



le saunda holdings ltd.

利信達集團有限公司

INTERIM REPORT 2002/2003 中期報告書

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Chan Kui Tim Jimmy (*Chairman*)
Chui Kwan Ho Jacky (*Managing Director*)
Lam Sing Hung Danny
Yiu Chun Kit Kelvin
Lee Tze Bun Marces
(*appointed on 18 October 2002*)
Tsui Oi Kuen Doris
(*appointed on 18 October 2002*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Kong Chi
Barry John Buttifant

AUDIT COMMITTEE MEMBERS

Wong Kong Chi (*Chairman*)
Barry John Buttifant

COMPANY SECRETARY

Wong Wai Kwan Anita

BANKERS

Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation Ltd.
BNP PARIBAS

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

30th Floor, Hing Wai Centre
7 Tin Wan Praya Road
Aberdeen
Hong Kong

REGISTRAR (in Bermuda)

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

REGISTRAR (in Hong Kong)

Computershare Hong Kong Investor
Services Ltd.
19th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

WEBSITE ADDRESS

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

UNAUDITED INTERIM RESULTS

The Board of Directors of Le Saunda Holdings Limited ("the Company") presents the Group's Interim Report and unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2002 together with the comparative figures for the corresponding period in 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 August 2002

	Note	(Unaudited)	
		Six months ended 31 August 2002	2001
		HK\$'000	HK\$'000
Turnover	2	138,087	156,605
Cost of sales		(67,402)	(90,082)
Gross profit		70,685	66,523
Other revenues		8,274	1,501
Other operating income		2,551	459
Selling and distribution costs		(53,547)	(47,151)
General and administrative expenses		(28,267)	(28,592)
Operating loss	3	(304)	(7,260)
Finance costs		(860)	(1,520)
Share of profit of jointly controlled entity		2,516	1,167
Profit/(loss) before taxation		1,352	(7,613)
Taxation (charge)/credit	4	(1,248)	1,941
Profit/(loss) attributable to shareholders		104	(5,672)
Dividend	5	-	4,486
Earnings/(loss) per share	6	0.02 cents	(1.26) cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 August 2002

		(Unaudited) 31 August 2002 HK\$'000	(Audited) 28 February 2002 HK\$'000
	Note		
Fixed assets		141,735	139,170
Investment in jointly controlled entity		62,908	62,926
Other investment		4,725	4,546
Land held for development		56,194	52,724
Current assets			
Inventories		69,172	80,693
Trade and other receivables	7	20,363	26,193
Deposits and prepayments		28,607	22,438
Cash and bank balances		52,584	61,490
		170,726	190,814
Current liabilities			
Creditors and accruals	8	44,286	29,033
Short term bank loans and overdrafts		14,183	47,334
Current portion of long term bank loans		-	2,574
Taxation payable		7,572	7,570
		66,041	86,511
Net current assets		104,685	104,303
		370,247	363,669
Financed by:			
Share capital	9	44,862	44,862
Reserves		325,385	318,047
Shareholders' funds		370,247	362,909
Long term bank loans – secured		-	760
		370,247	363,669

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 August 2002

	(Unaudited)	
	Six months ended 31 August	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	29,942	(1,757)
Net cash used in investing activities	(6,304)	(11,582)
Net cash used in financing activities	(8,090)	(174)
Increase/(decrease) in cash and cash equivalents	15,548	(13,513)
Cash and cash equivalents at 1 March	32,338	(5,581)
Effect of foreign exchange rate changes	4,690	-
Cash and cash equivalents at 31 August	<u>52,576</u>	<u>(19,094)</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	52,584	25,801
Bank loans and overdrafts	(8)	(44,895)
	<u>52,576</u>	<u>(19,094)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2002

	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profit HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1 March 2002	44,862	253,319	(3,399)	-	63,866	4,261	362,909
Profit for the period	-	-	-	-	104	-	104
Exchange difference arising on translation of overseas subsidiaries	-	-	7,234	-	-	-	7,234
At 31 August 2002	44,862	253,319	3,835	-	63,970	4,261	370,247
At 1 March 2001 (as previously reported)	44,862	253,319	(3,399)	2,797	128,257	4,261	430,097
Effect of adopting SSAP 9 (Revised)	-	-	-	-	4,486	-	4,486
At 1 March 2001 (as restated)	44,862	253,319	(3,399)	2,797	132,743	4,261	434,583
2001 final dividend paid	-	-	-	-	(4,486)	-	(4,486)
Loss for the period	-	-	-	-	(5,672)	-	(5,672)
At 31 August 2001	44,862	253,319	(3,399)	2,797	122,585	4,261	424,425

NOTES TO INTERIM FINANCIAL STATEMENTS**1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA") and the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 28 February 2002.

Save for changes described below due to adoption of certain revised and new SSAPs which became effective during the period, the unaudited condensed consolidated interim financial statements have been prepared based on the same principal accounting policies as those set out in the annual report 2002.

In accordance with SSAP 1 (revised) "Presentation of Financial Statements", the preparation of statement of recognised gains and losses is not required and the statement of changes in equity is prepared. Comparative figures have been presented to conform with the current period's presentation.

In accordance with SSAP 11 (revised) "Foreign Currency Translation", the exchange difference on translation of financial statements of foreign subsidiaries, jointly controlled entity and associates by using the net investment method is recorded as movement on reserves. No adjustment has been made to prior period, as the effect of change is immaterial.

NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with SSAP 15 (revised) "Cash Flow Statements", the preparation of cash flow statement is modified as required. Certain comparative figures have been reclassified to conform with the current period's presentation.

The adoption of SSAP 34 "Employee Benefits" has no material effect on the Group's results for both periods presented.

2. SEGMENT INFORMATION

(i) By geographical segment:

	Six months ended 31 August 2002			
		Mainland		
	Hong Kong <i>HK\$'000</i>	China <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	51,633	80,174	6,280	138,087
Segment results	(10,047)	8,995	748	(304)
Finance costs	(338)	(522)	-	(860)
Share of profit of jointly controlled entity	-	2,516	-	2,516
(Loss)/profit before taxation	(10,385)	10,989	748	1,352
Taxation	-	(1,248)	-	(1,248)
(Loss)/profit attributable to shareholders	(10,385)	9,741	748	104

	Six months ended 31 August 2001			
		Mainland		
	Hong Kong <i>HK\$'000</i>	China <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	68,043	82,956	5,606	156,605
Segment results	(15,660)	7,675	725	(7,260)
Finance costs	(1,132)	(388)	-	(1,520)
Share of profit of jointly controlled entity	-	1,167	-	1,167
(Loss)/profit before taxation	(16,792)	8,454	725	(7,613)
Taxation credit/(charge)	4,267	(2,326)	-	1,941
(Loss)/profit attributable to shareholders	(12,525)	6,128	725	(5,672)

NOTES TO INTERIM FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (continued)

(ii) By business segment:

	Six months ended 31 August			
	2002		2001	
	Turnover HK\$'000	Operating (loss)/profit HK\$'000	Turnover HK\$'000	Operating (loss)/profit HK\$'000
Manufacture and sales of shoes	137,367	2,465	156,605	(7,260)
Sales of cosmetic products	720	(1,343)	-	-
Property development	-	(1,426)	-	-
	<u>138,087</u>	<u>(304)</u>	<u>156,605</u>	<u>(7,260)</u>

During the period under review, the Group's share of profit from the jointly controlled entity which is principally engaged in property development in Mainland China amounted to HK\$2,516,000 (2001: HK\$1,167,000).

3. OPERATING LOSS

	Six months ended 31 August	
	2002 HK\$'000	2001 HK\$'000
Operating loss has been arrived at after charging (crediting) the following:		
Auditors' remuneration	460	430
Depreciation	6,861	10,725
Exchange loss (gain)	335	(296)
Loss on disposal of fixed assets	-	73
Operating lease rentals in respect of land and buildings	23,226	19,647
Outgoings in respect of investment properties	386	211
Staff costs	<u>26,107</u>	<u>24,357</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

4. TAXATION (CHARGE)/CREDIT

	Six months ended 31 August	
	2002	2001
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong		
Overprovision of profits tax in prior periods	-	4,267
Mainland China		
Profits tax	(414)	(1,941)
	(414)	2,326
Jointly controlled entity		
Mainland China		
Profits tax	(834)	(385)
	(1,248)	1,941

Hong Kong profits tax has not been provided, as there is no estimated assessable profit for the period under review.

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

There was no material unprovided deferred taxation for the current and prior periods.

5. DIVIDEND

No interim dividend has been declared for both accounting periods. The final dividend of HK\$4,486,000 proposed and declared after the balance sheet date but accrued in the accounts for the year ended 28 February 2001 have been written back against opening reserves as at 28 February 2001 and charged in the period in which they were proposed.

6. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the unaudited profit attributable to shareholders of HK\$104,000 (2001: loss of HK\$5,672,000) and on the weighted average of 448,619,600 (2001: 448,619,600) ordinary shares in issue during the period.

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

NOTES TO INTERIM FINANCIAL STATEMENTS

7. TRADE AND OTHER RECEIVABLES

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

	31 August 2002 <i>HK\$'000</i>	28 February 2002 <i>HK\$'000</i>
Trade receivables		
– Current to 30 days	10,782	16,809
– 31 to 60 days	1,560	1,060
– 61 to 90 days	754	1,913
– Over 90 days	100	226
	<u>13,196</u>	<u>20,008</u>
Other receivables	7,167	6,185
Total	<u><u>20,363</u></u>	<u><u>26,193</u></u>

8. CREDITORS AND ACCRUALS

The ageing analysis of trade creditors at balance sheet date is as follows:

	31 August 2002 <i>HK\$'000</i>	28 February 2002 <i>HK\$'000</i>
Trade Creditors		
– Current to 30 days	15,063	6,513
– 31 to 60 days	5,982	2,319
– 61 to 90 days	1,597	2,338
– 91 to 120 days	477	14
– Over 120 days	346	–
	<u>23,465</u>	<u>11,184</u>
Accruals	20,821	17,849
Total	<u><u>44,286</u></u>	<u><u>29,033</u></u>

NOTES TO INTERIM FINANCIAL STATEMENTS

9. SHARE CAPITAL

	31 August 2002 HK\$'000	28 February 2002 HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
448,619,600 ordinary shares of HK\$0.10 each	44,862	44,862

Share options

The Company adopted a share option scheme on 20 November 1992 (the "Old Scheme"). During the period under review, no share options were granted under the Old Scheme. However, upon resignation of two executive directors and an employee, options granted on 19 August 1994 and 8 February 1996 for holders to subscribe for 1,160,000 and 700,000 ordinary shares of the Company at a subscription price of HK\$0.767 and HK\$0.67 per share respectively were cancelled in the period under review. As at 31 August 2002 under the Old Scheme, the Company had outstanding options for holders to subscribe at any time prior to 19 August 2004 and 8 February 2006 for 650,000 and 1,250,000 ordinary shares of the Company at a subscription price of HK\$0.767 and HK\$0.67 per share respectively. At a special general meeting of the Company held on 22 July 2002, the shareholders of the Company terminated the Old Scheme and a new share option scheme (the "New Scheme") that complies with the new requirements of Chapter 17 of the Listing Rules was adopted. The Old Scheme was terminated without prejudice to the rights and benefits of and attached to those outstanding options that have been granted. No further options will be offered upon termination of the Old Scheme.

Under the New Scheme, the directors may, at their discretion, offer directors, employees and any other eligible persons who, in the sole discretion of the directors, will contribute or have contributed to the Group, options to subscribe for shares of the Company subject to the terms and conditions stipulated in the New Scheme. The maximum number of shares that may be issued upon exercise of all options to be granted under the New Scheme is 44,861,960, which represents 10% of the issued share capital of the Company on the date of adoption of the New Scheme. The New Scheme will remain in force until 21 July 2012.

Under the New Scheme, no share options were granted during the period under review or outstanding as at 31 August 2002.

10. CONTINGENT LIABILITIES

- (a) In the previous years, the Group unilaterally terminated certain operating lease agreements in respect of land and buildings prior to their natural expiry. The maximum potential liability arising from such early termination of lease agreements, as estimated by the Directors, amounted to approximately HK\$9,000,000 (28 February 2002: HK\$9,000,000). The Directors are of the opinion that the likelihood for such potential liability being materialised is remote and that adequate disclosures having been made, no provision has been made in the accounts accordingly.

NOTES TO INTERIM FINANCIAL STATEMENTS

10. CONTINGENT LIABILITIES (continued)

- (b) The Company and several subsidiaries have jointly given guarantees in favour of banks for banking facilities granted to certain subsidiaries to the extent of HK\$176,936,000 (28 February 2002: HK\$207,482,000) of which HK\$37,006,000 (28 February 2002: HK\$54,253,000), including trade finance, was utilised as at 31 August 2002.
- (c) The local tax authorities in Mainland China have in recent months been looking into certain value added tax invoices received by the Group's subsidiaries operating in Mainland China in their ordinary course of business from certain vendors who, the Directors understand, have been under investigation by the tax bureaus. At the present stage, it is not possible to predict the extent of any adverse impact on the financial position of the Group that could arise as a result of any disallowance of value added tax deductions previously claimed by the Group.

11. COMMITMENTS

(a) Capital commitments

	31 August 2002 HK\$'000	28 February 2002 HK\$'000
Contracted but not provided for		
– in respect of investment in a subsidiary	320	4,118
– in respect of investment in jointly controlled entity	1,461	1,461
– in respect of construction costs of a subsidiary engaged in property development	1,852	–
	<u>3,633</u>	<u>5,579</u>
Authorised but not contracted for		
– in respect of group's share of capital commitments of jointly controlled entity	1,181	–
	<u>1,181</u>	<u>–</u>

(b) Operating lease commitments

The total future minimum payments under non-cancellable operating leases are as follows:

	31 August 2002 HK\$'000	28 February 2002 HK\$'000
Not later than one year	41,179	29,107
Later than one year and not later than five years	33,978	10,201
Later than five years	–	81
	<u>75,157</u>	<u>39,389</u>

NOTES TO INTERIM FINANCIAL STATEMENTS

12. RELATED PARTY TRANSACTIONS

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

	Note	Six months ended 31 August	
		2002 HK\$'000	2001 HK\$'000
Rental expenses paid to a substantial shareholder	(a)	600	599
Rental income received from a related company	(b)	192	-
Management fee received from a related company	(c)	-	429

Notes:

- (a) The Group paid rental expenses to Mr. Lee Tze Bun Marces ("Mr. Lee"), a substantial shareholder of the Company, for the leasing of a shop in Macau as retail outlet. The rental was determined by reference to market rentals.
- (b) The Group received rental income for leasing of a property in Hong Kong to Fornari International Limited, of which Mr Lee was a shareholder. Both parties determined the rental.
- (c) No management fee received for the period under review, as the Group did not provide administrative services to Fornari International Limited, of which Mr Lee was a shareholder.

INTERIM DIVIDEND

The Board has resolved not to pay any interim dividend in respect of the six months ended 31 August 2002 (2001: Nil).

BUSINESS REVIEW

During the first half of the 2003 financial year, the Group reported a profit attributable to shareholders of HK\$104,000 against a loss of HK\$5,672,000 for the corresponding period of the previous year. The improvement was due partly to the Group's successful implementation of a series of business strategies, and to the contribution from the property development business. Gross profit and gross profit margin for the period also rose by HK\$4,162,000 and 9 percentage points to HK\$70,685,000 and 51 per cent respectively. Turnover for the six months ended 31 August 2002 was HK\$138,087,000, representing a decrease of 12 per cent from that of the same period last year. The decline was mainly resulted from a significant reduction in the sales of the Group's Hong Kong operations.

During the period under review, the Group succeeded in lowering its costs through sourcing from lower-price suppliers and in the implementation of gross margin improvement strategy in Hong Kong shoes operations. These two measures together helped to increase the Group's gross profit margin and gross profit.

BUSINESS REVIEW (continued)

Comparing with the corresponding six-month period of 2002 financial year, the Group's business portfolio has been enlarged by the addition of a new cosmetic segment under the brand name Right Angle ("RA") and a new product line, Comfort & Easy ("CnE") in its mainland operations. As at 31 August 2002, the Group operated 15 CnE counters, 1 CnE shop and 17 cosmetic counters in Mainland China. During the period, the Group's Hong Kong operations also experienced expansion, with 10 new shops opened since a year earlier. Because of the initial outlays for these strategic developments, the Group's selling and distribution costs increased by HK\$6,396,000 to HK\$53,547,000.

With respect to its property development business, the Group received a dividend of HK\$7,273,000 from its 25 per cent-owned "Flower Community Country Garden" project for the six months ended 31 August 2002. This revenue together with the increase in gross profit from the core shoes business has substantially reduced the Group's overall operating loss from HK\$7,260,000 for the six months ended 31 August 2001 to HK\$304,000 for the period under review.

HONG KONG OPERATIONS

The Group has adopted a gross margin improvement strategy for its Hong Kong shoes operations. By keeping tight inventory control, shorter replenishment cycles, a wide selection of shoes, and introduction of more imported brands, the Group succeeded in minimizing inventory level at season's end, thus substantially reducing sales of discounted items for disposing stale stocks. Gross profit margin increased by 25 percentage points when compared with that of the same period last year.

While the gross margin improvement strategy was intended for the Group to reap long-term benefits, it had been expected to have short-run impact on the turnover as the retail market in Hong Kong was still struggling for a recovery. As such, turnover of the Group's Hong Kong shoes operations for the period fell by 24 per cent year on year to HK\$51,633,000. However, the Group's successful cost control measures and the implementation of gross margin improvement strategy helped mitigate the impact of the reduced turnover.

MAINLAND OPERATIONS

The Group's operation in Mainland China showed a stable performance for the period. In the light of the highly competitive PRC footwear market, the Group adjusted its prices to boost sales, resulting in decreases in turnover by 3 per cent to HK\$80,174,000. However, through enhanced efficiency in procurement, the Group managed to maintain a stable gross profit margin.

With an aim to gain a strategic position and enlarge its coverage in the mainland market, the Group introduced a cosmetic line and a new brand CnE which sells ladies' shoes and handbags in Japanese style during the second half of 2001. The CnE product line and the cosmetic segment together increased turnover of the mainland operations by HK\$5,594,000 when compared with that of the same period last year, and helped alleviate the impact of price reduction on the Group's mainland turnover. The successful entry of CnE and RA was much attributable to the Group's pricing, market segmentation and marketing policies. For RA, the Group has tactically arranged make-up course as sales promotion, resulting in increasing popularity of the brand and steady growth in turnover.

Regarding its property development business, the Group reported its share of net profit after taxation from Shunde Shuang Qiang Property Development Co Ltd., a jointly-controlled entity in Mainland China, was HK\$1,682,000 for the period under review. In addition, piling work is being carried out at the site of the Group's residential property development in Shunde, the PRC. The project is planned to be a residential community with twenty-five 7 to 12-storey apartment buildings and a basement car park.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances, inventory and bank borrowings decreased to HK\$52,584,000, HK\$69,172,000 and HK\$14,183,000 at 31 August 2002 from HK\$61,490,000, HK\$80,693,000 and HK\$50,668,000 at beginning of the period respectively. During the period, the Group leveraged its strong financial position to reduce its bank borrowings, thus resulting in a lower cash balance. The Group's strategy of maintaining low inventory, constant launch of new models and introduction of imported brands contributed to the decrease in inventory level. As at 31 August 2002, the Group's current ratio and gearing ratio stood at 2.6 times and 0.038, as compared with 2.2 times and 0.140 at the beginning of the period. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK\$14,183,000 and net worth of HK\$370,247,000.

Bank loans and overdraft were borrowed in Hong Kong dollars and Renminbi. The annual interest rate of the borrowings at the end of the period under review ranged from 4.5 per cent to 6.5 per cent. Forward contracts were used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. With regard to foreign exchange risks of Renminbi due to revenues generated or assets located in the Mainland China, surplus cash was remitted to Hong Kong and converted to Hong Kong dollars, the Group's base currency, as soon as possible. In addition, working capital requirements for business in the Mainland China were financed by local bank loans denominated in Renminbi as far as possible for hedging purpose.

PROSPECTS

With the successful gross margin improvement strategy and cost control, the Group looks forward to achieving better results in the second half of the current year. Increase in turnover is expected as the two festivals, Christmas and Chinese New Year, will help stimulate consumption.

In Hong Kong, the Group will introduce more imported brands to enrich its product portfolio with additional varieties. For the mainland operations, the Group will continue to roll out counters for its CnE and cosmetic lines to expand market coverage. With the experience acquired from the highly competitive mainland market, the Group will refine its pricing policy to improve sales of its mainland shoes operations. In addition, the manufacturing unit continues to receive OEM orders from overseas clients, which will help to amplify its role as a profit centre for the Group.

Looking ahead, the Group will explore more business opportunities in the PRC, taking account of the enormous room for development in the market there. Currently, the Group has two new product lines catering to the PRC's mass market in the pipeline. One of them is targeted at the younger age groups and the mass market, while the other one, which emphasises casual footwear, is aimed at the general consumer. The Group is negotiating with some world-class brand owners for distributing their products in the PRC. To capture the mass market, the Group plans to apply a value for money strategy and its existing market network. The Group will also establish additional retail outlets for the aforementioned two product lines of footwear to strengthen their presence in the mainland market.

Light investment in the two product lines is expected, as the Group will leverage its existing market infrastructure and rich experience in retailing in the PRC. On the other hand, the Group expects the plan will enlarge its market coverage in Mainland China, and help increase its turnover and profitability.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2002, the Group had 1,527 employees, of which 175 were located in Hong Kong and 1,352 were located in Mainland China.

Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. In addition, the Group has adopted a share option scheme for eligible employees of the Group.

DIRECTORS' INTERESTS IN SHARES

As at 31 August 2002, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of Directors	Number of shares of HK\$0.10 each of the Company		Total Interests
	Personal Interests	Other Interests	
Mr. Chan Kui Tim Jimmy ("Mr. Chan")	15,000,000 <i>(note 1)</i>	–	15,000,000
Ms. Chui Kwan Ho Jacky	2,500,000	50,000,000 <i>(note 2)</i>	52,500,000
Mr. Lam Sing Hung Danny	1,380,000	–	1,380,000

Notes:

- (1) According to paragraph 6(1)(b) of the Schedule of Part 1 of the SDI Ordinance, Mr. Chan is deemed to have an interest in 15,000,000 shares of HK\$0.10 each of the Company pursuant to an option granted by an existing shareholder of the Company to purchase the shares.
- (2) Mr. Lee Keung and Ms. Chui Kwan Ho Jacky in their capacity as trustees of The Lee Keung Charitable Foundation ("Charitable Foundation") together hold 50,000,000 shares, representing approximately 11.15% of the issued share capital of the Company.

Save as disclosed above, none of the directors or their associates had any interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 August 2002.

DIRECTORS' INTERESTS IN SHARES (continued)

As at 18 October 2002, Mr. Lee Tze Bun Marces and Ms. Tsui Oi Kuen Doris were appointed as directors of the Company. They notified the Company their interests and the interest of their associates in the issued share capital of the Company and its associated corporations as defined in the SDI Ordinance as at 18 October 2002 were as follows:

Name of Directors	Number of shares of HK\$0.10 each of the Company			Total Interests
	Personal Interests	Family Interests	Other Interests	
Mr. Lee Tze Bun Marces (Lee Keung) ("Mr. Lee")	35,670,000	30,000,000 (note 3)	255,000,000 (note 2, 4 & 5)	320,670,000
Ms. Tsui Oi Kuen Doris	2,144,000	-	-	2,144,000

Notes:

- (3) Madam Ho Fai Yee, wife of Mr. Lee, beneficially owns 30,000,000 shares.
 - (4) Lee Tze Bun Trustee Holding Corporation ("LTB Trustee") in the capacity as trustee of a unit trust called The Lee Tze Bun Unit Trust ("LTB Trust") holds 155,000,000 shares, representing approximately 34.55% of the issued share capital of the Company. Mr. Lee is the appointor of the LTB Trust and all units of the LTB Trust (other than one unit which is beneficially owned by Mr. Lee) are beneficially owned by The Lee Keung Family Trust ("Lee Family Trust"), a discretionary trust the beneficiaries of which include Mr. Lee, his wife and issues.
 - (5) Lee Keung Trustee Holding Corporation ("LK Trustee") in the capacity as trustee of a unit trust called The Lee Keung Unit Trust ("LK Trust") holds 50,000,000 shares, representing approximately 11.15% of the issued share capital of the Company. Mr. Lee is the appointor of the LK Trust and all units of the LK Trust (other than one unit which is beneficially owned by Mr. Lee) are beneficially owned by the Lee Family Trust.
- (b) As at 18 October 2002, Mr. Lee and Madam Ho Fai Yee beneficially owned 18,000 and 2,000 non-voting deferred shares respectively in L.S. Retailing Limited, a wholly owned subsidiary of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the share option scheme adopted by the Company on 20 November 1992 (the "Old Scheme"), the directors of the Company were granted options on 19 August 1994 and 8 February 1996 respectively to subscribe for ordinary shares in the Company. Details of the outstanding share options as of 31 August 2002 granted to and accepted by certain directors under the Old Scheme are as follows:

Name of Director	Date of share options granted/accepted	Number of outstanding options	Subscription price per share
Ms. Chui Kwan Ho Jacky	19 August 1994	600,000	HK\$0.767
	8 February 1996	750,000	HK\$0.67
Mr. Lam Sing Hung Danny	8 February 1996	500,000	HK\$0.67

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES (continued)

Under the Old Scheme, these share options are exercisable 12 months on or after dates of acceptance and will expire on the 10th anniversary from dates of acceptance.

Under the Old Scheme, the executive directors exercised no share options during the period under review. However, upon resignation of two executive directors, options granted on 19 August 1994 and 8 February 1996 for holders to subscribe for 1,100,000 and 600,000 ordinary shares of the Company at a subscription price of HK\$0.767 and HK\$0.67 per share respectively were cancelled in the period under review.

At a special general meeting of the Company held on 22 July 2002, the shareholders of the Company terminated the Old Scheme and a new share option scheme (the "New Scheme") that complies with the new requirements of Chapter 17 of the Listing Rules was adopted.

Under the New Scheme, no share options were granted to, cancelled or exercised by the directors of the Company during the six months ended 31 August 2002.

Save as aforesaid, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors or their associates had any right to subscribe for securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31 August 2002, according to the register of interests require to be kept by the Company under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10% or more of the issued share capital of the Company were as follows:

Name	Number of shares
LTB Trustee as trustee of the LTB Trust	155,000,000
LK Trustee as trustee of the LK Trust	50,000,000
Mr. Lee Keung and Ms. Chui Kwan Ho Jacky as trustees of the Charitable Foundation	50,000,000

Save as disclosed above, as at 31 August 2002, according to the register kept by the Company pursuant to section 16(1) of the SDI Ordinance and so far as the Directors were aware, there were no persons who directly or indirectly, held or were interested in 10% or more of the nominal value of any class of share capital of the Company.

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 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim report for the six months ended 31 August 2002.

CODE OF BEST PRACTICE

With the exception that non-executive directors have not been appointed for a specific term of office but retire from office on a rotational basis, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 31 August 2002.

By Order of the Board
Chan Kui Tim Jimmy
Chairman

Hong Kong, 20 November 2002