



le saunda holdings Ltd.

利信達集團有限公司



INTERIM REPORT 2003/2004 中期報告書

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lee Tze Bun, Marces (*Chairman*)
Wan Tat Wah, Eddie (*President*)
Chui Kwan Ho, Jacky (*Managing Director*)
Tsui Oi Kuen, Doris
Lau Shun Wai, Alice
Lam Sing Hung, Danny (*resigned on 6 May 2003*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Kong Chi
Law King Wan

AUDIT COMMITTEE MEMBERS

Wong Kong Chi (*Chairman*)
Law King Wan

COMPANY SECRETARY

Lau Yin Wan, Boogie

BANKERS

Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation Limited
Bank of America (Asia) Ltd.

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
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WEBSITE ADDRESS

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The Board of Directors of Le Saunda Holdings Limited ("the Company") presents the Group's Interim Report and unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 August 2003

	<i>Note</i>	Six months ended 31 August	
		2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) (Restated) <i>HK\$'000</i>
Turnover	2	182,962	138,087
Cost of sales		<u>(108,904)</u>	<u>(67,402)</u>
Gross profit		74,058	70,685
Other revenues		1,237	8,274
Selling and distribution costs		(50,976)	(53,547)
General and administrative expenses		<u>(25,825)</u>	<u>(25,716)</u>
Operating loss	3	(1,506)	(304)
Finance costs		(120)	(860)
Share of profit of jointly controlled entity		<u>13,047</u>	<u>2,516</u>
Profit before taxation		11,421	1,352
Taxation (charge)/credit	4	<u>(6,549)</u>	<u>4,145</u>
Profit attributable to shareholders		<u>4,872</u>	<u>5,497</u>
Basic earnings per share	5	<u>1.09 cents</u>	<u>1.23 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 August 2003

		31 August 2003 (Unaudited)	28 February 2003 (Audited) (Restated)
	Note	HK\$'000	HK\$'000
Non-current assets			
Fixed assets		131,461	136,989
Investment in jointly controlled entity		70,901	62,160
Other investment		4,712	4,712
Deferred tax assets		6,253	4,621
		<u>213,327</u>	<u>208,482</u>
Current assets			
Properties under development for sale		54,997	60,102
Inventories		73,821	59,780
Trade and other receivables	6	23,372	32,497
Deposits and prepayments		20,109	21,495
Cash and bank balances		45,477	43,279
		<u>217,776</u>	<u>217,153</u>
Current liabilities			
Creditors and accruals	7	57,010	66,636
Taxation payable		7,134	6,401
Short term bank loans		11,211	1,722
		<u>75,355</u>	<u>74,759</u>
Net current assets		<u>142,421</u>	<u>142,394</u>
Total assets less current liabilities		<u>355,748</u>	<u>350,876</u>
Financed by:			
Share capital	8	44,862	44,862
Reserves	9	310,886	306,014
Shareholders' funds		<u>355,748</u>	<u>350,876</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2003

	Note	Six months ended 31 August	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) (Restated) HK\$'000
Total equity at 1 March, as previously stated		346,255	362,909
Prior year adjustment	1	4,621	(4,917)
Total equity at 1 March, as restated		350,876	357,992
Exchange differences arising on translation of the accounts of foreign subsidiaries and jointly controlled entity		—	7,234
Net gain not recognised in the profit and loss account		—	7,234
Profit for the period	9	4,872	5,497
Total equity at 31 August		355,748	370,723

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 August 2003

	Six months ended 31 August	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net cash (outflow)/inflow from operating activities	(5,891)	29,942
Net cash outflow from investing activities	(1,280)	(6,304)
Net cash inflow/(outflow) from financing activities	9,369	(8,090)
Increase in cash and cash equivalents	2,198	15,548
Cash and cash equivalents at 1 March	43,279	32,338
Effect of foreign exchange rate changes	-	4,690
Cash and cash equivalents at 31 August	45,477	52,576
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	45,477	52,584
Bank loans and overdrafts	-	(8)
	45,477	52,576

NOTES TO CONDENSED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated accounts have been 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. These condensed accounts should be read in conjunction with the annual accounts for the year ended 28 February 2003.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 28 February 2003, except that the Group has adopted the new SSAP 12 "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

Under the new SSAP12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine the deferred taxation. Any change in tax rates during the period are absorbed as an additional deferred tax charge during the six months ended 31 August 2003.

Deferred tax assets are recognised to the extent that it is probable that future taxation profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entity and other investment, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profit at 1 March 2002 has been reduced by HK\$4,917,000, which represents the unprovided net deferred tax liabilities; and opening retained profit at 1 March 2003 has been increased by HK\$4,621,000, which represents the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets of HK\$4,621,000 as at 28 February 2003. The profit attributable to shareholders for the six months ended 31 August 2002 has been increased by HK\$5,393,000.

Certain comparative figures have been reclassified to conform with current period's presentation.

NOTES TO CONDENSED ACCOUNTS
2. SEGMENT INFORMATION

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

(i) By geographical segment:

	Six months ended 31 August 2003			
	Mainland			Total (Unaudited)
	Hong Kong (Unaudited) HK\$'000	China (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	
Turnover	51,263	105,325	26,374	182,962
Segment results	(7,234)	4,700	1,028	(1,506)
Finance costs				(120)
Share of profit of jointly controlled entity		13,047		13,047
Profit before taxation				11,421
Taxation charge				(6,549)
Profit attributable to shareholders				4,872

	Six months ended 31 August 2002			
	Mainland			Total (Unaudited) (Restated)
	Hong Kong (Unaudited) HK\$'000	China (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	
Turnover	51,633	80,174	6,280	138,087
Segment results	(5,345)	4,293	748	(304)
Finance costs				(860)
Share of profit of jointly controlled entity		2,516		2,516
Profit before taxation				1,352
Taxation credit				4,145
Profit attributable to shareholders				5,497

NOTES TO CONDENSED ACCOUNTS

2. SEGMENT INFORMATION (continued)

(ii) By business segment:

	Six months ended 31 August			
	2003		2002	
	Turnover	Segment results	Turnover	Segment results
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Manufacture and sales of shoes	153,178	(1,836)	137,367	2,465
Sales of cosmetic products	1,447	(1,941)	720	(1,343)
Property development	28,337	2,271	-	(1,426)
	<u>182,962</u>	<u>(1,506)</u>	<u>138,087</u>	<u>(304)</u>

3. OPERATING LOSS

	Six months ended 31 August	
	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Operating loss is arrived at after charging the following:		
Auditors' remuneration	427	460
Depreciation	6,942	6,861
Exchange loss	129	335
Loss on disposal of fixed assets	22	-
Operating lease rentals in respect of land and buildings	23,998	23,226
Outgoings in respect of investment properties	282	386
Staff costs	<u>30,243</u>	<u>29,688</u>

NOTES TO CONDENSED ACCOUNTS

4. TAXATION (CHARGE)/CREDIT

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	Six months ended 31 August	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) (Restated) HK\$'000
Current taxation:		
Company and subsidiaries	(3,876)	(414)
Jointly controlled entity	(4,305)	(834)
Deferred taxation:		
Company and subsidiaries	1,632	5,393
Taxation (charge)/credit	<u>(6,549)</u>	<u>4,145</u>

Hong Kong profits tax has not been provided as there is no estimated assessable profit for both periods presented.

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

5. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$4,872,000 (six months ended 31 August 2002: HK\$5,497,000 as restated) and on the weighted average number of shares in issue during the period of 448,619,600 (six months ended 31 August 2002: 448,619,600).

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

NOTES TO CONDENSED ACCOUNTS
6. TRADE AND OTHER RECEIVABLES

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

	31 August 2003 (Unaudited) <i>HK\$'000</i>	28 February 2003 (Audited) <i>HK\$'000</i>
Trade receivables		
– Current to 30 days	13,801	19,077
– 31 to 60 days	2,136	5,812
– 61 to 90 days	1,179	1,964
– Over 90 days	3,985	252
	<u>21,101</u>	<u>27,105</u>
Other receivables	<u>2,271</u>	<u>5,392</u>
Total	<u><u>23,372</u></u>	<u><u>32,497</u></u>

7. CREDITORS AND ACCRUALS

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

	31 August 2003 (Unaudited) <i>HK\$'000</i>	28 February 2003 (Audited) <i>HK\$'000</i>
Trade creditors		
– Current to 30 days	28,387	21,562
– 31 to 60 days	1,113	227
– 61 to 90 days	703	495
– 91 to 120 days	4,377	11
– Over 120 days	14	229
	<u>34,594</u>	<u>22,524</u>
Accruals	<u>22,416</u>	<u>44,112</u>
Total	<u><u>57,010</u></u>	<u><u>66,636</u></u>

NOTES TO CONDENSED ACCOUNTS

8. SHARE CAPITAL

	31 August 2003 (Unaudited) HK\$'000	28 February 2003 (Audited) HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
448,619,600 ordinary shares of HK\$0.10 each	<u>44,862</u>	<u>44,862</u>

9. RESERVES

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Retained profit HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1 March 2002 (Audited, as previously stated)	253,319	(3,399)	63,866	4,261	318,047
Prior year adjustment (Note 1)	<u>-</u>	<u>-</u>	<u>(4,917)</u>	<u>-</u>	<u>(4,917)</u>
At 1 March 2002, as restated	<u>253,319</u>	<u>(3,399)</u>	<u>58,949</u>	<u>4,261</u>	<u>313,130</u>
Exchange differences on translation of the accounts of foreign subsidiaries and jointly controlled entity	-	7,234	-	-	7,234
Profit for the period, as adjusted for the effect of adopting SSAP12 (Note 1)	<u>-</u>	<u>-</u>	<u>5,497</u>	<u>-</u>	<u>5,497</u>
At 31 August 2002, as restated	<u>253,319</u>	<u>3,835</u>	<u>64,446</u>	<u>4,261</u>	<u>325,861</u>
Exchange differences on translation of the accounts of foreign subsidiaries and jointly controlled entity	-	(345)	-	-	(345)
Profit for the period, as adjusted for the effect of adopting SSAP12 (Note 1)	<u>-</u>	<u>-</u>	<u>(19,502)</u>	<u>-</u>	<u>(19,502)</u>
At 28 February 2003 and 1 March 2003 (Audited and as restated)	253,319	3,490	44,944	4,261	306,014
Profit for the period	<u>-</u>	<u>-</u>	<u>4,872</u>	<u>-</u>	<u>4,872</u>
At 31 August 2003 (Unaudited)	<u>253,319</u>	<u>3,490</u>	<u>49,816</u>	<u>4,261</u>	<u>310,866</u>

NOTES TO CONDENSED ACCOUNTS

10. CONTINGENT LIABILITIES

- (a) The local tax authorities in Mainland China have been carrying out investigations in connection with certain value added tax payments made by the Group's subsidiaries operating in Mainland China. Having discussed with the local tax officers and based on a notification received from a local tax authority in Mainland China, additional payments for value added tax amounting to HK\$15,674,000 had been accrued in the accounts for the year ended 28 February 2003 and were fully paid to the local tax authorities in Mainland China before the date of this report. The Directors consider that certain subsidiaries are still being under investigation and it is not practicable to assess if the Group is liable for any further liabilities.
- (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\$72,971,000 (28 February 2003: HK\$177,160,000) of which HK\$18,785,000 (28 February 2003: HK\$8,376,000) was utilised as at 31 August 2003.

11. COMMITMENTS

(a) Capital commitments

	31 August 2003 (Unaudited) HK\$'000	28 February 2003 (Audited) HK\$'000
Contracted but not provided for – in respect of investment in jointly controlled entity	<u>1,461</u>	<u>1,461</u>

(b) Commitments under operating lease

- (i) The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31 August 2003 (Unaudited) HK\$'000	28 February 2003 (Audited) HK\$'000
Land and buildings:		
Not later than one year	38,146	46,931
Later than one year and not later than five years	<u>18,371</u>	<u>34,131</u>
	<u>56,517</u>	<u>81,062</u>

NOTES TO CONDENSED ACCOUNTS

11. COMMITMENTS (continued)

(b) Commitments under operating lease (continued)

- (ii) The Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	31 August 2003 (Unaudited) HK\$'000	28 February 2003 (Audited) HK\$'000
Land and buildings:		
Not later than one year	1,293	1,703
Later than one year and not later than five years	1,274	1,240
	<u>2,567</u>	<u>2,943</u>

12. RELATED PARTY TRANSACTIONS

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

	Six months ended 31 August	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Rental expenses to a substantial shareholder (note a)	<u>600</u>	<u>600</u>
Rental income from a related company (note b)	<u>-</u>	<u>192</u>

- (a) 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. The amount is mutually agreed.
- (b) During the six months ended 31 August 2002, the Group rented out its investment property located in Hong Kong to Fornari International Limited, of which Mr. Lee is a shareholder. The amount of the aforesaid rental was mutually agreed by the parties.

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period under review (six months ended 31 August 2002: Nil).

BUSINESS REVIEW

The six months ended 31 August 2003 has been one of the most challenging interim periods for the Group. In the face of the SARS outbreak, the Group continued with its business consolidation plan and gross margin improvement strategies, resulting in stable operating results for the period under review. Sales of the Group's core shoe operations returned to the normal level soon after the containment of SARS. The quick recovery was attributable to the Group's solid foundation and effective brand-building and sales strategies.

During the period under review, the Group's turnover surged by approximately 32% from that of the corresponding period last year to HK\$182,962,000. The increase was mainly due to an upsurge in the revenue from OEM business and sales from markets other than Hong Kong and Mainland China, as well as increase in the sales of the Group's wholly-owned property project in Mainland China. As a result of the increased turnover and the Group's focus on the sale of self-produced shoes, the Group's gross profit increased by approximately 5% to HK\$74,058,000 from that of the corresponding period last year.

The Group continued to tighten its cost control and rationalise its sales operations. During the period under review, the Group closed some of its shops that were not in high traffic area and focused resources on well-positioned outlets in Hong Kong. On the other hand, the Group cautiously expanded in key markets in Mainland China through the opening of several self-operated stores in strategic locations. As a result, selling and distribution costs and general and administrative expenses of the Group experienced only slight adjustments to HK\$50,976,000 and HK\$25,825,000 respectively, when compared with HK\$53,547,000 and HK\$25,716,000 of the same period last year respectively.

With respect to property investment, the Group's 25-per cent owned property project in Mainland China did not declare a dividend for the period, resulting in an approximate 85% decrease in the Group's other revenues to HK\$1,237,000. However, this was compensated by an additional revenue of HK\$13,047,000 (net profit after taxation of HK\$8,742,000) from the Group's share of profit of a jointly controlled entity. As a result, the Group's profit attributable to shareholders reduced by approximately 11% to HK\$4,872,000 when compared with the corresponding period of the previous year.

BUSINESS REVIEW (continued)

Mainland China

During the period under review, the Group's Mainland China operations remained as the dominant turnover and profit contributor. Compared with the same period last year, turnover from the Mainland China operations rose by approximately 31% to HK\$105,325,000, which accounted for approximately 58% of the Group's turnover.

Shoes Operations

Turnover from the Group's shoe operations in Mainland China remained stable, despite weak market sentiment during the SARS outbreak and continued competitive market environment.

Given the appreciation of Euro and intensified market competition, the Group continued to increase the proportion of its own brands to imported footwear to maintain stable growth in profit. To support this gradual change in product mix and enhance market position, the Group had stepped up image-building efforts via shop renovation during the period.

Besides, the successful market segmentation strategy also helped the Group weather the market challenges during the period. In Mainland China, the Group operates its shoes business under the brand name of *Le Saunda* and *Comfort and Easy (CnE)*. *CnE* carrying Japanese-styled series of shoes and handbags has been targeted at young people's market. This brand has been well received by the market since its debut a year ago. During the period under review, *CnE* operation reported substantial increase in turnover. As to *Le Saunda*, which has been established as an Italian brand in Mainland China, the Group targets it at mid to high-end market. Leveraging its solid position and strong presence in Mainland China, *Le Saunda* withstood adverse market conditions and reported stable results.

To consolidate its position in the country, the Group opened several self-operated stores in major cities, including Shanghai, Beijing and Chengdu, while reducing some of its franchised outlets at unfavourable retail locations during the period. As at the end of the period under review, the Group had some 100 outlets operated under the brand names of *Le Saunda* 萊爾斯丹 and *CnE*.

With respect to the manufacturing operation in Shunde, Mainland China, the Group timely captured the market opportunities to expand its original equipment manufacturing ("OEM") business, which generated a substantial turnover. In addition to its turnover contribution, the OEM business also enabled the Group to further fully utilise the production capacity in operation during the period.

Cosmetics

The Group engaged in the manufacturing and sale of cosmetics under the brand name of *Right Angle* in Mainland China. During the period under review, this business segment reported a turnover of HK\$1,447,000 when compared with HK\$720,000 for the same period last year.

Property Development

During the period under review, the Group recorded a turnover of HK\$28,337,000 from the pre-sales of 陽光花園 since January 2003. 陽光花園 is a residential property developed by the Group's Shunde-based wholly-owned subsidiary, 順德市信達房地產開發有限公司.

The Group's share of profit of its jointly controlled entity in Mainland China, Shunde Shuang Qiang Property Development Company Limited, amounted to HK\$13,047,000 (net profit after taxation of HK\$8,742,000) for the period under review.

Property development is a non-core business of the Group. The Group does not intend to further invest in this business in Mainland China where it will continue to focus on its shoe operations.

BUSINESS REVIEW (continued)

Hong Kong

The Hong Kong operations maintained a stable turnover of HK\$51,263,000, which accounted for approximately 28% of the Group's turnover for the period.

During the period under review, the Group implemented market redevelopment strategy to improve operational efficiency and enhance its brand image. Such a strategy called for "fewer but larger" shops. The Group ceased the operation of certain shops where the traffic was low, and concentrated its resources in redeveloping shops at strategic spots. The Group not only renovated its shops to attract customers, but also enlarged both the shopping area and stock room of each store to ensure sufficient quantities and styles would be available to meet demand.

Others

Apart from Hong Kong and Mainland China, the Group also operated an outlet in Macau and exported sales to countries including Japan, Russia, Italy, the UK and the USA. Turnover from the Macau operations and export sales surged by approximately 3.2 times to HK\$26,374,000 when compared with that of the corresponding period last year. The Group is planning to expand to other Southeast Asian markets through franchising.

FINANCIAL POSITION

The Group's cash position remained sound during the period under review. Its cash and bank balances amounted to HK\$45,477,000 as at 31 August 2003, as compared with HK\$43,279,000 at the beginning of the period. The Group's investment properties and other properties with net book value amounting to HK\$43,159,000 (28 February 2003: HK\$43,432,000) have been pledged to secure bank loan facilities of HK\$60,500,000 (28 February 2003: HK\$124,000,000) granted to certain subsidiaries of the Group. Out of such facilities, the Group's total bank borrowings were HK\$11,211,000 as of 31 August 2003, compared with HK\$1,722,000 as of 28 February 2003. As at 31 August 2003, the Group's gearing ratio stood at 0.032, as compared with 0.005 at the beginning of the period. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK\$11,211,000 and net worth of HK\$355,748,000 as at 31 August 2003.

The Group's liquidity position also remained healthy, with a current ratio of 2.9 times (28 February 2003: 2.9 times) and a quick ratio of 0.9 times (28 February 2003: 0.9 times) as at 31 August 2003.

During the period under review, the Group increased its inventory level to ensure sufficient quantities and styles were available to meet market demand. As a result, the Group's inventory turnover rose from 85 days to 108 days, and the amount of inventory increased from HK\$59,780,000 to HK\$73,821,000.

Bank loans and overdrafts of the Group were made in Hong Kong dollars, Renminbi, US dollars and Euro. The annual interest rate of the borrowings during the period under review ranged from 2.23% to 6.53%. Forward contracts were used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. During the period under review, the Group was not exposed to material foreign exchange risk regarding Renminbi currency exposures on revenues generated or assets located in Mainland China as the exchange rate of Hong Kong dollars against Renminbi was relatively stable. In addition, working capital requirements for business in Mainland China were financed by local bank loans denominated in Renminbi as far as possible for hedging purpose.

FINANCIAL POSITION (continued)

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities will be sufficient to fund the working capital requirements.

During the period under review, the Group did not have material acquisitions or disposals of subsidiaries or associated companies. In the second half of the year, the Group does not have plan for material investments or change of capital assets.

PROSPECTS

The Directors expect that the second half of the year will turn to be a harvesting period for the Group to reap from its hard work of market redevelopment and image enhancement. Sales performance in the Hong Kong operations already showed encouraging signs of improvement in September and October 2003. The success was an evidence of the Group's foresight to enhance its image through shop renovation and to optimise its shoes inventory in terms of styles and quantities to satisfy demand, which enabled the Group to timely capture the opportunities from increased individual visits from Mainland China and improved retail sentiment.

Leveraging its enhanced brand image, the Group will continue to expand in the enormous market of Mainland China. In the second half of the year, the Group plans to open more self-operated stores in major cities to further intensify its market penetration in Mainland China. Besides, the Group has established a warehouse in each of the major cities where it has presence to speed up the time for stock replenishment. In the past, stock replenishment for Mainland China operations was carried out in the Guangzhou warehouse. Starting from October 2003, the Group will have a warehouse in each major market in Mainland China, and the time for stock replenishment can be shortened from four days to one day. The construction of warehouse for each major market has significant implication for the Mainland China's shoe operations. Not only time and transportation expenses can be saved, but also shorter time for replenishment would mean sufficient quantities and styles are available to meet demand at any given time and shorter replenishment cycles can effectively be achieved.

In terms of product segment, the Group envisages much room for development in men's shoes market and intends to expand its men's footwear collection. At present, men and women's footwear accounted for approximately 20% and 80% respectively.

All in all, the Group looks forward to a promising half year, which will be filled with opportunities and rewards from hard work. Taking advantage of the improved market sentiment, the Group will continue to consolidate its market position and carry out prudent business expansion.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 10 to the condensed accounts.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2003, the Group had a total of 1,667 employees of which 160 were based in Hong Kong and 1,507 were based in Mainland China. Total staff costs including directors' emoluments and net pension contributions for the period under review amounted to HK\$30,243,000 (six months ended 31 August 2002: HK\$29,688,000). The Group has structured training programmes provided for all employees. Outside consultants are also invited as lecturers to enrich the scope of the programmes.

EMPLOYEES AND REMUNERATION POLICIES (continued)

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

DISCLOSURE OF INTERESTS

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

As at 31 August 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

Name of Director	Number of shares of HK\$0.10 each				Total	Percentage of issued share capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Mr. Lee Tze Bun, Marces ("Mr. Lee")	35,670,000	-	30,000,000 <i>(note 1)</i>	255,000,000 <i>(notes 2, 3 & 4)</i>	320,670,000	71.47%
Ms. Chui Kwan Ho, Jacky ("Ms. Chui")	2,500,000	-	-	50,000,000 <i>(note 4)</i>	52,500,000	11.70%
Ms. Tsui Oi Kuen, Doris	1,856,000	-	-	-	1,856,000	0.41%
Ms. Lau Shun Wai, Alice ("Ms. Lau")	-	150,000 <i>(note 5)</i>	-	-	150,000	0.033%

Long positions in shares in associated corporations of the Company

Name of associated corporation	Name of Director	Personal interests	Percentage of issued share capital
L. S. Retailing Limited	Mr. Lee	20,000 non-voting deferred shares <i>(Note 6)</i>	100% (in respect of non-voting deferred shares)

DISCLOSURE OF INTERESTS (continued)**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE EQUITY DERIVATIVES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)***Notes:*

1. On 31 March 2003, Madam Ho Fai Yee ("Mrs. Lee"), wife of Mr. Lee, transferred 30,000,000 shares of the Company owned by her to Succex Limited, a company which is owned as to 60% by Mr. Lee. After such transfer, Mr. Lee is deemed to be interested in the 30,000,000 shares.
2. Lee Tze Bun Trustee Holding Corporation ("LTB Trustee"), being the 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 in 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. Therefore, Mr. Lee is deemed to be interested in those shares.
3. Lee Keung Trustee Holding Corporation ("LK Trustee"), being the 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. Therefore, Mr. Lee is deemed to be interested in those shares.
4. Mr. Lee and Ms. Chui, being the trustees of The Lee Keung Charitable Foundation ("Charitable Foundation") jointly hold 50,000,000 shares, representing approximately 11.15% of the issued share capital of the Company. Accordingly, Mr. Lee and Ms. Chui are deemed to be interested in those shares.
5. The 150,000 shares were owned by husband of Ms. Lau and accordingly, Ms. Lau is deemed to be interested in those shares.
6. On 27 March 2003, Mrs. Lee transferred 2,000 non-voting deferred shares in L. S. Retailing Limited, a wholly owned subsidiary of the Company to Mr. Lee. After such transfer, Mr. Lee beneficially owns 20,000 non-voting deferred shares in L. S. Retailing Limited, being 100% of the entire issued non-voting deferred shares of L. S. Retailing Limited.

DISCLOSURE OF INTERESTS (continued)**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE EQUITY DERIVATIVES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)**Long positions in underlying shares and debentures**Share Option Scheme**

At the special general meeting of the Company held on 22 July 2002, the shareholders of the Company terminated the share option scheme adopted by the Company on 20 November 1992 (the "Old Scheme") and adopted a new share option scheme (the "New Scheme") in compliance with the new requirements of Chapter 17 of the Listing Rules.

The Old Scheme

As at 31 August 2003, details of the outstanding share options 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 shares in respect of share options				Subscription price per share	Exercisable period
		Outstanding as at 1 March 2003	Exercised during the period	Lapsed during the period	Outstanding as at 31 August 2003		
Ms. Chui Kwan Ho, Jacky	19 August 1994	600,000	-	-	600,000	HK\$0.767	19 August 1995-18 August 2004
	8 February 1996	750,000	-	-	750,000	HK\$0.67	8 February 1997-7 February 2006
Mr. Lam Sing Hung, Danny* ("Mr. Lam")	8 February 1996	500,000	-	500,000	-	HK\$0.67	8 February 1997-7 February 2006

* Mr. Lam resigned as Director of the Company with effect from 6 May 2003 and his options lapsed on 5 August 2003.

After the grant of the share options referred to above, no further options were or will be granted under the Old Scheme and all outstanding options under the Old Scheme shall remain valid until their expiry.

DISCLOSURE OF INTERESTS (continued)**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE EQUITY DERIVATIVES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)****Long positions in underlying shares and debentures (continued)****Share Option Scheme (continued)****The New Scheme**

On 22 July 2002, a new share option scheme was adopted by the Company. No options were granted since the adoption of the new scheme.

Save as disclosed above, as at 31 August 2003, none of the directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 August 2003, according to the register of interests in shares and short positions of the Company required to be kept under 336 of the SFO, the Company had been notified of the following entity/persons who are interested in 5% or more of the issued share capital of the Company which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO.

Long position in shares of the Company

	Number of shares of HK\$0.10 each			Total	Percentage of issued share capital
	Personal Interests	Corporate Interests	Other Interests		
Bermuda Trust (Cook Islands) Limited ("BTCL")	-	-	205,000,000	205,000,000	45.69%
LTB Trustee as trustee of the LTB Trust	-	-	155,000,000	155,000,000	34.55%
LK Trustee as trustee of the LK Trust	-	-	50,000,000	50,000,000	11.15%
Mr. Lee and Ms. Chui as trustees of The Charitable Foundation	-	-	50,000,000	50,000,000	11.15%
Mr. Lee	35,670,000	-	-	35,670,000	7.95%
Succex Limited	-	30,000,000	-	30,000,000	6.68%
Ms. Chui	2,500,000	-	50,000,000	52,500,000	11.70%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

BTCL is the trustee of a unit trust called The Lee Keung Family Trust ("Lee Family Trust") which is the beneficial owner of LTB Trust and LK Trust. By virtue of BTCL's interests in Lee Family Trust, BTCL was taken to be interested in 205,000,000 shares of the Company of which 155,000,000 shares are held by LTB Trust and 50,000,000 shares are held by LK Trust.

Mr. Lee is the appointor of the LTB Trust and LK Trust. All units in the LTB Trust and the LK Trust (other than one unit in each of the LTB Trust and LK Trust which are beneficially owned by Mr. Lee) are beneficially owned by Lee Family Trust, a discretionary trust.

Mr. Lee personally holds 35,670,000 shares, representing approximately 7.95% of the issued share capital of the Company. Succex Limited holds 30,000,000 shares, in which Mr. Lee is a controlling shareholder. Together with the interests in the LTB Trust, LK Trust, The Charitable Foundation and Succex Limited, Mr. Lee was interested in approximately 320,670,000 shares being 71.47% of the issued share capital of the Company.

Ms. Chui holds 2,500,000 shares, and together with Mr. Lee as trustees of The Charitable Foundation hold 50,000,000 shares, representing approximately 11.70% of the issued share capital of the Company.

Save as disclosed above, as at 31 August 2003 the Company has not been notified of any other person (other than the directors or chief executives of the Company) had an interest directly or indirectly or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

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 condensed accounts for the six months ended 31 August 2003.

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 2003.

By Order of the Board
Lee Tze Bun, Marces
Chairman

Hong Kong, 21 November 2003