

INTERIM REPORT 2006/2007



le saunda holdings ltd.  
利信達集團有限公司

le saunda



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**EXECUTIVE DIRECTORS**

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

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Lam Siu Lun, Simon  
Law King Wan  
Leung Wai Ki, George

**AUDIT COMMITTEE**

Lam Siu Lun, Simon (*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

**LEGAL ADVISERS**

Wilkinson & Grist

**REGISTERED OFFICE**

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**PRINCIPAL OFFICE**

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**REGISTRAR (IN BERMUDA)**

The Bank of Bermuda Limited  
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**REGISTRAR (IN HONG KONG)**

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LE SAUNDA HOLDINGS LTD.  
**CONDENSED CONSOLIDATED  
 INCOME STATEMENT**

The board of Directors of Le Saunda Holdings Limited (the “Company”) presents the Group’s interim report and unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2006 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 31 August 2006

		<b>Six months ended</b>	
		<b>31 August</b>	
	<i>Note</i>	<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$’000</b>	HK\$’000
Turnover	2	<b>341,394</b>	274,968
Cost of sales		<b>(158,867)</b>	(128,758)
Gross profit		<b>182,527</b>	146,210
Other gains	3	<b>15,683</b>	21,604
Selling and distribution costs		<b>(117,348)</b>	(89,076)
General and administrative expenses		<b>(37,961)</b>	(42,018)
Operating profit		<b>42,901</b>	36,720
Bank interest income		<b>988</b>	954
Finance costs		<b>(168)</b>	(78)
Share of profit/(loss) of a jointly controlled entity		<b>829</b>	(610)
Profit before taxation		<b>44,550</b>	36,986
Taxation (charge)/credit	5	<b>(3,017)</b>	214
Profit attributable to shareholders		<b>41,533</b>	37,200
Interim dividend	6	<b>18,709</b>	14,200
Basic earnings per share	7	<b>7.6 cents</b>	7.4 cents
Diluted earnings per share	7	<b>7.5 cents</b>	7.2 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 31 August 2006

	<i>Note</i>	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
<b>ASSETS</b>			
Non-current assets			
Investment properties		<b>27,926</b>	27,926
Property, plant and equipment	8	<b>81,331</b>	68,936
Leasehold land and land use rights		<b>41,202</b>	41,709
Long term deposits and prepayments		<b>43,764</b>	44,703
Interests in a jointly controlled entity		<b>54,957</b>	53,374
Available-for-sale financial asset		<b>6,967</b>	4,822
Deferred tax assets		<b>30,708</b>	29,710
		<b>286,855</b>	271,180
Current assets			
Properties under development for sale		—	11,772
Completed properties held for sale		<b>7,727</b>	4,589
Inventories		<b>199,328</b>	161,671
Trade and other receivables	9	<b>64,361</b>	72,850
Deposits and prepayments		<b>21,756</b>	15,163
Amount due from a jointly controlled entity		<b>9,778</b>	—
Dividend receivable from a jointly controlled entity		<b>9,778</b>	9,425
Dividend receivable from available-for-sale financial asset		<b>14,667</b>	—
Restricted bank deposits		<b>15,317</b>	9,386
Cash and cash equivalents		<b>148,699</b>	108,114
		<b>491,411</b>	392,970
Total assets		<b>778,266</b>	664,150

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

As at 31 August 2006

	<i>Note</i>	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	<b>62,364</b>	51,015
Reserves			
Interim dividend		<b>18,709</b>	—
Proposed dividend		—	22,957
Others		<b>604,022</b>	483,124
Total equity		<b>685,095</b>	557,096
<b>LIABILITIES</b>			
Current liabilities			
Creditors and accruals	10	<b>87,066</b>	100,140
Taxation payable		<b>423</b>	2,452
Short term bank loans, secured		<b>5,682</b>	4,462
Total liabilities		<b>93,171</b>	107,054
Total equity and liabilities		<b>778,266</b>	664,150
Net current assets		<b>398,240</b>	285,916
Total assets less current liabilities		<b>685,095</b>	557,096

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 31 August 2006

	Share capital	Share premium	Exchange translation reserve	Retained earnings	Capital reserve	Employee share-based compensation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 March 2006	51,015	304,673	9,397	184,217	4,261	3,533	557,096
Share option scheme:							
– value of service provided	–	–	–	–	–	918	918
– exercise of share options	1,349	6,138	–	–	–	(1,697)	5,790
– deferred tax effect on exercise of share options	–	–	–	–	–	(360)	(360)
Profit for the period	–	–	–	41,533	–	–	41,533
Dividends	–	–	–	(28,014)	–	–	(28,014)
Currency translation differences	–	–	1,285	–	–	–	1,285
Issue of shares net of issuing expenses	10,000	96,847	–	–	–	–	106,847
At 31 August 2006	<u>62,364</u>	<u>407,658</u>	<u>10,682</u>	<u>197,736</u>	<u>4,261</u>	<u>2,394</u>	<u>685,095</u>

	Share capital	Share premium	Exchange translation reserve	Retained earnings	Capital reserve	Employee share-based compensation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 March 2005	50,177	301,651	3,490	131,082	4,261	1,550	492,211
Share option scheme:							
– value of service provided	–	–	–	–	–	1,501	1,501
– exercise of share options	537	1,884	–	–	–	(380)	2,041
– deferred tax effect on exercise of share options	–	–	–	–	–	(80)	(80)
Profit for the period	–	–	–	37,200	–	–	37,200
Dividends	–	–	–	(22,821)	–	–	(22,821)
Currency translation differences	–	–	5,063	–	–	–	5,063
At 31 August 2005	<u>50,714</u>	<u>303,535</u>	<u>8,553</u>	<u>145,461</u>	<u>4,261</u>	<u>2,591</u>	<u>515,115</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 31 August 2006

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash (outflow)/inflow from operating activities	<b>(5,667)</b>	25,728
Net cash outflow from investing activities	<b>(38,984)</b>	(5,912)
Net cash inflow/(outflow) from financing activities	<b>85,843</b>	(16,119)
Increase in cash and cash equivalents	<b>41,192</b>	3,697
Cash and cash equivalents at 1 March	<b>108,114</b>	139,328
Effect of foreign exchange rate changes	<b>(607)</b>	1,335
Cash and cash equivalents at 31 August	<b>148,699</b>	144,360
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<b>148,699</b>	144,360

## **1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements for the six months ended 31 August 2006 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 (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 28 February 2006.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 28 February 2006 except for the adoption of new standards, amendments to standards and interpretation which are effective for accounting periods beginning on or after 1 January 2006 as set out below:

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”;
- Amendment to HKAS 21, Amendment “Net investment in a foreign operation”;
- Amendment to HKAS 39, Amendment “The fair value option”;
- Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”;
- Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”;
- HKFRS-Int 4, “Determining whether an arrangement contains a lease”.

The adoption of the above has no material impact on the Group’s condensed consolidated interim balance sheet and income statement.

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group’s business and are mandatory for the Group’s accounting periods beginning on or after 1 January 2007 or later periods. The Group has not early adopted these new standards, amendments and interpretations for the period ended 31 August 2006.

## 2. 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 2006			
	Manufacture and sales of shoes (Unaudited) HK\$'000	Property development (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Turnover	<u>313,054</u>	<u>21,666</u>	<u>6,674</u>	<u>341,394</u>
Segment results	<u>25,120</u>	<u>23,770</u>	<u>(5,989)</u>	42,901
Bank interest income				988
Finance costs				(168)
Share of profit of a jointly controlled entity		<u>829</u>		<u>829</u>
Profit before taxation				44,550
Taxation				<u>(3,017)</u>
Profit attributable to shareholders				<u>41,533</u>

**2. SEGMENT INFORMATION (continued)**

(i) By business segment: (continued)

	Six months ended 31 August 2005				
	Manufacture and sales of shoes (Unaudited) HK\$'000	Property development (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	
	Turnover	268,476	4,610	1,882	274,968
	Segment results	20,907	19,231	(3,418)	36,720
Bank interest income				954	
Finance costs				(78)	
Share of loss of a jointly controlled entity		(610)		(610)	
Profit before taxation				36,986	
Taxation				214	
Profit attributable to shareholders				37,200	

(ii) By geographical segment:

	Six months ended 31 August			
	2006		2005	
	Turnover (Unaudited) HK\$'000	Segment results (Unaudited) HK\$'000	Turnover (Unaudited) HK\$'000	Segment results (Unaudited) HK\$'000
	Hong Kong	87,112	1,455	77,077
Mainland China	186,555	28,234	139,688	24,038
Others	67,727	13,212	58,203	5,331
	<b>341,394</b>	<b>42,901</b>	274,968	36,720

### 3. OTHER GAINS

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Dividend income from available-for-sale financial asset	<b>14,528</b>	20,565
Gross rental income from investment properties	<b>1,155</b>	1,039
	<b>15,683</b>	21,604

### 4. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution costs and general and administrative expenses are analysed as follows:

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Auditors' remuneration	<b>747</b>	618
Amortization of leasehold land and land use rights	<b>506</b>	525
Depreciation of property, plant and equipment	<b>10,051</b>	7,069
Loss on disposal of property, plant and equipment	<b>319</b>	10
Net exchange(gain)	<b>(5,559)</b>	(1,618)
Operating lease rentals in respect of land and buildings	<b>37,394</b>	27,714
Direct operating expenses arising from investment properties that generated rental income	<b>333</b>	325
Staff costs (including directors' emoluments)	<b>53,021</b>	48,202

**5. TAXATION (CHARGE)/CREDIT**

The amount of taxation (charged)/credited to the condensed consolidated income statement represents:

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current taxation		
Mainland China enterprise income tax	<b>(4,375)</b>	(3,206)
Deferred taxation relating to the origination and reversal of temporary differences	<b>1,358</b>	3,420
	<b>(3,017)</b>	214

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 2005: Nil).

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.

**6. INTERIM DIVIDEND**

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK3.0 cents (six months ended 31 August 2005: HK2.8 cents) per share	<b>18,709</b>	14,200

At the board meeting held on 21 November 2006, the board of Directors has resolved to declare an interim dividend of HK3.0 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 2007.

**7. EARNINGS PER SHARE**

The calculations of basic and diluted earnings per share are based on the profit attributable to shareholders of HK\$41,533,000 (six months ended 31 August 2005: HK\$37,200,000).

The basic earnings per share is based on the weighted average number of 544,028,671 (six months ended 31 August 2005: 504,650,911) ordinary shares in issue during the period. The diluted earnings per share is based on 557,055,453 (six months ended 31 August 2005: 513,475,196) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 13,026,782 (six months ended 31 August 2005: 8,824,285) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

**8. PROPERTY, PLANT AND EQUIPMENT**

During the period, additions to property, plant and equipment amounted to HK\$22,235,000 (six months ended 31 August 2005: HK\$4,698,000).

**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:

	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
Trade receivables		
– Current to 30 days	<b>39,886</b>	48,258
– 31 to 60 days	<b>16,582</b>	16,239
– 61 to 90 days	<b>2,307</b>	2,480
– Over 90 days	<b>3,133</b>	3,597
	<b>61,908</b>	70,574
Less: provision	<b>(822)</b>	(847)
	<b>61,086</b>	69,727
Other receivables	<b>3,275</b>	3,123
Total	<b>64,361</b>	72,850

The amounts approximated to the fair values at 31 August 2006 and 28 February 2006 respectively.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

## 10. CREDITORS AND ACCRUALS

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

	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
Trade creditors		
– Current to 30 days	<b>35,229</b>	32,526
– 31 to 60 days	<b>12,480</b>	15,076
– 61 to 90 days	<b>3,390</b>	4,521
– 91 to 120 days	<b>2,553</b>	2,443
– Over 120 days	<b>2,082</b>	2,234
	<b>55,734</b>	56,800
Accruals	<b>31,332</b>	43,340
Total	<b>87,066</b>	100,140

## 11. SHARE CAPITAL

	31 August 2006		28 February 2006	
	Number of ordinary shares (Unaudited)	HK\$'000 (Unaudited)	Number of ordinary shares (Audited)	HK\$'000 (Audited)
Authorised:				
Shares of HK\$0.10 each	<b>800,000,000</b>	<b>80,000</b>	800,000,000	80,000
Issued and fully paid:				
At beginning of period/year	<b>510,149,600</b>	<b>51,015</b>	501,769,600	50,177
Exercise of share options (Note 12)	<b>13,493,000</b>	<b>1,349</b>	8,380,000	838
Placement of new shares (Note a)	<b>100,000,000</b>	<b>10,000</b>	—	—
At end of period/year	<b>623,642,600</b>	<b>62,364</b>	510,149,600	51,015



## 11. SHARE CAPITAL (continued)

Note:

- (a) On 11 July 2006, 100,000,000 ordinary shares of HK\$0.10 each were issued at a subscription price of HK\$1.10 for cash for general working capital of the Group and facilitating future expansion in Mainland China.

## 12. SHARE OPTIONS

- (a) 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 2006		For the year ended 28 February 2006	
	Average exercise price per share (Unaudited) (HK\$)	Number of share options (Unaudited) (thousands)	Average exercise price per share (Audited) (HK\$)	Number of share options (Audited) (thousands)
At beginning of period/year	0.50	30,940	0.38	34,950
Granted	—	—	1.07	13,320
Forfeited	0.79	(600)	0.98	(8,950)
Exercised	0.43	(13,493)	0.38	(8,380)
At end of period/year	0.55	16,847	0.50	30,940

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

Expiry date at	Exercise price per share (HK\$)	Number of share options as at	
		31 August 2006 (thousands)	28 February 2006 (thousands)
12 April 2014 (Note i)	0.38	11,630	23,870
6 March 2015 (Note ii)	1.24	1,000	1,000
15 January 2016 (Note iii)	0.87	4,217	6,070

## 12. SHARE OPTIONS (continued)

*Note:*

- (i) Exercisable from a range of dates between 26 July 2004 and 13 April 2007 and expiring on the 10th anniversary from date of acceptance.
- (ii) Exercisable on 1 September 2007 and expiring on the 10th anniversary from date of acceptance.
- (iii) Exercisable from a range of dates between 16 January 2006 and 7 March 2008 and expiring on the 10th anniversary from date of acceptance.

On 16 January 2006, the Group granted 6,130,000 share options to employees who surrendered the same number of share options granted on 7 March 2005 at an exercise price of HK\$1.24. In this connection, the incremental fair value of HK\$373,000 will be expensed over the vesting period. The Group used the inputs noted below to measure the fair value of such share options.

The fair value of options was determined using the Black-Scholes Pricing model which was performed by an independent valuer, American Appraisal China Limited. Significant inputs into the model were as follows:

Share price (HK\$)	0.38	1.23	0.86
Exercise price (HK\$)	0.38	1.24	0.87
Date of options granted	13 April 2004	7 March 2005	16 January 2006
Fair value of options grants (HK\$)	0.12	0.39	0.31
Expiry date	12 April 2014	6 March 2015	15 January 2016
Expected life of options (years)	5.8	5.9	5.1
Standard deviation	50%	50%	58%
Days for calculating volatility	2,190	2,190	1,825
Expected dividend yield	5%	5%	5%
Annual risk-free interest rate	2.70%	3.33%	4.02%

The Black-Scholes option pricing model was developed to estimate the fair value of publicly traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Any changes in the subjective input assumptions may materially affect the estimation of the fair value of an option.

### 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\$50,000,000 (28 February 2006: HK\$65,000,000) of which HK\$11,644,000 (28 February 2006: HK\$14,110,000) was utilised as at 31 August 2006.

### 14. COMMITMENTS

#### (a) Capital commitments

	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
Contracted but not provided for, in respect of		
– interests in a jointly controlled entity	<b>1,516</b>	1,493
– purchase of property, plant and equipment	<b>—</b>	3,301
	<b>1,516</b>	4,794

#### (b) Commitments under operating leases

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

	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
Land and buildings:		
Not later than one year	<b>73,519</b>	66,262
Later than one year and not later than five years	<b>60,844</b>	59,708
	<b>134,363</b>	125,970

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

**14. COMMITMENTS** (continued)

(b) Commitments under operating leases (continued)

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

	<b>31 August 2006 (Unaudited) HK\$'000</b>	28 February 2006 (Audited) HK\$'000
Land and buildings:		
Not later than one year	<b>1,710</b>	2,427
Later than one year and not later than five years	<b>1,548</b>	2,283
	<b>3,258</b>	4,710

**15. RELATED PARTY TRANSACTIONS**

(a) Transactions with related parties

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

	<b>Six months ended 31 August 2006 (Unaudited) HK\$'000</b>	
	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Rental paid to:		
– a related party (note i)	433	<b>660</b>
– a related company (note ii)	322	<b>556</b>

Note:

- (i) During the period, the Group rented a shop located in Macau from Mr. Lee Tze Bun, Marces ("Mr. Lee"), a substantial shareholder and Director of the Company, as retail outlet in Macau.
- (ii) During the period, the Group rented office premises located in Mainland China from Genda Investment Limited, a company controlled by Mr. Lee.

**15. RELATED PARTY TRANSACTIONS** (continued)

(b) Year-end balances with related parties

	<b>31 August</b>	28 February
	<b>2006</b>	2006
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Payable to a related company (Note 15(a)(ii))	<b>479</b>	—

(c) Key management compensation

	<b>Six months ended</b>	
	<b>31 August</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Salaries and other employee benefits	<b>2,670</b>	2,970
Contributions to retirement scheme	<b>18</b>	24
Share based payments	<b>116</b>	362
	<b>2,804</b>	3,356

## INTERIM DIVIDEND

The Board of Directors has resolved to declare the payment of an interim dividend of HK3.0 cents per share for the year ending 28 February 2007 (2006: HK2.8 cents).

## BUSINESS REVIEW

For the six months ended 31 August 2006, the Group continued to deliver double-digit percentage growth in turnover and profit attributable to shareholders. This result was driven by steady sales growth in the footwear segment across different geographical regions and product mix as well as by strong growth momentum in export contribution through its original equipment manufacturing (“OEM”) business.

During the period, the Group’s turnover and profit attributable to shareholders rose by 24% to HK\$341 million and 12% to HK\$42 million respectively as compared to the same period last year. Gross margin remained relatively stable at 53%.

Selling and distribution costs went up by 32% to HK\$117 million when compared with those of the corresponding period the previous year, whilst general and administrative expenses dropped by 10% to HK\$38 million. The rise in selling and distribution costs was mainly due to a climb in rentals for the Hong Kong operations.

### Footwear

#### *Hong Kong*

As fiscal 2006 unfolds, positive sentiment has been prevalent in retail markets in both Hong Kong and Mainland China, so has been the radical upside on the property rentals. In the light of soaring rental expenses, operating environment has become volatile as market players turn to deeper and more frequent price cuts as a recognition of intensified competition from rivals.

Notwithstanding heavy pressure in rental hikes, as well as seasonality trends of the business which are primarily attributable to lower retail pricing of summer products, the Group further lifted the turnover from its core segment of footwear by 17% to HK\$313 million during the period under review, which accounted for 92% of the total turnover.



## BUSINESS REVIEW (continued)

### Footwear (continued)

#### *Hong Kong (continued)*

In Hong Kong, turnover from the market rose by 13% to HK\$87 million. The implementation of the brand enhancement plan, which came to a full completion at the end of the last financial

year, has been critical to our ongoing marketing efforts and further development of our business. By renovating existing outlets and opening more big concept stores in prime shopping malls at strategic locations, we now reach more consumers, with more styles, in more of their favourite places to shop.

This enabled us to drive more traffic and improve conversion of visits into sales during the period whilst, in part, helped offset the negative impact on operating profit brought forth by sharp rental hikes and discounted sales stemmed from fiercer market competition.

#### *Mainland China*

Competition in the Mainland China market has also built up dramatically. Nonetheless, the Group managed to raise its sales and profits through effective

store strategy and opening of new stores during the period. Naturally, credit should also go to the Group's excellent management of power positioning in mid- to high-end retail market to drive brand loyalty and tighter controls of costs of sales and distribution.

During the first six months of the year, the Group opened more *CnE 斯艾依* outlets in Mainland China, a brand targeting the younger, fashion-conscious and more price-sensitive customers. The dynamic development of the *CnE 斯艾依* line points to the direction that it will be as popular as the long-standing *Le Saunda 萊爾斯丹* brand as the operation matures progressively in a longer run.

### Apparel & Accessories

As a continuous effort to expand vertically into different footwear product lines catering for separate customer strata, the Group also sees exciting opportunities by extending horizontally to new categories such as apparel and accessories manufacturing. Since starting the business in late 2004, a number of *Antinori* outlets that offer trendy and smart casual clothing have been launched in Hong Kong and first-tier cities in Mainland China. Its earning ability has not yet been fully reflected in the bottom line. However, we are optimistic that brand awareness and recognition will gradually be built riding on its growing potentials in the foreseeable future.



## **BUSINESS REVIEW** (continued)

### **Other Markets**

In addition to retailing in the Hong Kong and Mainland China markets, the Group has also been engaging in export sales through its OEM business and retailing in Macau. Turnover from footwear operations outside Hong Kong and Mainland China for the period amounted to HK\$68 million, representing a 16% increase from that of the same period last year.

OEM was a bright spot for the Group during the period under review. Turnover from the OEM business continued to post an encouraging growth, thanks to acquisition of new customers. The surge in the segment was also contributed by an increase in gross profit as well as in unit selling price of products.

It is worth noting that a brandnew production line in Shunde, Mainland China, has become operational since July this year. Benefiting from the new production facilities, it is expected that the Group's total production capacity will be further increased when they are put into full operation by the end of 2006. At present, the business reports exported sales to customers which are mostly up-market brands or among the biggest department stores in Asia and Europe.

### **Property Development**

During the period, the Group recognized a dividend income of HK\$15 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\$22 million, which was mainly generated from the sale of residential units of Sunny Garden.



## **SHARE PLACEMENT**

In July 2006, the Group completed a share placement with independent private individual and institutional investors to raise funds of approximately HK\$107 million in the market. The Group has laid down plans to utilize the funds as general working capital and to facilitate future expansion in Mainland China.



## FINANCIAL POSITION

During the period, the Group's cash position remained sound. Its cash and bank balances amounted to HK\$164 million as at 31 August 2006, as compared with HK\$118 million at the start of the financial year. The Group obtained total banking facilities of HK\$50 million (28 February 2006: HK\$65 million). The Group's other properties and leasehold land with net book value amounting to HK\$27 million (28 February 2006: the Group's other



properties and leasehold land with net book value of HK\$27 million) had been pledged to secure bank loan facilities of HK\$50 million (28 February 2006: HK\$45 million) granted to certain subsidiaries of the Group. Out of such facilities, the Group's total short-term bank borrowings were HK\$6 million as of 31 August 2006, compared with HK\$4 million as at 28 February 2006. The Group's net worth amounted to HK\$685 million (28 February 2006: HK\$557 million). The Group's gearing ratio stood at 0.008 as at 31 August 2006, against 0.008 as at the start of the financial period. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK\$6 million and net worth of HK\$685 million as at 31 August 2006.

The Group's liquidity position also remained healthy, with a current ratio of 5.3 times (28 February 2006: 3.7 times) and a quick ratio of 2.6 times (28 February 2006: 1.3 times) as at 31 August 2006.

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 160 days to 190 days, and the amount of inventory increased from HK\$162 million to HK\$199 million during the period.

Bank loans of the Group were taken out in US dollars and Euro. The annual interest rate of the borrowings during the period ranged from 3.00% to 6.87%. Forward contracts will be 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 asset 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 will be 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.

### FINANCIAL POSITION (continued)

During the period, the Group did not have material acquisitions or disposal of subsidiaries or jointly controlled entity. For the current financial period, other than the establishment of a number of footwear and apparel 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 the contingent liabilities of the Group at the balance sheet date are set out in note 13 to the condensed financial statements.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2006, the Group had a staff force of 2,792 people. Of this, 215 were based in Hong Kong and 2,577 in Mainland China. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees comprises basic salaries, bonuses and long-term incentives. Total staff costs for the period, including directors' emoluments and net pension contributions, amounted to HK\$53 million (six months ended 31 August 2005: HK\$48 million). The Group has organized an array of training programmes for staff at different levels. Outside consultants would be invited to broaden the content of the programmes.



### PROSPECTS

Looking ahead into the second half of the financial year, our ongoing efforts to enhance brand positioning are unremitting. Our focus will continue to be on building and fortifying our brands of *Le Saunda* 萊爾斯丹, *CnE* 斯艾依 and *Antinori* 安蒂諾里 and further strengthening consumers' preference for them. This involves better product assortments and innovative marketing campaigns to showcase the peculiarity of the three brands to create competitive advantage, as well as stronger logistics support to facilitate more frequent deliveries of fresh styles to the retail floor.

In this context, and subsequent to the closing of the half-yearly reporting, the Group rolled out a large-scale marketing campaign combining TV commercial, outdoor advertising and VIP fashion show in October to aggressively promote the *Le Saunda* 萊爾斯丹 brand in Mainland China to achieve greater market penetration in conjunction with the Company's 29th anniversary event.

**PROSPECTS (continued)**

Moving forward, we are also improving our store expansion strategy with the goal of locating new stores just where our target customers would like to shop, yet at affordable rentals. This would allow us to optimize our marketing investment and increase our profitability in a diligent fashion whilst keeping rental expenses within viable ranges.



On the OEM front, we will use the new production line as a building block to extend our reach and add more customers to our clientele list.

In fiscal 2006, leveraging on the proceeds raised from the share placement in July, the Group will open more new stores in Mainland China. Undoubtedly, we will also further improve retail environments to ensure our customers' shopping experience is a totally satisfactory one. It is a combination of all the above that drives our success well into the future.

## 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 2006, 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 (Notes 1 & 2)	205,000,000 (Note 3)	262,204,000	42.04%
Mr. Wan Tat Wah ("Mr. Wan")	6,000,000	—	—	6,000,000	0.96% (Note 4)
Ms. Chui Kwan Ho, Jacky ("Ms. Chui")	2,880,000	—	50,000,000 (Note 5)	52,880,000	8.48% (Note 6)
Ms. Tsui Oi Kuen ("Ms. Tsui")	2,856,000	—	50,000,000 (Note 5)	52,856,000	8.48% (Note 7)

**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 Shares in associated corporation of the Company

<b>Name of associated corporation</b>	<b>Name of Director</b>	<b>Personal interests</b>	<b>Approximate percentage of the issued share capital of the associated corporation of the Company</b>
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 wholly owned by Mr. Lee. Therefore, Mr. Lee is deemed to be interested in those Shares.
- 1,384,000 Shares are held by Xin Chuan Middle School Foundation Limited ("Xin Chuan"), of which Mr. Lee is a governor. Therefore, Mr. Lee is deemed to be interested in those Shares.
- Stable Gain Holdings Limited ("Stable Gain") holds 205,000,000 Shares, representing approximately 32.87% of the issued share capital of the Company. Those Shares were transferred from Lee Tze Bun Trustee Holding Corporation, being the trustee of a unit trust called The Lee Tze Bun Unit Trust ("LTB Trust"), as to 155,000,000 Shares, and from Lee Keung Trustee Holding Corporation, being the trustee of a unit trust called The Lee Keung Unit Trust ("LK Trust"), as to 50,000,000 Shares, upon termination of both the LTB Trust and the LK Trust on 28 July 2006. The entire issued share capital of Stable Gain is registered in the name of LGT Trustees Ltd. ("LGT") as trustee of The Lee Keung Family Trust ("Lee Family Trust"), a discretionary trust, of which Mr. Lee is the founder and an eligible beneficiary thereunder. Therefore, Mr. Lee is deemed to be interested in those Shares.
- Mr. Wan personally holds 6,000,000 Shares and is also entitled to 4,000,000 share options granted by the Company. Upon exercise of these outstanding share options in full, Mr. Wan's interests in the Company will be increased from the existing 0.96% to 1.60% of the issued share capital of the Company including number of shares in relation to such exercise.

**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: (continued)*

5. *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 8.02% of the issued share capital of the Company. Therefore, Ms. Chui, Ms. Tsui and Ms. Lee are deemed to be interested in those Shares.*
6. *Ms. Chui personally holds 2,880,000 Shares. Together with the Shares mentioned in (5) above, Ms. Chui holds an aggregate of 52,880,000 Shares, representing approximately 8.48% of the issued share capital of the Company.*
7. *Ms. Tsui personally holds 2,856,000 Shares. Together with the Shares mentioned in (5) above, Ms. Tsui holds an aggregate of 52,856,000 Shares, representing approximately 8.48% of the issued share capital of the Company.*
8. *Mr. Lee beneficially owns 20,000 non-voting deferred shares in L. S. Retailing Limited, a wholly-owned subsidiary of the Company.*

**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.

## 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)

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 <i>(Notes 1 &amp; 2)</i>	Number of Shares			Outstanding as at 31 August 2006	Exercise price per Share	Exercise period
		Outstanding as at 1 March 2006	Exercised during the period <i>(Note 3)</i>	Cancelled during the period			
<b>Directors</b>							
Mr. Wan <i>(Note 4)</i>	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	1,200,000	1,200,000	—	—	HK\$0.38	26 July 2006 – 12 April 2014
Ms. Tsui	13 April 2004	1,200,000	1,200,000	—	—	HK\$0.38	26 July 2006 – 12 April 2014
Sub-total		12,400,000	8,400,000	—	4,000,000		
<b>Employees</b>							
Other employees in aggregate	13 April 2004	1,565,000	935,000	30,000	600,000	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	3,645,000	2,805,000	30,000	810,000	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	4,860,000	—	40,000	4,820,000	HK\$0.38	13 April 2007 – 12 April 2014
	7 March 2005	1,000,000	—	—	1,000,000	HK\$1.24	1 September 2007 – 6 March 2015
	16 January 2006	900,000	900,000	—	—	HK\$0.87	16 January 2006 – 15 January 2016
	16 January 2006	1,221,000	453,000	150,000	618,000	HK\$0.87	7 March 2006 – 15 January 2016
	16 January 2006	900,000	—	—	900,000	HK\$0.87	1 September 2006 – 15 January 2016
	16 January 2006	1,221,000	—	150,000	1,071,000	HK\$0.87	7 March 2007 – 15 January 2016
	16 January 2006	200,000	—	—	200,000	HK\$0.87	1 September 2007 – 15 January 2016
	16 January 2006	1,628,000	—	200,000	1,428,000	HK\$0.87	7 March 2008 – 15 January 2016
	Sub-total		18,540,000	5,093,000	600,000	12,847,000	
Total		30,940,000	13,493,000	600,000	16,847,000		

**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, 7 March 2005 and 16 January 2006 on which the share options were granted was HK\$0.40, HK\$1.26 and HK\$0.87 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\$1.16 per Share.*
- 4. On 13 April 2004, 10,000,000 share options were granted to Mr. Wan, which were in excess of the specified limit of 4,486,196 Shares, being 1% of the issued Shares as at 25 June 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.*

Save as disclosed above, as at 31 August 2006, 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 PURCHASE SHARES OR DEBENTURES**

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



## SUBSTANTIAL SHAREHOLDERS

As at 31 August 2006, 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	42.04%
LGT	3	—	205,000,000	—	205,000,000	32.87%
Stable Gain	3	205,000,000	—	—	205,000,000	32.87%
Ms. Chui	5	2,880,000	—	50,000,000	52,880,000	8.48%
Ms. Tsui	6	2,856,000	—	50,000,000	52,856,000	8.48%
Ms. Lee	7	4,000,000	—	50,000,000	54,000,000	8.66%
Ms. Chui, Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation	5, 6 & 7	—	—	50,000,000	50,000,000	8.02%
Value Partners Limited ("VPL")	8	—	—	42,082,000	42,082,000	6.75%
Mr. Cheah Cheng Hye ("Mr. Cheah")	8 & 9	—	42,082,000	—	42,082,000	6.75%

#### Notes:

1. Mr. Lee personally holds 25,820,000 Shares.
2. Succex Limited, in which Mr. Lee is a 100% controlling shareholder, holds 30,000,000 Shares; and Xin Chuan, in which Mr. Lee is a governor, holds 1,384,000 Shares. Therefore, Mr. Lee is deemed to be interested in those Shares.
3. Stable Gain holds 205,000,000 Shares, representing approximately 32.87% of the issued share capital of the Company. Those Shares were transferred from Lee Tze Bun Trustee Holding Corporation, being the trustee of the LTB Trust, as to 155,000,000 Shares, and from Lee Keung Trustee Holding Corporation, being the trustee of the LK Trust, as to 50,000,000 Shares, upon termination of both the LTB Trust and the LK Trust on 28 July 2006. The entire issued share capital of Stable Gain is registered in the name of LGT as trustee of the Lee Family Trust, a discretionary trust, of which Mr. Lee is the founder and an eligible beneficiary thereunder. Therefore, Mr. Lee is deemed to be interested in those Shares.
4. Mr. Lee is interested in an aggregate of 262,204,000 Shares as a result of (1), (2) and (3) above, being approximately 42.04% of the issued share capital of the Company.
5. Ms. Chui holds an aggregate of 52,880,000 Shares (comprising 2,880,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation), representing approximately 8.48% of the issued share capital of the Company.

## **SUBSTANTIAL SHAREHOLDERS** (continued)

### **Long positions in Shares of the Company** (continued)

*Notes: (continued)*

6. *Ms. Tsui holds an aggregate of 52,856,000 Shares (comprising 2,856,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Chui and Ms. Lee as trustees of the Charitable Foundation), representing approximately 8.48% of the issued share capital of the Company. Ms. Tsui disposed of 2,856,000 Shares personal interests from 10 October to 11 October 2006.*
7. *Ms. Lee holds an aggregate of 54,000,000 Shares (comprising 4,000,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Chui and Ms. Tsui as trustees of the Charitable Foundation), representing approximately 8.66% of the issued share capital of the Company.*
8. *42,082,000 Shares representing approximately 6.75% 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 42,082,000 Shares.*

Save as disclosed above, as at 31 August 2006, 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 Thursday, 7 December 2006 to Monday, 11 December 2006, 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 Friday, 15 December 2006, 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 Wednesday, 6 December 2006.

### **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 August 2006.

### **AUDIT COMMITTEE**

The Company established an audit committee and has adopted a term of reference of the audit committee which complies with the Code as set out in Appendix 14 of the Listing Rules.

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

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 financial statements for the six months ended 31 August 2006.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. 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 2006 to 31 August 2006.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 August 2006.

By order of the Board  
**Lee Tze Bun, Marces**  
*Chairman*

Hong Kong, 21 November 2006