



le saunda holdings Ltd.

利信達集團有限公司

interim report 2005/2006

le saunda



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lee Tze Bun, Marces
(Chairman)
Wan Tat Wah
(Chief Executive Officer)
Chui Kwan Ho, Jacky
(Managing Director)
Tsui Oi Kuen
Ven Kam Cheong, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Kong Chi
Law King Wan
Leung Wai Ki, George

AUDIT COMMITTEE

Wong Kong Chi
(Chairman)
Law King Wan
Leung Wai Ki, George

COMPANY SECRETARY

Lau Yin Wan

BANKERS

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

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

30th Floor
Hing Wai Centre
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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.
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WEBSITE ADDRESS

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**CONDENSED CONSOLIDATED
PROFIT AND LOSS ACCOUNT**

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 2005 as follows:

For the six months ended 31 August 2005

	<i>Note</i>	Six months ended 31 August	
		2005 (Unaudited) HK\$’000	2004 (Unaudited) (Restated) HK\$’000
Turnover	3	274,968	205,270
Cost of sales		(128,758)	(99,715)
Gross profit		146,210	105,555
Other revenues	4	22,558	1,286
Selling and distribution costs		(89,076)	(47,999)
General and administrative expenses		(42,018)	(35,402)
Operating profit	5	37,674	23,440
Finance costs		(78)	(119)
Share of (loss)/profit of jointly controlled entity		(610)	3,549
Profit before taxation		36,986	26,870
Taxation	6	214	(300)
Profit attributable to shareholders		37,200	26,570
Interim dividend	7	14,200	9,035
Basic earnings per share	8	7.4 cents	5.9 cents
Diluted earnings per share	8	7.2 cents	5.8 cents

As at 31 August 2005

**CONDENSED CONSOLIDATED
BALANCE SHEET**

		31 August 2005 (Unaudited)	28 February 2005 (Audited) (Restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties		25,125	25,125
Property, plant and equipment		63,324	65,054
Leasehold land and land use rights		41,774	42,325
Investment in jointly controlled entity		50,895	59,477
Other investment		–	4,712
Available-for-sale financial asset		4,802	–
Deferred tax assets		17,338	13,998
		203,258	210,691
Current assets			
Properties under development for sale		56,972	49,283
Completed properties held for sale		3,792	4,996
Inventories		141,273	106,262
Trade and other receivables	9	40,701	54,450
Deposits and prepayments		33,241	26,092
Taxation recoverable		204	–
Dividend receivable		29,990	–
Cash and bank balances		144,360	139,328
		450,533	380,411

**CONDENSED CONSOLIDATED
BALANCE SHEET**

		31 August 2005 (Unaudited)	28 February 2005 (Audited) (Restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Creditors and accruals	10	130,945	94,983
Taxation payable		–	916
Short term bank loans, secured		7,389	2,650
		138,334	98,549
Net current assets		312,199	281,862
Total assets less current liabilities		515,457	492,553
Financed by:			
Share capital	11	50,714	50,177
Reserves	12		
Interim dividend		14,200	–
Proposed dividend		–	22,580
Others		450,543	419,796
Shareholders' funds		515,457	492,553

For the six months ended 31 August 2005

**CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY**

	Note	Six months ended 31 August	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Total equity at 1 March, as previously reported		492,282	386,544
Effect of adoption of HKFRS 2	12	271	–
Total equity at 1 March, as restated		492,553	386,544
Profit for the period	12	37,200	26,570
Dividends	12	(22,821)	(8,972)
Issue of shares	11, 12	2,421	1,647
Share option scheme benefits	12	1,041	676
Currency translation differences	12	5,063	–
Total equity at 31 August		515,457	406,465

**CONDENSED CONSOLIDATED
CASH FLOW STATEMENT**

For the six months ended 31 August 2005

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	25,728	(9,253)
Net cash outflow from investing activities	(5,912)	(1,939)
Net cash outflow from financing activities	(16,119)	(8,018)
Increase/(decrease) in cash and cash equivalents	3,697	(19,210)
Cash and cash equivalents at 1 March	139,328	92,272
Effect of foreign exchange rate changes	1,335	–
Cash and cash equivalents at 31 August	144,360	73,062
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	144,360	73,062

NOTES TO THE CONDENSED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed interim accounts should be read in conjunction with the annual accounts for the year ended 28 February 2005.

The accounting policies and methods of computation used in the preparation of the condensed interim accounts are consistent with those used in the annual accounts for the year ended 28 February 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised HKFRSs and HKASs which are effective for accounting periods beginning on or after 1 January 2005.

The relevant changes in the Group’s accounting policies resulting from the adoption of these new and revised HKFRSs and HKASs are set out in note 2 below.

NOTES TO THE CONDENSED ACCOUNTS

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs

HKICPA has issued a number of new and revised HKFRSs, HKASs and interpretations which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the HKFRSs and HKASs that are applicable to its operations. The comparative figures have been restated as required.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments

The adoption of new/revise HKASs 1, 2, 7, 8, 23, 24, 27, 31 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of share of after-tax results of jointly controlled entity. The share of results of jointly controlled entity are presented after netting off taxation in consolidated profit and loss account.
- HKASs 2, 7, 8, 23, 27, 31 and 33 had no material effect on the Group's policies.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKAS 39 and HKAS 40 as detailed below.

The accounting policies used for the condensed interim accounts for the six months ended 31 August 2005 are the same as those set out in note 1 to the annual accounts for the year ended 28 February 2005 except for the following:

2.1 Property, plant and equipment

The adoption of revised HKAS 16 has resulted in a change in the accounting policy in which the assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.2 Leases

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to lease prepayments and retrospective application is required. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss accounts on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss accounts. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation.

In prior years, leasehold land and land use rights and buildings held for own use were stated at cost less accumulated depreciation and impairment losses.

With the adoption of HKAS 17, leasehold land and land use rights are reclassified as lease prepayments which are carried at cost and amortised on a straight-line basis over the lease term which applied retrospectively. Amortisation charge for the period is recognised in the consolidated profit and loss accounts.

**NOTES TO THE
CONDENSED ACCOUNTS**

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

2.2 Leases (continued)

As a result of adopting this new policy, the premiums for leasehold land and land use rights of HK\$41,774,000 as at 31 August 2005 (As at 28 February 2005: HK\$42,325,000) have been reclassified from property, plant and equipment as lease prepayments.

2.3 Foreign currency translation

With the adoption of HKAS 21 from 1 January 2005, the functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard as follows:

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars ("HK\$") while all other major group companies maintain their books and records in Renminbi ("RMB"). The consolidated financial statements are presented in HK\$, which is the Company's functional and presentation currency.

(b) Transactions and balances

Transactions denominated in currencies other than HK\$ are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than HK\$ are recognised in the profit and loss account.

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

2.3 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities that have a functional currency difference from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

2.4 Other investments

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to other investment which is classified as available-for-sale financial asset.

From 1 March 2004 to 28 February 2005:

Other investment was stated at cost less provision for impairment losses.

**NOTES TO THE
CONDENSED ACCOUNTS**

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

2.4 Other investments (continued)

From 1 March 2005 onwards:

The Group classifies its other investment as available-for-sale financial asset. Available-for-sale financial asset is included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

If available-for-sale financial asset is carried at fair value, unrealised gains and losses arising from changes in the fair value of available-for-sale security are recognised in equity. When security classified as available-for-sale is sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from other investment. If the available-for-sale financial asset is unlisted financial asset whose fair value cannot be reliably measured, it is stated at cost less impairment.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to other investment for the comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1 March 2005.

2.5 Investment properties

The adoption of HKAS 40 has resulted in a change in the accounting policy relating to investment properties.

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease. Investment property is measured initially at its cost, including related transaction costs.

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

2.5 Investment properties (continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Changes in fair values are recognised in the profit and loss account.

In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

Since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information.

2.6 Share-based payments

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 January 2005, the Group recognises the fair value of share options granted as an expense in the profit and loss accounts over the vesting period with a corresponding increase being recognised in an option reserve. The related option reserve is transferred to share capital and share premium together with the exercise price, when the option holder exercises its rights. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**NOTES TO THE
CONDENSED ACCOUNTS**

2. IMPACT OF NEW AND REVISED HKFRSs AND HKASs (continued)

2.6 Share-based payments (continued)

In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

HKFRS 2 has been applied retrospectively with comparatives restated in accordance with HKFRS 2 except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) an option granted on or before 7 November 2002; and
- (ii) all options granted after 7 November 2002 but which had vested before 1 January 2005.

As detailed in the note 12, opening retained profit at 1 March 2005 has been reduced by HK\$1,279,000, which represents the unprovided option reserve of HK\$1,550,000 and the unrecognised net deferred tax assets of HK\$271,000. This change has resulted in an increase in deferred tax assets of HK\$271,000 and option reserve of HK\$1,550,000 as at 28 February 2005. The profit attributable to shareholders for the six months ended 31 August 2004 has been reduced by HK\$558,000.

3. SEGMENT INFORMATION

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

(i) **By business segment:**

	Six months ended 31 August 2005			
	Manufacture and sales of shoes (Unaudited) <i>HK\$'000</i>	Property development (Unaudited) <i>HK\$'000</i>	Others (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Turnover	268,476	4,610	1,882	274,968
Segment results	21,525	19,567	(3,418)	37,674
Finance costs				(78)
Share of loss of jointly controlled entity		(610)		(610)
Profit before taxation				36,986
Taxation				214
Profit attributable to shareholders				37,200

NOTES TO THE CONDENSED ACCOUNTS

**NOTES TO THE
CONDENSED ACCOUNTS**

3. SEGMENT INFORMATION (continued)

(i) By business segment: (continued)

	Six months ended 31 August 2004			
	Manufacture and sales of shoes (Unaudited) (Restated) <i>HK\$'000</i>	Property development (Unaudited) (Restated) <i>HK\$'000</i>	Others (Unaudited) (Restated) <i>HK\$'000</i>	Total (Unaudited) (Restated) <i>HK\$'000</i>
Turnover	201,171	3,972	127	205,270
Segment results	24,482	(600)	(442)	23,440
Finance costs				(119)
Share of profit of jointly controlled entity		3,549		3,549
Profit before taxation				26,870
Taxation				(300)
Profit attributable to shareholders				26,570

3. SEGMENT INFORMATION (continued)

(ii) By geographical segment:

	Six months ended 31 August			
	2005		2004	
	Turnover (Unaudited)	Segment results (Unaudited)	Turnover (Unaudited) (Restated)	Segment results (Unaudited) (Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	77,077	7,807	72,998	11,466
Mainland China	139,688	24,493	96,066	7,816
Others	58,203	5,374	36,206	4,158
	274,968	37,674	205,270	23,440

4. OTHER REVENUES

	Six months ended 31 August	
	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Dividend income from available-for-sale financial asset	20,565	–
Gross rental income from investment properties	1,039	1,011
Bank interest income	954	275
	22,558	1,286

NOTES TO THE
CONDENSED ACCOUNTS

**NOTES TO THE
CONDENSED ACCOUNTS**

5. OPERATING PROFIT

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>
Operating profit is stated after crediting and charging the following:		
Crediting:		
Net exchange gain	1,618	4
Charging:		
Auditors' remuneration	618	496
Depreciation	7,594	5,147
Operating lease rentals in respect of land and buildings	27,714	21,901
Outgoings in respect of investment properties	325	332
Staff costs (including directors' emoluments)	48,202	37,139
Loss/(Gain) on disposal of fixed assets	10	(8)

6. TAXATION

NOTES TO THE CONDENSED ACCOUNTS

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

	Six months ended 31 August	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Company and subsidiaries		
Mainland China	(3,206)	(3,418)
Deferred taxation relating to the origination and reversal of temporary differences	3,420	3,118
	<u>214</u>	<u>(300)</u>

Share of jointly controlled entity's Mainland China taxation for the six months ended 31 August 2005 is nil (six months ended 31 August 2004: HK\$1,747,000 which was included in the share of profit of jointly controlled entity).

Hong Kong profits tax has not been provided as the Group has sufficient tax losses brought forward to offset the estimated assessable profit for the period (six months ended 31 August 2004: no estimated assessable profit).

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

**NOTES TO THE
CONDENSED ACCOUNTS**

7. INTERIM DIVIDEND

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK2.8 cents (six months ended 31 August 2004: HK2.0 cents) per share	14,200	9,035

At the board meeting held on 18 November 2005, the board of Directors has resolved to declare an interim dividend of HK2.8 cents per share. This interim dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of contributed surplus of the Company for the year ending 28 February 2006.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the profit attributable to shareholders of HK\$37,200,000 (six months ended 31 August 2004: HK\$26,570,000 as restated).

The basic earnings per share is based on the weighted average number of 504,650,911 (six months ended 31 August 2004: 448,999,108) ordinary shares in issue during the period. The diluted earnings per share is based on 513,475,196 (six months ended 31 August 2004: 460,156,203 as restated) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 8,824,285 (six months ended 31 August 2004: 11,157,095 as restated) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9. 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 2005 (Unaudited) HK\$'000	28 February 2005 (Audited) HK\$'000
Trade receivables		
– Current to 30 days	29,578	43,421
– 31 to 60 days	4,465	5,476
– 61 to 90 days	1,163	1,944
– Over 90 days	2,149	966
	37,355	51,807
Other receivables	3,346	2,643
Total	40,701	54,450

NOTES TO THE CONDENSED ACCOUNTS

**NOTES TO THE
CONDENSED ACCOUNTS**

10. CREDITORS AND ACCRUALS

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

	31 August 2005 (Unaudited) HK\$'000	28 February 2005 (Audited) HK\$'000
Trade creditors		
– Current to 30 days	43,949	39,183
– 31 to 60 days	6,265	9,223
– 61 to 90 days	4,952	4,762
– 91 to 120 days	2,110	1,787
– Over 120 days	3,993	2,629
	61,269	57,584
Accruals	69,676	37,399
Total	130,945	94,983

11. SHARE CAPITAL

NOTES TO THE
CONDENSED ACCOUNTS

	31 August 2005		28 February 2005	
	Number of ordinary shares (Unaudited)	(Unaudited) HK\$'000	Number of ordinary shares (Audited)	(Audited) HK\$'000
Authorised:				
Shares of HK\$0.10 each	800,000,000	80,000	800,000,000	80,000
Issued and fully paid:				
At beginning of period/year	501,769,600	50,177	448,619,600	44,862
Exercise of share options (Note (a))	5,370,000	537	3,150,000	315
Placement of new shares (Note (b))	–	–	50,000,000	5,000
At end of period/year	507,139,600	50,714	501,769,600	50,177

**NOTES TO THE
CONDENSED ACCOUNTS**

11. SHARE CAPITAL (continued)

Note:

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

	For the six months ended 31 August 2005		For the year ended 28 February 2005	
	Average exercise price (Unaudited) (HK\$ per share)	Number of share options (Unaudited) (thousands)	Average exercise price (Restated) (HK\$ per share)	Number of share options (Restated) (thousands)
At 1 March	0.38	34,950	0.72	1,400
Granted	1.24	7,190	0.38	39,550
Forfeited	0.38	(700)	0.38	(2,800)
Exercised	0.38	(5,370)	0.52	(3,150)
Lapsed	–	–	0.77	(50)
At 31 August/28 February	0.55	36,070	0.38	34,950

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

Expiry date	Exercise price (HK\$ per share)	Number of share options as at	
		31 August 2005 (thousands)	28 February 2005 (Restated) (thousands)
12 April 2014	0.38	28,880	34,950
6 March 2015	1.24	7,190	–

- (iii) The fair value of options granted during the six months ended 31 August 2005 determined using the Black-Scholes valuation model was HK\$0.39 (year ended 28 February 2005: HK\$0.12 as restated). The significant inputs into the model were share price of HK\$1.23 (year ended 28 February 2005: HK\$0.38 as restated), at the grant date, exercise price shown above, standard deviation of expected share price returns of 50% (year ended 28 February 2005: 50% as restated), expected life of options of 6 years (year ended 28 February 2005: 6 years as restated), expected dividend paid out rate of 5% (year ended 28 February 2005: 5% as restated) and annual risk-free interest rate of 3.33% (year ended 28 February 2005: 2.70% as restated). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily trading share prices over the last 2,190 days.
- (b) On 22 December 2004, 50,000,000 ordinary shares of HK\$0.10 each were issued at a subscription price of HK\$1.04 for cash for future investment purposes. These shares rank pari passu with the existing shares.

12. RESERVES

NOTES TO THE CONDENSED ACCOUNTS

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Capital reserve HK\$'000	Option reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 March 2004, as previously reported	253,319	3,490	4,261	–	80,612	341,682
Effect of adoption of HKFRS 2						
– Value of service provided	–	–	–	676	–	676
Profit for the period	–	–	–	–	26,570	26,570
Dividends	–	–	–	–	(8,972)	(8,972)
Issue of shares	1,332	–	–	–	–	1,332
At 31 August 2004 (Unaudited)	254,651	3,490	4,261	676	98,210	361,288
At 1 March 2005, as previously reported	301,651	3,490	4,261	–	132,703	442,105
Effect of adoption of HKFRS 2						
– Value of service provided	–	–	–	1,550	(1,550)	–
– Deferred tax effect	–	–	–	–	271	271
At 1 March 2005, as restated	301,651	3,490	4,261	1,550	131,424	442,376
Share Option Scheme:						
– Value of service provided	–	–	–	1,501	–	1,501
– Exercise of share options	1,884	–	–	(380)	–	1,504
– Deferred tax effect on exercise of share options	–	–	–	(80)	–	(80)
Currency translation differences	–	5,063	–	–	–	5,063
Profit for the period	–	–	–	–	37,200	37,200
Dividends	–	–	–	–	(22,821)	(22,821)
At 31 August 2005 (Unaudited)	303,535	8,553	4,261	2,591	145,803	464,743

**NOTES TO THE
CONDENSED ACCOUNTS**

13. CONTINGENT LIABILITIES

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\$65,000,000 (28 February 2005: HK\$73,740,000) of which HK\$13,046,000 (28 February 2005: HK\$9,697,000) was utilised as at 31 August 2005.

14. COMMITMENTS

(a) Capital commitments

	31 August 2005 (Unaudited) HK\$'000	28 February 2005 (Audited) HK\$'000
Contracted but not provided for in respect of investment in jointly controlled entity	1,461	1,461

14. COMMITMENTS (continued)

NOTES TO THE
CONDENSED ACCOUNTS

(b) Commitments under operating lease

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

	31 August 2005 (Unaudited) HK\$'000	28 February 2005 (Audited) HK\$'000
Land and buildings:		
Not later than one year	51,572	49,847
Later than one year and not later than five years	47,374	44,879
	98,946	94,726

The above operating lease commitments included commitments for fixed rent only. Rentals payable in some cases include an additional rent, calculated according to gross revenue, in excess of a fixed rent.

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

	31 August 2005 (Unaudited) HK\$'000	28 February 2005 (Audited) HK\$'000
Land and buildings:		
Not later than one year	1,559	1,394
Later than one year and not later than five years	682	619
	2,241	2,013

**NOTES TO THE
CONDENSED ACCOUNTS**

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Rental expenses to a related party (<i>Note a</i>)	433	433
Rental expenses to a related company (<i>Note b</i>)	322	321

Note:

- (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 period, the Group rented an office premise located in Mainland China from Genda Investment Limited, a company controlled by Mr. Lee. The amount is mutually agreed.

INTERIM DIVIDEND

At the board meeting held on 18 November 2005, the board of Directors has resolved to declare the payment of an interim dividend of HK2.8 cents per share for the year ending 28 February 2006 (six months ended 31 August 2004: HK2.0 cents).

BUSINESS REVIEW

For the six months ended 31 August 2005 (the "Period"), the Group continued to report encouraging growth in turnover and profit attributable to shareholders. Compared with the first half of the previous financial year, the Group's turnover and profit attributable to shareholders rose by 34% to HK\$275 million and 40% to HK\$37 million respectively. Gross margin remained relatively stable at 53%, while the operating profit for the Period amounted to HK\$38 million, representing a 61% increase from that of the same period last year.

During the Period, selling and distribution costs surged by 86% to HK\$89 million when compared with that of the same period last year, while general and

administrative expenses rose by 19% to HK\$42 million. The upsurges in selling and distribution costs were mainly due to an increase of HK\$11 million in staff cost for the Group and a rise of HK\$6 million in rentals for the Hong Kong operations.

Shoes Operations

Much as the Hong Kong retail market showed bullish signs during the Period, the property rental had also increased drastically. At the same time, there had been intensified competition in the footwear markets in both Hong Kong and Mainland China.

Under the unfavourable market conditions, the Group managed to increase the turnover from its core shoes operations by 33% to HK\$268 million, which accounted for 98% of the Group's total turnover. However, operating profit from this segment dropped by 12% to HK\$22 million, as a result of soaring rents and severe price competition.

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW (continued)

Shoes Operations (continued)

Hong Kong

Turnover from this market increased by 6% to HK\$77 million, despite intensified competition marked by discounted sales starting as early as March and late advent of spring, which slowed down spring/summer sales. The moderate growth was mostly attributed to the new concept stores and renovated outlets, whose operation was gradually maturing.

However, the increase in rental expenses had lowered the operating profits from this market.

During the Period, the Group introduced the *Comfort and Easy (CnE)* brand, which is a young ladies footwear and handbags line, to the Hong Kong market with the opening of a *CnE* outlet.

Mainland China

Competition in this market had become increasingly severe, forcing shoes makers to introduce various types of promotion discounts to boost sales. The price competition had thus squeezed the profits of shoes retailers, including the Group. Nevertheless, the Group

managed to raise its sales and turnover, partly generated from the new stores opened in the previous financial year.

The Group proceeded with cautious expansion during the Period. In view of the market potential for *CnE* 斯艾依, the Group opened a number of self-operated outlets in major cities during the Period and began franchising *CnE* 斯艾依 in second-tier cities.

Other markets

Apart from Hong Kong and Mainland China, the Group also engaged in export sales through its original equipment manufacturing (“OEM”) business and retailing in Macau. Turnover from shoes operations outside Hong Kong and Mainland China for the Period amounted to HK\$58 million, representing a 61% increase from that of the same period last year.

The OEM business continued to report an increase in turnover during the Period. The Group’s production facilities are located in Shunde and provide product services to both intra-group operations and independent third parties. During the Period, the Group’s OEM business reported exported sales to Japan, Russia, Italy, Australia, New Zealand, Spain and Germany.

BUSINESS REVIEW (continued)

Property Development

During the Period, the Group recognised a dividend income of HK\$21 million from available-for-sale financial asset in Mainland China. The Group's Shunde-based wholly-owned property company also reported a turnover of HK\$5 million from the sale of some of the remaining residential units of the project – 陽光花園 for the Period.

Others

Apart from shoes retailing, the Group is also engaged in the apparel business under the brand name *Antinori*. This brand goes for the high-end fashion market for elegant, sexy and avant-garde clothing. In view of the growth potential for this particular market in Mainland China, the Group started out in this business in late 2004. A number of *Antinori* 安蒂諾里 outlets have been opened in major cities, including Shanghai, Shenzhen and Guangzhou. As this business was in the initial development stage, its earning ability and growth potential had not been fully reflected in the financial statements for the Period.

FINANCIAL POSITION

During the Period, the Group's cash position remained sound. Its cash and bank balances amounted to HK\$144 million as at 31 August 2005, as compared with HK\$139 million at the start of the financial year. The Group obtained total banking facilities of HK\$65 million (28 February 2005: HK\$74 million). The Group's other properties and leasehold land with net book value amounting to HK\$28 million (28 February 2005: the Group's investment properties, other properties and leasehold land with net book value of HK\$43 million) had been pledged to secure bank loan facilities of HK\$45 million (28 February 2005: HK\$68 million) granted to certain subsidiaries of the Group. Out of such facilities, the Group's total short-term bank borrowings were HK\$7 million as of 31 August 2005, compared with HK\$3 million as of 28 February 2005. The Group's net worth amounted to HK\$515 million (28 February 2005: HK\$492 million). The Group's gearing ratio stood at 0.014 as at 31 August 2005, against 0.005 as at the start of the Period. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK\$7 million and net worth of HK\$515 million as at 31 August 2005.

The Group's liquidity position also remained healthy, with a current ratio of 3.3 times (28 February 2005: 3.9 times) and a quick ratio of 1.3 times (28 February 2005: 1.7 times) as at 31 August 2005.

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL POSITION (continued)

During the Period, 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 123 days to 147 days, and the amount of inventory increased from HK\$106 million to HK\$141 million during the Period.

Bank loans and overdrafts of the Group were taken out in Hong Kong dollars, US dollars and Euro. The annual interest rate of the borrowings during the Period ranged from 3.47% to 6.38%. Forward contracts were used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. During the Period, 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, if necessary, by local bank loans denominated in Renminbi as far as possible for hedging purpose.

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, the Group did not have material acquisitions or disposals of subsidiaries or associated companies. In the second half of the current financial year, other than the establishment of a number of shoes and apparel retail outlets in certain parts of Mainland China and Hong Kong, the Group does not have plan for material investments or change of capital assets.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 13 to the condensed accounts.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2005, the Group had a total of 2,404 employees of which 196 were based in Hong Kong and 2,208 were based in Mainland China. Total staff costs including directors' emoluments and net pension contributions for the Period amounted to HK\$48 million (six months ended 31 August 2004: HK\$37 million as restated). 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 and discretionary bonus policy for eligible employees of the Group.

PROSPECTS

In the second half of the current financial year, the Group will work on internal growth and enhancement. The focus will be on operation and logistics management, design and production. Such a move is to strengthen the Group's internal operation and management so that it would not only support the Group's external expansion but also drive organic growth.

Since late 2003, the Group has been pushing ahead with its decentralised warehouse management scheme. The plan, which has been fully put into practice in the Group's Hong Kong operations, has contributed to the Group's ability to meet rising demand since the recovery of consumer's confidence and the retail market in 2004, resulting in substantial growth in sales in this market for the year ended 28 February 2005.

The Group has also introduced decentralised warehouse management in its Mainland China's operations, with a warehouse centre in each of Beijing, Guangzhou and Shanghai in the second half of the current financial year. While enhancing its warehouse management, the Group also plans to increase production and inventory, so as to strengthen its ability to meet demand at any given time.

The Group is also looking at offering different styles in Hong Kong under its *CnE* brand. After a few months of operation in Hong Kong, the Group finds that this line could have greater potential for development, only that it needs to be fine-tuned to better satisfy the taste of the local people.

Although the Group's focus will be on internal operation and management, the Group will maintain prudent expansion, which will be financed by the Group's internal resources in the second half of the year. For instance, the Group will open additional *CnE* 斯艾依 outlets and *Antinori* 安蒂諾里 stores in Hong Kong and Mainland China, as there is the need to establish presence for these relatively new brands in the respective markets. In particular, the Group hopes that the opening of *Antinori* outlets in Hong Kong could serve as the "showcase" for its Mainland stores and help with the positioning of the brand in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS



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 2005, 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 ("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")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in Shares of the Company

Name of Directors	Number of Shares			Total	Approximate percentage of the issued share capital of the Company
	Personal interests	Corporate interests	Other interests		
Mr. Lee Tze Bun, Marces (“Mr. Lee”)	25,820,000	31,384,000 <i>(Notes 1 & 2)</i>	205,000,000 <i>(Notes 3 & 4)</i>	262,204,000	51.70%
Ms. Chui Kwan Ho, Jacky (“Ms. Chui”)	5,050,000	–	50,000,000 <i>(Note 5)</i>	55,050,000	10.85% <i>(Note 6)</i>
Ms. Tsui Oi Kuen (“Ms. Tsui”)	3,656,000	–	50,000,000 <i>(Note 5)</i>	53,656,000	10.58% <i>(Note 7)</i>

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)

DISCLOSURE OF INTERESTS

Long positions in Shares in associated corporation of the Company

Name of associated corporation	Name of Director	Personal interests	Approximate percentage of the issued share capital of the associated corporation of the Company
L. S. Retailing Limited	Mr. Lee	20,000 non-voting deferred shares (Note 8)	100% (in respect of non-voting deferred shares)

Notes:

- 30,000,000 Shares are held by Succex Limited, which is owned as to 60% by Mr. Lee. Therefore, Mr. Lee is deemed to be interested in those Shares.
- 1,384,000 Shares are held by Xin Chuan Middle School Foundation Limited ("Xin Chuan"), in which Mr. Lee is a governor of Xin Chuan. Therefore, Mr. Lee is deemed to be interested in those Shares.
- 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 30.56% 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.
- 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 9.86% 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.
- Ms. Chui, Ms. Tsui and Ms. Lee Wing Kam Rowena Jackie ("Ms. Lee"), the daughter of Mr. Lee, being the trustees of The Lee Keung Charitable Foundation ("the Charitable Foundation") jointly hold 50,000,000 Shares, representing approximately 9.86% of the issued share capital of the Company. Therefore, Ms. Chui, Ms. Tsui and Ms. Lee are deemed to be interested in those Shares.
- Ms. Chui personally holds 5,050,000 Shares, other than the Shares mentioned in (5) above. She is entitled to 1,200,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. Chui's interests in the Company will be increased from the existing 10.85% to 11.09% of the issued share capital of the Company.
- Ms. Tsui personally holds 3,656,000 Shares, other than the Shares mentioned in (5) above. She is entitled to 1,200,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Ms. Tsui's interests in the Company will be increased from the existing 10.58% to 10.82% of the issued share capital of the Company.
- Mr. Lee beneficially owns 20,000 non-voting deferred shares in L. S. Retailing Limited, a wholly-owned subsidiary of the Company, in which Mr. Lee holds 100% interests in respect of such non-voting deferred shares.

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 (continued)

Long positions in underlying shares of the equity derivatives and debentures of the Company

Share Option Scheme

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

Pursuant to the Scheme, the Company has granted share options to certain Directors and employees of the Company to subscribe for Shares of the Company. The movements of the outstanding share options under the Scheme during the period are set out below:

Name or category of participant	Date of share options granted (Notes 1 & 2)	Number of Shares				Outstanding as at 31 August 2005	Exercise price per Share	Exercise period
		Outstanding as at 1 March 2005	Granted during the period	Exercised during the period (Note 3)	Cancelled during the period			
<i>Directors</i>								
Mr. Wan Tat Wah ("Mr. Wan") (Notes 4 & 5)	13 April 2004	3,000,000	–	–	–	3,000,000	HK\$0.38	26 July 2004 – 12 April 2014
	13 April 2004	3,000,000	–	–	–	3,000,000	HK\$0.38	26 July 2005 – 12 April 2014
	13 April 2004	4,000,000	–	–	–	4,000,000	HK\$0.38	26 July 2006 – 12 April 2014
Ms. Chui	13 April 2004	900,000	–	900,000	–	–	HK\$0.38	26 July 2005 – 12 April 2014
	13 April 2004	1,200,000	–	–	–	1,200,000	HK\$0.38	26 July 2006 – 12 April 2014

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)

DISCLOSURE OF INTERESTS

Long positions in underlying shares of the equity derivatives and debentures of the Company (continued)

Share Option Scheme (continued)

Name or category of participant	Date of share options granted (Notes 1 & 2)	Number of Shares				Outstanding as at 31 August 2005	Exercise price per Share	Exercise period
		Outstanding as at 1 March 2005	Granted during the period	Exercised during the period (Note 3)	Cancelled during the period			
Directors								
Ms. Tsui	13 April 2004	900,000	–	900,000	–	–	HK\$0.38	26 July 2004 – 12 April 2014
	13 April 2004	900,000	–	900,000	–	–	HK\$0.38	26 July 2005 – 12 April 2014
	13 April 2004	1,200,000	–	–	–	1,200,000	HK\$0.38	26 July 2006 – 12 April 2014
Mr. Ven Kam Cheong, Eric ("Mr. Ven") (Notes 4 & 6)	13 April 2004	1,500,000	–	–	–	1,500,000	HK\$0.38	26 July 2004 – 12 April 2014
	13 April 2004	1,500,000	–	–	–	1,500,000	HK\$0.38	26 July 2005 – 12 April 2014
	13 April 2004	2,000,000	–	–	–	2,000,000	HK\$0.38	26 July 2006 – 12 April 2014
Sub-total		20,100,000	–	2,700,000	–	17,400,000		

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 (continued)

Long positions in underlying shares of the equity derivatives and debentures of the Company (continued)

Share Option Scheme (continued)

Name or category of participant	Date of share options granted (Notes 1 & 2)	Number of Shares				Outstanding as at 31 August 2005	Exercise price per Share	Exercise period
		Outstanding as at 1 March 2005	Granted during the period	Exercised during the period (Note 3)	Cancelled during the period			
Employees								
Other employees in aggregate	13 April 2004	600,000	-	600,000	-	-	HK\$0.38	26 July 2004 – 12 April 2014
	13 April 2004	3,855,000	-	2,070,000	210,000	1,575,000	HK\$0.38	13 April 2005 – 12 April 2014
	13 April 2004	600,000	-	-	-	600,000	HK\$0.38	26 July 2005 – 12 April 2014
	13 April 2004	3,855,000	-	-	210,000	3,645,000	HK\$0.38	13 April 2006 – 12 April 2014
	13 April 2004	800,000	-	-	-	800,000	HK\$0.38	26 July 2006 – 12 April 2014
	13 April 2004	5,140,000	-	-	280,000	4,860,000	HK\$0.38	13 April 2007 – 12 April 2014
	7 March 2005	-	900,000	-	-	900,000	HK\$1.24	1 September 2005 – 6 March 2015
	7 March 2005	-	1,257,000	-	-	1,257,000	HK\$1.24	7 March 2006 – 6 March 2015
	7 March 2005	-	900,000	-	-	900,000	HK\$1.24	1 September 2006 – 6 March 2015
	7 March 2005	-	1,257,000	-	-	1,257,000	HK\$1.24	7 March 2007 – 6 March 2015
	7 March 2005	-	1,200,000	-	-	1,200,000	HK\$1.24	1 September 2007 – 6 March 2015
	7 March 2005	-	1,676,000	-	-	1,676,000	HK\$1.24	7 March 2008 – 6 March 2015
	Sub-total		14,850,000	7,190,000	2,670,000	700,000	18,670,000	
Total		34,950,000	7,190,000	5,370,000	700,000	36,070,000		

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 of the equity derivatives and debentures of the Company (continued)

Share Option Scheme (continued)

Notes:

1. 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.
2. The closing price of the Shares of the Company immediately before 13 April 2004 and 7 March 2005 on which the share options were granted was HK\$0.40 and HK\$1.26 per Share respectively.
3. The weighted average closing market price per Share immediately before the respective dates on which the share options were exercised was HK\$1.17 per Share respectively.
4. On 13 April 2004, 10,000,000 share options and 5,000,000 share options were granted to Mr. Wan and Mr. Ven respectively, which were in excess of the specified limit of 4,486,196 Shares, being 1% of the issued Shares as at 25 June 2004. Mr. Wan is an executive Director and Mr. Ven was appointed as an executive Director on 13 December 2004. At the Annual General Meeting of the Company held on 26 July 2004, the shareholders of the Company approved the granting of such share options to Mr. Wan and Mr. Ven respectively.

5. Mr. Wan is entitled to 10,000,000 share options as at 31 August 2005. Upon exercise of these outstanding share options in full, Mr. Wan will be interested in approximately 1.97% of the issued share capital of the Company.
6. Mr. Ven is entitled to 5,000,000 share options as at 31 August 2005. Upon exercise of these outstanding share options in full, Mr. Ven will be interested in approximately 0.99% of the issued share capital of the Company.

Save as disclosed above, as at 31 August 2005, 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.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the Directors nor any of their spouses or children under 18 years of age, had any right to subscribe for Shares or debt securities of the Company, or had exercised any such rights during the period.

DISCLOSURE OF INTERESTS

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS

As at 31 August 2005, 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 entities/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 positions in Shares of the Company

Name	Note	Number of Shares			Total	Approximate percentage of the issued share capital of the Company
		Personal interests	Corporate interests	Other interests		
Mr. Lee	1, 2, 3 & 4	25,820,000	31,384,000	205,000,000	262,204,000	51.70%
HSBC International Trustee Limited ("HSBCITL")	1, 2 & 3	–	–	205,000,000	205,000,000	40.42%
HSBC Trustee (Cook Islands) Limited ("HSBC Trustee")	1, 2 & 3	–	–	205,000,000	205,000,000	40.42%
LTB Trustee as trustee of the LTB Trust	1, 2 & 3	–	–	155,000,000	155,000,000	30.56%
LK Trustee as trustee of the LK Trust	1, 2 & 3	–	–	50,000,000	50,000,000	9.86%
Succex Limited	4	–	30,000,000	–	30,000,000	5.92%
Xin Chuan	4	–	1,384,000	–	1,384,000	0.27%

SUBSTANTIAL SHAREHOLDERS (continued)

DISCLOSURE OF INTERESTS

Long positions in Shares of the Company (continued)

Name	Note	Number of Shares			Total	Approximate percentage of the issued share capital of the Company
		Personal interests	Corporate interests	Other interests		
Ms. Chui	5	5,050,000	–	50,000,000	55,050,000	10.85%
Ms. Tsui	6	3,656,000	–	50,000,000	53,656,000	10.58%
Ms. Lee	7	4,000,000	–	50,000,000	54,000,000	10.65%
Ms. Chui, Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation	5, 6 & 7	–	–	50,000,000	50,000,000	9.86%
Value Partners Limited (“VPL”)	8	–	–	50,000,000	50,000,000	9.86%
Mr. Cheah Cheng Hye (“Mr. Cheah”)	8 & 9	–	–	50,000,000	50,000,000	9.86%

Notes:

1. HSBCITL is the controlling shareholder of HSBC Trustee. By virtue of HSBCITL’s interests in HSBC Trustee, HSBCITL is deemed to be interested in 205,000,000 Shares.
2. HSBC Trustee is the trustee of a unit trust called The Lee Family Trust which is the beneficial owner of LTB Trust and LK Trust. By virtue of HSBC Trustee’s interests in the Lee Family Trust, HSBC Trustee was taken to be interested in 205,000,000 Shares of which 155,000,000 Shares are held by LTB Trust and 50,000,000 Shares are held by LK Trust.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDERS (continued)

Long positions in Shares of the Company (continued)

3. 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 the Lee Family Trust, a discretionary trust.
4. Mr. Lee personally holds 25,820,000 Shares. Succex Limited holds 30,000,000 Shares, in which Mr. Lee is a controlling shareholder. Xin Chuan holds 1,384,000 Shares, in which Mr. Lee is a governor. Together with the interests in the LTB Trust, LK Trust, Succex Limited and Xin Chuan, Mr. Lee is interested in an aggregate of 262,204,000 Shares, being approximately 51.70% of the issued share capital of the Company.
5. Ms. Chui holds an aggregate of 55,050,000 Shares, comprising 5,050,000 Shares personal interests and together with the 50,000,000 Shares jointly held with Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation, representing approximately 10.85% of the issued share capital of the Company. As disclosed under the heading "Share Option Scheme", Ms. Chui is also entitled to an aggregate of 1,200,000 share options of the Company. Upon exercise of these outstanding share options in full, Ms. Chui's interests in the Company will be increased from the existing 10.85% to 11.09% of the issued share capital of the Company.
6. Ms. Tsui holds an aggregate of 53,656,000 Shares, comprising 3,656,000 Shares personal interests and together with the 50,000,000 Shares jointly held with

Ms. Chui and Ms. Lee as trustees of the Charitable Foundation, representing approximately 10.58% of the issued share capital of the Company. As disclosed under the heading "Share Option Scheme", Ms. Tsui is also entitled to 1,200,000 share options. Upon exercise of these outstanding share options in full, Ms. Tsui's interests in the Company will be increased from the existing 10.58% to 10.82% of the issued share capital of the Company.

7. Ms. Lee holds an aggregate of 54,000,000 Shares, comprising 4,000,000 Shares personal interests and together with the 50,000,000 Shares jointly held with Ms. Chui and Ms. Tsui as trustees of the Charitable Foundation, representing approximately 10.65% of the issued share capital of the Company.
8. 50,000,000 Shares representing approximately 9.86% of the issued share capital of the Company are held by various funds under the management of VPL, being the fund manager. Therefore, VPL is deemed to be interested in these Shares.
9. Mr. Cheah is a controlling shareholder of VPL. By virtue of Mr. Cheah's interests in VPL, Mr. Cheah is deemed to be interested in 50,000,000 Shares.

Save as disclosed above, as at 31 August 2005, the Company has not been notified of any other person (other than the Directors or chief executives of the Company) who had an interest directly or indirectly and/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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 December 2005 to Thursday, 8 December 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend which will be payable on Thursday, 15 December 2005, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with Computershare Hong Kong Investor Services Limited, Unit 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:00 p.m. on Monday, 5 December 2005.

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 six months ended 31 August 2005.

AUDIT COMMITTEE

The Company established an audit committee in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and supervising the Group's financing reporting matters and internal control procedures. Since 15 November 2005, the terms of reference of the audit committee have been included on the Company's website.

The audit committee comprises all the three independent non-executive Directors, namely, Mr. Wong Kong Chi, being the Chairman, Mr. Law King Wan and Mr. Leung Wai Ki, George.

The audit committee has reviewed with the 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 consolidated accounts for the six months ended 31 August 2005. It has also reviewed the Group's progress in implementing the corporate governance requirements set out in Appendix 14 of the Listing Rules.

CORPORATE GOVERNANCE

The Group has adopted and has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of Listing Rules throughout the six months ended 31 August 2005 except the following deviations from the Code Provisions which were subsequently complied with (as described below):

1. None of the independent non-executive Directors was appointed for specific term but all of them were subject to retirement and rotation and re-election at the Company's Annual General Meeting. On 1 November 2005, the Company and the three independent non-executive Directors entered into service agreements with fixed term respectively (Code Provision A.4.1);

CORPORATE GOVERNANCE (continued)

2. On 4 October 2005, the Board approved:

- (a) the procedures to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses for the purpose of assisting the Directors to discharge their duties to the Company (Code Provision A.1.7);
- (b) the adoption of the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company, the procedures in respect of Directors' dealings in the shares of the Company, and the procedures in respect of employees' dealing in the shares of the Company (Code Provision A.5.4);
- (c) the division of responsibilities between Mr. Lee Tze Bun, Marces, the Chairman and Mr. Wan Tat Wah, Chief Executive Officer whereby their respective responsibilities have been clearly established and set out in writing. The role of Chairman and Chief Executive Officer performed separately throughout the period from 1 March 2005 to 31 August 2005 (Code Provision A.2.1);
- (d) the establishment of the remuneration committee and the adoption of its specific written terms of reference which deal clearly with its authority and duties. The remuneration committee recently reviewed and approved the remuneration of all the executive Directors, the three independent non-executive Directors and senior management (Code Provisions B.1.1-B.1.5);

- (e) the formal schedule of matters specially reserved to the Board for its decision (Code Provision D.1.2).

REMUNERATION COMMITTEE

The Company established a remuneration committee on 4 October 2005 in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee comprises three independent non-executive Directors namely, Mr. Wong Kong Chi, being the Chairman, Mr. Law King Wan, Mr. Leung Wai Ki, George and two executive Directors namely, Mr. Lee Tze Bun, Marces and Mr. Wan Tat Wah. Since 15 November 2005, the terms of reference of the remuneration committee have been included on the Company's website.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors since 4 October 2005. Having made specific enquiry of all Directors, all Directors of the Company have confirmed their compliance with the required standard set out in the Model Code during the period from 1 March 2005 to 31 August 2005.

By Order of the Board
Lee Tze Bun, Marces
Chairman

Hong Kong, 18 November 2005