>	<u>30,669</u>	<u>743,345</u>
Reportable segment profit	<u>4,579</u>	<u>61,852</u>	<u>8,798</u>	<u>75,229</u>
Other income				1,307
Other gains				4,168
Finance income				2,154
Share of profit of a jointly controlled entity				248
Unallocated expenses				<u>(88)</u>
Profit before income tax				83,018
Income tax expense				<u>(22,815)</u>
Profit for the period				<u>60,203</u>
Depreciation and amortisation	<u>3,623</u>	<u>21,359</u>	<u>307</u>	<u>25,289</u>
Additions to non-current assets (Other than deferred tax assets)	<u>1,154</u>	<u>20,960</u>	<u>47</u>	<u>22,161</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (continued)

The segment information for the six months ended 31 August 2011 is as follows:

	Unaudited			
	Six months ended 31 August 2011			
	Retail		Export	Total
	HK & Macau	Mainland China	(Note (a))	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>82,401</u>	<u>548,516</u>	<u>24,276</u>	<u>655,193</u>
Reportable segment profit	<u>6,417</u>	<u>72,822</u>	<u>4,952</u>	84,191
Other income				1,298
Other gains				2,105
Finance income				1,984
Finance costs				(5)
Share of loss of a jointly controlled entity				(1,070)
Unallocated income				<u>62</u>
Profit before income tax				88,565
Income tax expense				<u>(18,212)</u>
Profit for the period				<u>70,353</u>
Depreciation and amortisation	<u>2,420</u>	<u>20,626</u>	<u>463</u>	<u>23,509</u>
Additions to non-current assets (Other than deferred tax assets)	<u>4,386</u>	<u>23,167</u>	<u>841</u>	<u>28,394</u>

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

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, CNE and Linea Rosa. 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

6 REVENUE AND SEGMENT INFORMATION (continued)

An analysis of the Group's assets and liabilities as at 31 August 2012 by reportable segment is set out below:

	Unaudited As at 31 August 2012			Total HK\$'000
	Retail		Export HK\$'000	
	HK & Macau HK\$'000	Mainland China HK\$'000		
Segment assets	<u>178,240</u>	<u>1,206,452</u>	<u>66,876</u>	1,451,568
Interest in a jointly controlled entity				34,103
Interest in and amount due from an available-for-sale financial assets				—
Deferred tax assets				45,014
Unallocated assets				<u>244</u>
Total assets per condensed consolidated balance sheet				<u>1,530,929</u>
Segment liabilities	<u>20,326</u>	<u>207,213</u>	<u>15,672</u>	243,211
Amount due to a jointly controlled entity				45,218
Current income tax liabilities				19,184
Deferred tax liabilities				26,716
Unallocated liabilities				<u>10</u>
Total liabilities per condensed consolidated balance sheet				<u>334,339</u>

NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION**6 REVENUE AND SEGMENT INFORMATION (continued)**

An analysis of the Group's assets and liabilities as at 29 February 2012 by reportable segment is set out below:

	Audited As at 29 February 2012			Total HK\$'000
	Retail HK & Macau HK\$'000	Mainland China HK\$'000	Export HK\$'000	
Segment assets	186,658	1,176,660	29,803	1,393,121
Interest in a jointly controlled entity				34,135
Interest in and amount due from an available-for-sale financial assets				—
Deferred tax assets				43,573
Unallocated assets				129
Total assets per condensed consolidated balance sheet				<u>1,470,958</u>
Segment liabilities	17,779	178,091	4,885	200,755
Amount due to a jointly controlled entity				30,805
Current income tax liabilities				16,679
Deferred tax liabilities				26,714
Unallocated liabilities				22
Total liabilities per condensed consolidated balance sheet				<u>274,975</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 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	
	2012	2011
	HK\$'000	HK\$'000
Hong Kong	79,662	71,300
Mainland China	618,035	548,516
Macau	14,979	11,101
Russia	23,056	15,884
Other countries (Note (a))	7,613	8,392
	<u>743,345</u>	<u>655,193</u>
Total	<u>743,345</u>	<u>655,193</u>

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

For the six months ended 31 August 2012, there was no transaction with a single external customer that amounted to 10 percent or more of the Group's revenue (for the six months ended 31 August 2011: 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	29 February
	2012	2012
	HK\$'000	HK\$'000
Hong Kong	29,909	32,348
Mainland China	289,710	295,469
Macau	69,748	70,088
	<u>389,367</u>	<u>397,905</u>
Total	<u>389,367</u>	<u>397,905</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 OTHER INCOME AND OTHER GAINS

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Other income		
Gross rental income from investment properties	<u>1,307</u>	1,298
Other gains		
Net exchange gains (Note (a))	<u>4,168</u>	2,105
	<u>5,475</u>	3,403

(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.

8 OPERATING PROFIT

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

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Auditors' remuneration	841	929
Amortisation of land use rights	456	452
Depreciation of property, plant and equipment	24,833	23,057
Loss on disposal of property, plant and equipment	1,007	619
Cost of inventories recognised as expenses included in cost of sales	208,701	179,056
Operating lease rentals in respect of land and buildings		
– minimum lease payments	47,999	40,391
– contingent rent	1,697	1,391
Freight charges	6,837	6,366
Concessionaire fee	122,252	95,894
Impairment losses / (write-back of impairment) on inventories	1,382	(1,622)
Direct operating expenses arising from investment properties that generated rental income	122	113
Staff costs (including directors' emoluments and value of employee services)	<u>177,007</u>	<u>162,673</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 INCOME TAX EXPENSE

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

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Current income tax		
PRC corporate income tax	24,256	14,671
Deferred taxation	(1,441)	3,541
	22,815	18,212

No provision for Hong Kong profits tax has been made as there were available tax losses brought forward from prior years to offset the assessable profits.

PRC corporate income tax is provided on the profits of the Group's subsidiaries in PRC at 25% (2011: range from 24% to 25%). One of the subsidiaries of the Company established in the PRC that was 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, 2010 and 2011.

10 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	
	2012	2011
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	61,067	70,014
Weighted average number of ordinary shares in issue ('000)	639,314	639,314
Basic earnings per share (HK cents)	9.55	10.95

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 EARNINGS PER SHARE (continued)

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 diluted earnings per share for the period ended 31 August 2012 was the same as the basic earnings per share as the Company's share options outstanding during the period was anti-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	
	2012	2011
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	<u>61,067</u>	<u>70,014</u>
Weighted average number of ordinary shares in issue ('000)	<u>639,314</u>	<u>639,314</u>
Adjustments for share options ('000)	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>639,314</u>	<u>639,314</u>
Diluted earnings per share (HK cents)	<u>9.55</u>	<u>10.95</u>

11 DIVIDENDS

	Unaudited	
	Six months ended 31 August	
	2012	2011
	HK\$'000	HK\$'000
Interim dividend of HK4.0 cents (six months ended 31 August 2011: HK5.0 cents) per share	<u>25,573</u>	<u>31,966</u>
Special dividend of HK1.5 cents (six months ended 31 August 2011: Nil) per share	<u>9,589</u>	<u>—</u>
	<u>35,162</u>	<u>31,966</u>

A dividend of HK\$55,620,000 that related to the financial year ended 29 February 2012 was paid in August 2012 (2011: HK\$55,620,000).

At the Board of Directors meeting held on 25 October 2012, the Board of Directors has resolved to declare an interim dividend of HK4.0 cents per share and a special dividend of HK1.5 cents per share. These dividends are 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 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Unaudited Six months ended 31 August 2012			
	Investment properties HK\$'000	Property, plant and equipment HK\$'000	Land use rights HK\$'000	Total HK\$'000
At 1 March 2012	72,795	240,836	33,394	347,025
Additions	—	22,161	—	22,161
Disposals	—	(1,007)	—	(1,007)
Exchange differences	—	(1,737)	(101)	(1,838)
Depreciation and amortisation	—	(24,833)	(456)	(25,289)
At 31 August 2012	<u>72,795</u>	<u>235,420</u>	<u>32,837</u>	<u>341,052</u>

	Unaudited Six months ended 31 August 2011			
	Investment properties HK\$'000	Property, plant and equipment HK\$'000	Land use rights HK\$'000	Total HK\$'000
At 1 March 2011	47,188	232,127	33,834	313,149
Additions	—	28,394	—	28,394
Disposals	—	(619)	—	(619)
Exchange differences	—	6,996	358	7,354
Depreciation and amortisation	—	(23,057)	(452)	(23,509)
At 31 August 2011	<u>47,188</u>	<u>243,841</u>	<u>33,740</u>	<u>324,769</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 INTEREST IN AND AMOUNT DUE FROM AN AVAILABLE-FOR-SALE FINANCIAL ASSET

	Unaudited 31 August 2012 HK\$'000	Audited 29 February 2012 HK\$'000
Unlisted shares, at fair value (Note (a))		
— Investment cost	3,055	3,081
— Provision for impairment	<u>(3,055)</u>	<u>(3,081)</u>
	—	—
Amount due from an available-for-sale financial asset (Note (b))	9,166	9,242
Less: Provision for impairment	<u>(9,166)</u>	<u>(9,242)</u>
	—	—
Total	<u>—</u>	<u>—</u>

(a) Details of available-for-sale financial asset are as follows:

Name	Place of establishment/ operation	Principal activities	Group's equity interest
佛山市順德區陳村鎮 碧桂園物業發展有限公司 (「陳村鎮碧桂園」)	PRC	Property development	25%

The Group's Directors do not regard 陳村鎮碧桂園 as an associate of the Group on the grounds that the Group has no participation in decision making of its financial and operating policies. Accordingly, the Group does not have any significant influence over 陳村鎮碧桂園.

(b) The amount due from an available-for-sale financial asset is unsecured, interest-free, not repayable within twelve months and is denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE AND OTHER RECEIVABLES

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

	Unaudited 31 August 2012 HK\$'000	Audited 29 February 2012 HK\$'000
Trade receivables (Note (a))		
Current to 30 days	142,739	116,598
31 to 60 days	8,290	8,285
61 to 90 days	2,734	1,426
Over 90 days	4,264	1,978
	158,027	128,287
Other receivables	7,745	6,220
Total	165,772	134,507

(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.

15 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 2012 HK\$'000	Audited 29 February 2012 HK\$'000
Trade creditors		
Current to 30 days	62,148	29,218
31 to 60 days	34,912	21,934
61 to 90 days	10,161	5,379
91 to 120 days	4,452	2,531
Over 120 days	3,405	6,112
	115,078	65,174
Accruals	128,143	135,603
Total	243,221	200,777

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 SHARE CAPITAL

	Unaudited 31 August 2012		Audited 29 February 2012	
	Number of ordinary shares	HK\$'000	Number of ordinary shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	<u>800,000,000</u>	<u>80,000</u>	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:				
At beginning of period/year	<u>639,313,600</u>	<u>63,931</u>	639,313,600	63,931
Exercise of share options (Note 17)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of period/year	<u>639,313,600</u>	<u>63,931</u>	<u>639,313,600</u>	<u>63,931</u>

17 SHARE OPTIONS

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE OPTIONS (continued)

- (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 2012		Audited for the year ended 29 February 2012	
	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	4.730	14,100	—	—
Granted	2.404	17,440	4.730	14,100
Exercised	—	—	—	—
At end of period/year	3.444	31,540	4.730	14,100

The Group has no legal or constructive obligation to repurchase or settle the options in cash. 14,100,000 share options at an exercise price of HK\$4.73 each and 17,440,000 share options at an exercise price of HK\$2.404 were granted on 27 June 2011 and 10 July 2012 respectively.

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

Expiry date at	Exercise price per share (HK\$)	Number of share options as at	
		31 August 2012 (thousands)	29 February 2012 (thousands)
26 June 2021 (Note a)	4.730	14,100	14,100
9 July 2022 (Note b)	2.404	17,440	—

Note:

- (a) Become exercisable from a range of dates between 27 June 2014 and 27 June 2016 and expiring on the 10th anniversary from date of grants.
- (b) Become exercisable from a range of dates between 10 July 2014 and 10 July 2016 and expiring on the 10th anniversary from date of grants.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE OPTIONS (continued)

Options are conditional on the employee completing two to five years' service (the vesting period).

For the six months ended 31 August 2012, a total share option expenses of HK\$5,414,000 were recognized and included in employee benefit expenses.

On 10 July 2012, the Group granted 17,440,000 share options to certain eligible persons at exercise price of HK\$2.404 per share. In this connection, the total fair value of options of HK\$17,442,000 will be expensed in profit and loss over the vesting period.

The weighted average fair value of each options is HK\$1.0 which was determined by using the Binomial Option Pricing Model ("BOPM") performed by an independent valuer, AVISTA Valuation Advisory Limited. Significant inputs into the model were as follows:

	Batch 1	Batch 2	Batch 3
Stock Price	HK\$2.400	HK\$2.400	HK\$2.400
Exercise Price	HK\$2.404	HK\$2.404	HK\$2.404
Risk Free Rate (Continuous)	0.92%	0.92%	0.92%
First Exercise Date	10-Jul-2014	10-Jul-2015	10-Jul-2016
Expiry Date	9-Jul-2022	9-Jul-2022	9-Jul-2022
Expected Volatility	54.72%	54.72%	54.72%
Expected Dividend	4.63%	4.63%	4.63%

The expected volatility was determined by using the historical volatility of the Company's share price over the past 10 years.

18 CORPORATE GUARANTEES

The Company has given corporate guarantees in favour of banks for banking facilities granted to certain subsidiaries on letters of credit and bank loans to the extent of HK\$120,000,000 (29 February 2012: HK\$120,000,000) of which HK\$21,673,000 (29 February 2012: HK\$9,761,000) was utilised as at 31 August 2012.

19 COMMITMENTS

(a) Capital commitments

	Unaudited 31 August 2012 HK\$'000	Audited 29 February 2012 HK\$'000
Contracted but not provided for, in respect of		
– purchase of property, plant and equipment	718	752
– unpaid capital contribution to a subsidiary	2,327	6,204

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 COMMITMENTS (continued)

(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 2012 HK\$'000	Audited 29 February 2012 HK\$'000
--	--	--

Land and buildings:

Not later than one year	77,807	81,958
Later than one year and not later than five years	58,375	66,861
	<u>136,182</u>	<u>148,819</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 2012 HK\$'000	Audited 29 February 2012 HK\$'000
--	--	--

Land and buildings:

Not later than one year	1,327	2,510
Later than one year and not later than five years	71	103
	<u>1,398</u>	<u>2,613</u>

20 PLEDGE OF ASSETS

As at 31 August 2012, bank deposits of HK\$2,820,000 (29 February 2012: HK\$1,887,000) have been pledged as rental deposits for certain subsidiaries of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 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	
	2012	2011
	HK\$'000	HK\$'000

Rental expenses charged by:

— a related party (Note (i))	1,080	1,080
— related companies (Note (ii))	454	444

(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	
	2012	2011
	HK\$'000	HK\$'000
Salaries and other employee benefits	3,224	2,671
Contributions to retirement scheme	40	18
Staff option expense	4,440	1,238
	7,704	3,927

22 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend and the special dividend declared are given in Note 11.

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 2012, 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 (Chapter 571 of the Laws of Hong Kong, 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 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 Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) Long positions in Shares**(a) The Company**

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")	41,850,000	—	30,684,000 (Notes 1 & 2)	205,000,000 (Note 3)	277,534,000	43.41%
Ms. Lau Shun Wai ("Ms. Lau")	1,800,000	—	—	—	1,800,000	0.28% (Note 4)
Ms. Wong Sau Han ("Ms. Wong")	964,000	350,000	—	—	1,314,000	0.20% (Note 5)
Ms. Chu Tsui Lan ("Ms. Chu")	2,100,000	—	—	—	2,100,000	0.32% (Note 6)
Ms. An You Ying ("Ms. An")	600,000	—	—	—	600,000	0.09% (Note 7)
Mr. Leung Wai Ki, George ("Mr. Leung")	—	—	—	1,384,000 (Note 8)	1,384,000	0.21%

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)**(I) Long positions in Shares (continued)****(a) The Company (continued)**

Notes:

- 30,000,000 Shares were held by Succex Limited which was wholly owned by Mr. Lee. Therefore, Mr. Lee was deemed to be interested in these Shares.
- 684,000 Shares were held by Qing Yun Middle School Education Development Foundation Limited ("Qing Yun"), of which Mr. Lee was a founder and governor. Therefore, Mr. Lee was deemed to be interested in these Shares.
- Stable Gain Holdings Limited ("Stable Gain") held 205,000,000 Shares, representing approximately 32.06% of the issued share capital of the Company. The entire issued share capital of Stable Gain was registered in the name of First Advisory Trust (BVI) Limited ("First Advisory") as trustee of The Lee Keung Family Trust (the "Lee Family Trust"), a discretionary trust, of which Mr. Lee was the founder and an eligible beneficiary thereunder. Therefore, First Advisory and Mr. Lee were deemed to be interested in these Shares.
- Ms. Lau personally held 1,800,000 Shares and was entitled to 8,500,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. Lau's interests in the Company will be increased approximately from the existing 0.28% to 1.58% of the issued share capital of the Company including number of shares in relation to such exercise.
- Ms. Wong personally held 964,000 Shares. Together with 350,000 Shares owned by her husband in which Ms. Wong was deemed to be interested, Ms. Wong was interested in an aggregate of 1,314,000 Shares, representing approximately 0.20% of the issued share capital of the Company. Ms. Wong was also entitled to 4,400,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. Wong's interests in the Company will be increased approximately from the existing 0.20% to 0.88% of the issued share capital of the Company including number of shares in relation to such exercise.
- Ms. Chu personally held 2,100,000 Shares and was entitled to 5,400,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. Chu's interests in the Company will be increased approximately from the existing 0.32% to 1.16% of the issued share capital of the Company including number of shares in relation to such exercise.
- Ms. An personally held 600,000 Shares and was entitled to 2,500,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. An's interests in the Company will be increased approximately from the existing 0.09% to 0.48% of the issued share capital of the Company including number of shares in relation to such exercise.
- 1,384,000 Shares were held by Xin Chuan Middle School Foundation Limited ("Xin Chuan"), of which Mr. Leung was a governor. Therefore, Mr. Leung was deemed to be interested in these Shares.

(b) 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 1)	100% (in respect of non-voting deferred shares)

Note:

- Mr. Lee beneficially owned 20,000 non-voting deferred shares in L. S. Retailing Limited, a wholly-owned subsidiary of the Company.

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)**(II) Long positions in underlying shares and debentures of the Company****Interests in share options**

Name of Directors	Date of share options granted (Notes 1 & 2)	Number of Shares				Outstanding as at 31 August 2012	Exercised price per Share HK\$	Exercise period
		Balance as at 1 March 2012	Granted during the period	Exercised during the period	Cancelled during the period			
Ms. Lau	27 June 2011	1,666,000	—	—	—	1,666,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	1,666,000	—	—	—	1,666,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	1,668,000	—	—	—	1,668,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	1,166,000	—	—	1,166,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	1,166,000	—	—	1,166,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	1,168,000	—	—	1,168,000	2.404	10 July 2016 – 9 July 2022
Ms. Wong	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	466,000	—	—	466,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	466,000	—	—	466,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	468,000	—	—	468,000	2.404	10 July 2016 – 9 July 2022
Ms. Chu	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	1,000,000	—	—	—	1,000,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	800,000	—	—	800,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	800,000	—	—	800,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	800,000	—	—	800,000	2.404	10 July 2016 – 9 July 2022

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)**(II) Long positions in underlying shares and debentures of the Company (continued)****Interests in share options (continued)**

Name of Directors	Date of share options granted (Notes 1 & 2)	Number of Shares				Outstanding as at 31 August 2012	Exercised price per Share HK\$	Exercise period
		Balance as at 1 March 2012	Granted during the period	Exercised during the period	Cancelled during the period			
Ms. An	27 June 2011	500,000	–	–	–	500,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	500,000	–	–	–	500,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	500,000	–	–	–	500,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	333,000	–	–	333,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	333,000	–	–	333,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	334,000	–	–	334,000	2.404	10 July 2016 – 9 July 2022
Total		12,500,000	8,300,000	–	–	20,800,000		

Notes:

- The respective vesting periods of the above share options are from their respective dates of the grant until the commencement of their respective exercise periods.
- The closing prices of the Shares of the Company immediately before 27 June 2011 and 10 July 2012 on which the share options were granted were HK\$4.65 and HK\$2.41 per Share respectively.

Save as disclosed above, as at 31 August 2012, none of the Directors or chief executives (including their spouse and children under 18 years of age) of the Company had any interests and/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) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, during the six months ended 31 August 2012, (a) none of the Directors nor the chief executives of the Company had been granted any right 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, their respective spouses nor their respective children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 August 2012, 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 Directors or chief executives of the Company) had interests 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 of Shareholders	Note	Number of Shares				Total	Approximate percentage of the issued share capital of the Company
		Personal interests	Family interests	Corporate interests	Other interests		
First Advisory	1	–	–	205,000,000	–	205,000,000	32.06%
Stable Gain	1	205,000,000	–	–	–	205,000,000	32.06%
Ms. Lee Wing Kam Rowena Jackie ("Ms. Lee")	2	6,350,000	–	–	50,000,000	56,350,000	8.81%
Ms. Chui Kwan Ho, Jacky ("Ms. Chui")	3	3,946,000	–	–	50,000,000	53,946,000	8.43%
Ms. Tsui Oi Kuen ("Ms. Tsui")	4	1,140,000	–	–	50,000,000	51,140,000	7.99%
Ms. Lee, Ms. Chui and Ms. Tsui as trustees of The Lee Keung Charitable Foundation (the "Charitable Foundation")	5	–	–	–	50,000,000	50,000,000	7.82%
Value Partners Limited ("VPL")	6	–	–	–	38,328,000	38,328,000	5.99%
Value Partners Hong Kong Limited ("VPHK")	7	–	–	38,328,000	–	38,328,000	5.99%
Value Partners Group Limited ("VPGL")	8	–	–	38,328,000	–	38,328,000	5.99%
Cheah Capital Management Limited ("CCML")	9	–	–	38,328,000	–	38,328,000	5.99%
Cheah Company Limited ("CCL")	10	–	–	38,328,000	–	38,328,000	5.99%
Hang Seng Bank Trustee International Limited ("HSBT")	11	–	–	–	38,328,000	38,328,000	5.99%
Mr. Cheah Cheng Hye ("Mr. Cheah")	12	–	–	–	38,328,000	38,328,000	5.99%
Ms. To Hau Yin ("Ms. To")	13	–	38,328,000	–	–	38,328,000	5.99%

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)**Long positions in Shares (continued)**

Notes:

1. Stable Gain held 205,000,000 Shares, representing approximately 32.06% of the issued share capital of the Company. The entire issued share capital of Stable Gain was registered in the name of First Advisory as trustee of the Lee Family Trust. Therefore, First Advisory was deemed to be interested in these Shares.
2. Ms. Lee was interested in an aggregate of 56,350,000 Shares (comprising 6,350,000 Shares personal interests and 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. Chui was interested in an aggregate of 53,946,000 Shares (comprising 3,946,000 Shares personal interests and 50,000,000 Shares jointly held with Ms. Lee and Ms. Tsui as trustees of the Charitable Foundation), representing approximately 8.43% of the issued share capital of the Company.
4. Ms. Tsui was interested in an aggregate of 51,140,000 Shares (comprising 1,140,000 Shares personal interests and 50,000,000 Shares jointly held with Ms. Lee and Ms. Chui as trustees of the Charitable Foundation), representing approximately 7.99% of the issued share capital of the Company.
5. Ms. Lee, Ms. Chui and Ms. Tsui jointly held 50,000,000 Shares as trustees of the Charitable Foundation, representing approximately 7.82% of the issued share capital of the Company.
6. 38,328,000 Shares representing approximately 5.99% of the issued share capital of the Company were held by various funds under the management of VPL, being the fund manager. Therefore, VPL was deemed to be interested in these Shares.
7. VPHK wholly owned VPL. Therefore, VPHK was deemed to be interested in 38,328,000 Shares.
8. VPGL wholly owned VPHK. Therefore, VPGL was deemed to be interested in 38,328,000 Shares.
9. CCML held 28.47% interest in VPGL. Therefore, CCML was deemed to be interested in 38,328,000 Shares.
10. CCL wholly owned CCML. Therefore, CCL was deemed to be interested in 38,328,000 Shares.
11. HSBT was the trustee of a discretionary trust of CCL. Therefore, HSBT was deemed to be interested in 38,328,000 Shares.
12. By virtue of being the founder of the discretionary trust of CCL, Mr. Cheah was deemed to be interested in 38,328,000 Shares.
13. Ms. To, being the spouse of Mr. Cheah, was therefore deemed to be interested in 38,328,000 Shares.

Save as disclosed above, as at 31 August 2012, the Company had not been notified of any other persons (other than the Directors or chief executives of the Company) or corporation who had interests directly or indirectly and/or short positions in the Shares and underlying Shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DISCLOSURE OF INTERESTS

SHARE OPTIONS 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 14,100,000 and 17,440,000 share options to certain Directors and employees of the Company to subscribe for up to a total of 31,540,000 ordinary shares of HK\$0.10 each in the capital of the Company on 27 June 2011 and 10 July 2012 respectively. Particulars of such share options and their movement during the six months ended 31 August 2012 were as follows:

Name or Category of Participant	Date of share options granted (Notes 1 & 2)	Number of share options				Outstanding as at 31 August 2012	Exercise price per share HK\$	Exercise Period
		Balance as at 1 March 2012	Granted during the period	Exercised during the period	Cancelled during the period			
Directors	27 June 2011	4,166,000	–	–	–	4,166,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	4,166,000	–	–	–	4,166,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	4,168,000	–	–	–	4,168,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	2,765,000	–	–	2,765,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	2,765,000	–	–	2,765,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	2,770,000	–	–	2,770,000	2.404	10 July 2016 – 9 July 2022
Directors Sub-total		<u>12,500,000</u>	<u>8,300,000</u>	<u>–</u>	<u>–</u>	<u>20,800,000</u>		
Employees	27 June 2011	533,000	–	–	–	533,000	4.730	27 June 2014 – 26 June 2021
	27 June 2011	533,000	–	–	–	533,000	4.730	27 June 2015 – 26 June 2021
	27 June 2011	534,000	–	–	–	534,000	4.730	27 June 2016 – 26 June 2021
	10 July 2012	N/A	3,038,000	–	–	3,038,000	2.404	10 July 2014 – 9 July 2022
	10 July 2012	N/A	3,038,000	–	–	3,038,000	2.404	10 July 2015 – 9 July 2022
	10 July 2012	N/A	3,064,000	–	–	3,064,000	2.404	10 July 2016 – 9 July 2022
Employees Sub-total		<u>1,600,000</u>	<u>9,140,000</u>	<u>–</u>	<u>–</u>	<u>10,740,000</u>		
Total		<u>14,100,000</u>	<u>17,440,000</u>	<u>–</u>	<u>–</u>	<u>31,540,000</u>		

Notes:

- The respective vesting periods of the above share options are from their respective dates of the grant until the commencement of their respective exercise periods.
- The closing prices of the Shares of the Company immediately before 27 June 2011 and 10 July 2012 on which the share options were granted were HK\$4.65 and HK\$2.41 per Share respectively.
- Upon grant of 17,440,000 share options to eligible persons by the Company on 10 July 2012, there were 1,960 share options available for grant under the Scheme. The Scheme expired on 21 July 2012.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 (effective until 31 March 2012) and the Corporate Governance Code and Corporate Governance Report (the “New CG Code”) (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules, except for deviation from code provision A.6.7 of the New CG Code which stipulates, among others, that independent non-executive directors and other non-executive directors should attend general meetings. Due to another business engagement, Mr. Lee Tze Bun, Marces, a non-executive Director, was unable to attend the annual general meeting of the Company held on 16 July 2012.

CHANGES IN DIRECTORSHIP AND OTHER CHANGES IN DIRECTORS’ INFORMATION

The changes in directorship and other changes in the information of the Directors of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the publication of the annual report of the Company for the year ended 29 February 2012 are set out below:

Name of Directors	Details of change
Mr. Lee Tze Bun, Marces	<ul style="list-style-type: none">Retired as Chairman and re-designated from executive Director to non-executive Director of the Company on 1 June 2012Entered into a service agreement with the Company with effect from 1 June 2012 for a fixed term of 2 years which may be terminated by either party by giving 3-months’ written notice
Mr. James Ngai	<ul style="list-style-type: none">Appointed as Chairman of the Company on 1 June 2012

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

During the six months ended 31 August 2012, 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 2012.

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 Stock Exchange's website and the Company's website: <http://www.lesaunda.com.hk>.

REMUNERATION COMMITTEE

During the six months ended 31 August 2012, 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 non-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 remuneration of all 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 Stock Exchange's website and the Company's website: <http://www.lesaunda.com.hk>.

CORPORATE GOVERNANCE AND OTHER INFORMATION

NOMINATION COMMITTEE

The Board established the Nomination Committee on 19 March 2012. It was constituted by four members, namely Mr. Hui Chi Kwan, who presided as the chairman, Mr. Lam Siu Lun, Simon, Mr. Leung Wai Ki, George and Mr. James Ngai, the majority of which are independent non-executive Directors.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The role and authorities of the Nomination 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 Stock Exchange's website and 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 and minimize rather than eliminate the risks of failure in the Group's operational systems. The Board has overall responsibility maintaining a sound and effective system of internal control particularly in respect of the controls on financial, operational, compliance and risk management, to achieve the Group's business strategies and business operations.

During the period from March to July 2012, the internal audit department of the Group was responsible for carrying out systematic and periodic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. In consideration of cost effectiveness, the Group's internal audit function is outsourced to a professional internal audit service provider since August 2012 and this ensures that the outsourced internal auditor is independent and has no involvement in the operations of the Group. The outsourced internal auditor, responsible for the review and appraisal on the effectiveness of financial, operational and compliance controls and risk management of the Group, will provide reports to the Board of Directors and the Audit Committee with highlighting observations and recommendations to improve the internal control system. The Audit Committee will review the adequacy of the scope, functions, competency and resources of the outsourced internal audit functions.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 the 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 as 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 that they have complied with the required standard set out in the Model Code during the six months ended 31 August 2012.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 August 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

For the payment of the interim dividend and the special dividend, the Register of Members of the Company will be closed from Monday, 12 November 2012 to Wednesday, 14 November 2012, both days inclusive, during such period no transfer of shares will be effected. In order to qualify for the interim dividend and the special dividend which will be payable on Thursday, 22 November 2012, 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, at Units 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 9 November 2012.

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 support.

By Order of the Board

James Ngai

Chairman

Hong Kong, 25 October 2012