le saunda holdings ltd.
利信達集團有限公司*

(incorporated in Bermuda with limited liability)
(stock code: 0738)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2011

FINANCIAL HIGHLIGHTS

		Six months ended 31 August 2011	2010	change	change in %
Revenue	HK$ million	655.2	533.7	121.5	22.8
Gross profit	HK$ million	415.6	319.1	96.5	30.2
Profit attributable to equity holders of the Company	HK$ million	70.0	60.4	9.6	16.0
Underlying profit attributable to equity holders of the Company	HK$ million	67.6	50.1	17.5	35.0
Basic earnings per share	HK cents	10.95	9.44	1.51	16.0
Dividend per share					
— interim	HK cents	5.0	4.3	0.7	16.3

The board of Directors of Le Saunda Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2011. The unaudited condensed consolidated interim results for the six months ended 31 August 2011 have not been audited by the Company's auditors, but were reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 31 August 2011

		Unaudited	
		Six months ended 31 August	
		2011	**2010**
	Note	*HK$'000*	*HK$'000*
			(Restated)
Revenue	4	655,193	533,683
Cost of sales		(239,559)	(214,569)
Gross profit		415,634	319,114
Other income	5	1,298	899
Other gains	5	2,105	1,357
Selling and distribution costs		(261,656)	(183,495)
General and administrative expenses		(69,725)	(67,671)
Operating profit	6	87,656	70,204
Finance income		1,984	813
Finance costs		(5)	—
Share of (loss)/profit of a jointly controlled entity		(1,070)	8,029
Profit before income tax		88,565	79,046
Income tax expense	7	(18,212)	(18,529)
Profit for the period		70,353	60,517
Profit attributable to:			
— equity holders of the Company		70,014	60,365
— non-controlling interests		339	152
		70,353	60,517
Earnings per share attributable to equity holders of the Company			
— Basic (HK cents)	8	10.95	9.44
— Diluted (HK cents)	8	10.95	9.44
Interim dividend	9	31,966	27,488

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 August 2011

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Profit for the period	70,353	60,517
Other comprehensive income		
Currency translation differences	28,048	2,319
Other comprehensive income for the period, net of tax	28,048	2,319
Total comprehensive income for the period	98,401	62,836
Total comprehensive income for the period, attributable to:		
— equity holders of the Company	97,727	62,661
— non-controlling interests	674	175
	98,401	62,836

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 31 August 2011

	Note	Unaudited 31 August 2011 HK$'000	Audited 28 February 2011 HK$'000
ASSETS			
Non-current assets			
Investment properties		47,188	47,188
Property, plant and equipment		243,841	232,127
Leasehold land and land use rights		33,740	33,834
Long-term deposits and prepayments		16,093	10,388
Interest in a jointly controlled entity		33,790	48,592
Deferred tax assets		34,324	37,861
		408,976	409,990
Current assets			
Inventories		461,428	386,888
Trade and other receivables	10	131,707	134,694
Deposits and prepayments		24,535	23,311
Cash and bank balances		346,111	348,365
		963,781	893,258
Total assets		1,372,757	1,303,248

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)
As at 31 August 2011

	Note	Unaudited 31 August 2011 HK$'000	Audited 28 February 2011 HK$'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		63,931	63,931
Reserves			
Proposed dividend		31,966	55,620
Others		990,512	923,164
		1,086,409	1,042,715
Non-controlling interests		12,182	11,508
Total equity		1,098,591	1,054,223
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		14,201	14,201
Current liabilities			
Trade payables and accruals	11	204,005	169,436
Amount due to a jointly controlled entity		48,852	47,456
Current income tax liabilities		7,108	14,422
Bank loans		—	3,510
		259,965	234,824
Total liabilities		274,166	249,025
Total equity and liabilities		1,372,757	1,303,248
Net current assets		703,816	658,434
Total assets less current liabilities		1,112,792	1,068,424

NOTES:

1 GENERAL INFORMATION

Le Saunda Holdings Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in manufacturing and sales of shoes. The Group mainly operates in Hong Kong, Macau and Mainland China.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 24 October 2011.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 31 August 2011 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 28 February 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 28 February 2011, as described in those annual financial statements.

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

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

(a) Amended standard adopted by the Group

The following amended standard is mandatory for the first time for the financial year beginning 1 March 2011:

- Amendment to HKAS 34 'Interim Financial Reporting' is effective for annual periods beginning on or after 1 March 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

(b) The following new, revised or amended standards and interpretations are also mandatory for the first time for the financial year beginning 1 March 2011 but are not currently relevant to the Group:

- HKAS 24 (Revised) — Related Party Disclosures
- HKAS 32 (Amendment) — Classification of Rights Issues
- HK(IFRIC)–Int 14 (Amendment) — Prepayments of a Minimum Funding Requirement
- HK(IFRIC)–Int 19 — Extinguishing Financial Liabilities with Equity Instruments
- Third improvements to Hong Kong Financial Reporting Standards (2010) issued in May 2010 (except for amendment to HKAS 34 'Interim Financial Reporting' as disclosed in note 3(a))

(c) The following new and amended standards have been issued but are not effective for the financial year beginning 1 March 2011 and have not been early adopted:

- HKAS 1 (Amendment) — Presentation of Financial Statements[3]
- HKAS 12 (Amendment) — Deferred Tax: Recovery of Underlying Assets[2]
- HKAS 19 (Amendment) — Employee Benefits[4]
- HKFRS 1 (Amendment) — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
- HKFRS 7 (Amendment) — Disclosures — Transfers of Financial Assets[1]
- HKFRS 9 — Financial Instruments[4]
- HKFRS 10 — Consolidated Financial Statements[4]
- HKFRS 11 — Joint Arrangements[4]
- HKFRS 12 — Disclosures of Interests in Other Entities[4]
- HKFRS 13 — Fair Value Measurement[4]

1 Changes effective for annual periods beginning on or after 1 July 2011
2 Changes effective for annual periods beginning on or after 1 January 2012
3 Changes effective for annual periods beginning on or after 1 July 2012
4 Changes effective for annual periods beginning on or after 1 January 2013

4 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors review the Group's financial information mainly from retail and export perspective. For the retail business, the Executive Directors further assess the performance of operations on a geographical basis (Hong Kong, Macau and Mainland China). The reportable segments are classified in a manner consistent with the information reviewed by the Executive Directors.

The Executive Directors assess the performance of the operating segments based on a measure of reportable segment profit. This measurement basis excludes other income, net exchange gains, finance income, finance costs, share of profit/loss of a jointly controlled entity and unallocated income/expenses.

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

Segment liabilities mainly exclude amount due to a jointly controlled entity, current income tax liabilities, deferred tax liabilities and other liabilities that are managed on a central basis.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are based on the country where the assets are located.

The segment information provided to the Executive Directors for the reportable segments for the six months ended 31 August 2011 is as follows:

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

The segment information for the six months ended 31 August 2010 is as follows:

	Unaudited Six months ended 31 August 2010			
	Retail		**Export**	**Total**
	HK & Macau	**Mainland China**	*(Note (a))*	
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Revenue from external customers	65,076	396,834	71,773	533,683
Reportable segment profit	6,516	51,174	10,312	68,002
Other income				899
Finance income				813
Net exchange gains				1,357
Share of profit of a jointly controlled entity				8,029
Unallocated expenses				(54)
Profit before income tax				79,046
Income tax expense				(18,529)
Profit for the period				60,517
Depreciation and amortisation	1,996	15,331	1,970	19,297
Additions to non-current assets (Other than deferred tax assets)	1,202	20,721	3,132	25,055

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

Revenues from external customers are derived from the sales of shoes on a retail and export basis. The breakdowns of retail and export results are provided above. The retail sales of shoes mainly relates to the Group's own brand, Le Saunda, CnE and Linea Rosa. The export sales of shoes relates to the Group's own brand and the other shoe brands which are not owned by the Group.

An analysis of the Group's assets and liabilities as at 31 August 2011 by reportable segment is set out below:

	Unaudited As at 31 August 2011			
	Retail		Export	Total
	HK & Macau	Mainland China		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	131,991	1,112,273	44,568	1,288,832
Interest in a jointly controlled entity				33,790
Deferred tax assets				34,324
Unallocated assets				15,811
Total assets per condensed consolidated balance sheet				1,372,757
Segment liabilities	18,822	178,394	6,779	203,995
Amount due to a jointly controlled entity				48,852
Current income tax liabilities				7,108
Deferred tax liabilities				14,201
Unallocated liabilities				10
Total liabilities per condensed consolidated balance sheet				274,166

An analysis of the Group's assets and liabilities as at 28 February 2011 by reportable segment is set out below:

	Audited As at 28 February 2011			
	Retail		Export	Total
	HK & Macau	Mainland China		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	127,681	981,467	107,419	1,216,567
Interest in a jointly controlled entity				48,592
Deferred tax assets				37,861
Unallocated assets				228
Total assets per condensed consolidated balance sheet				1,303,248
Segment liabilities	12,472	147,244	13,210	172,926
Amount due to a jointly controlled entity				47,456
Current income tax liabilities				14,422
Deferred tax liabilities				14,201
Unallocated liabilities				20
Total liabilities per condensed consolidated balance sheet				249,025

The revenue from external customers of the Group by geographical segments is as follows:

REVENUE

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Hong Kong	71,300	57,257
Mainland China	548,516	396,834
Macau	11,101	7,819
Russia	15,884	41,942
Italy	27	1,676
Other countries *(Note (a))*	8,365	28,155
Total	655,193	533,683

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

For the six months ended 31 August 2011, there was no transaction with a single external customer that amounted to 10 percent or more of the Group's revenue (for the six months ended 31 August 2010: HK$ Nil).

An analysis of the non-current assets (other than deferred tax assets) of the Group by geographical segments is as follows:

NON-CURRENT ASSETS

	Unaudited 31 August 2011	**Audited 28 February 2011**
	HK$'000	*HK$'000*
Hong Kong	34,498	25,863
Mainland China	296,995	302,862
Macau	43,159	43,404
Total	374,652	372,129

5 OTHER INCOME AND OTHER GAINS

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Other income		
Gross rental income from investment properties	1,298	899
Other gains		
Net exchange gains *(Note (a))*	2,105	1,357
	3,403	2,256

(a) Net exchange gains arose from the settlement of transactions denominated in foreign currencies and from the translation at period-end exchange rates of monetary assets and liabilities, including inter-company balances, denominated in foreign currencies.

6 OPERATING PROFIT

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

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Auditors' remuneration	929	785
Amortisation of leasehold land and land use rights	452	446
Depreciation of property, plant and equipment	23,057	18,851
Loss on disposal of property, plant and equipment	619	1,463
Cost of inventories recognised as expenses included in cost of sales	179,056	185,980
Operating lease rentals in respect of land and buildings		
— minimum lease payments	40,391	28,921
— contingent rent	1,391	1,115
Freight charges	6,366	6,274
Concessionaire fee	95,894	71,381
(Write-back of impairment)/impairment of inventories	(1,622)	5,732
Direct operating expenses arising from investment properties that generated rental income	113	140
Staff costs (including directors' emoluments and value of employee services)	162,673	116,629

7 INCOME TAX EXPENSE

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

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000* (Restated)
Current income tax		
People's Republic of China ("PRC") corporate income tax	14,671	18,364
Deferred taxation	3,541	165
	18,212	18,529

Hong Kong profits tax is provided for at the rate of 16.5% on the estimated assessable profit. No profit tax has been provided for the six months ended 31 August 2011 and 31 August 2010 as the Group had sufficient tax losses brought forward to offset the estimated assessable profit.

PRC corporate income tax is provided on the profits of the Group's subsidiaries in PRC at a range from 24% to 25% (2010: range from 22% to 25%), except for one of the subsidiaries of the Company established in the PRC that is entitled to two years' exemption from the PRC corporate income tax of 25% followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward (at most five years). Accordingly, the subsidiary was fully exempted from the PRC corporate income tax in 2007 and 2008, and subject to a reduced tax rate of 12.5% in 2009, 2010 and 2011.

8 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	70,014	60,365
Weighted average number of ordinary shares in issue ('000)	639,314	639,266
Basic earnings per share (HK cents)	10.95	9.44

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The diluted earnings per share for the period ended 31 August 2011 was the same as the basic earnings per share as the Company's share options outstanding during the period was anti-dilutive potential ordinary shares. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	70,014	60,365
Weighted average number of ordinary shares in issue ('000)	639,314	639,266
Adjustments for share options ('000)	—	31
Weighted average number of ordinary shares for diluted earnings per share ('000)	639,314	639,297
Diluted earnings per share (HK cents)	10.95	9.44

9 DIVIDENDS

	Unaudited Six months ended 31 August	
	2011	**2010**
	HK$'000	*HK$'000*
Interim dividend of HK5.0 cents (six months ended 31 August 2010: HK4.3 cents) per share	31,966	27,488

A dividend of HK$55,620,000 that related to the financial year ended 28 February 2011 was paid in July 2011 (2010: HK$44,749,000).

At the board of Directors meeting held on 24 October 2011, the board of Directors has resolved to declare an interim dividend of HK5.0 cents per share. This interim dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings of the Company for the year ending 29 February 2012.

10 TRADE AND OTHER RECEIVABLES

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

	Unaudited 31 August 2011	**Audited 28 February 2011**
	HK$'000	*HK$'000*
Trade receivables *(note (a))*		
Current to 30 days	103,571	115,312
31 to 60 days	10,088	11,644
61 to 90 days	3,896	2,605
Over 90 days	4,141	1,336
	121,696	130,897
Other receivables	10,011	3,797
Total	131,707	134,694

(a) The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on average credit period of 90 days.

The carrying amounts of trade and other receivables approximate their fair values. There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

11 TRADE PAYABLES AND ACCRUALS

The credit periods granted by suppliers generally range from 7 to 60 days. The ageing analysis of the trade creditors is as follows:

	Unaudited 31 August 2011 *HK$'000*	**Audited 28 February 2011** *HK$'000*
Trade creditors		
Current to 30 days	43,806	18,331
31 to 60 days	30,837	17,494
61 to 90 days	4,133	6,301
91 to 120 days	2,677	2,777
Over 120 days	4,303	4,386
	85,756	49,289
Accruals	118,249	120,147
Total	204,005	169,436

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the first half of the 2011/12 fiscal year, the Group managed to achieve steady growth despite various negative factors such as persistent inflationary pressure in China, rising corporate operations costs and uncertainties in the global markets. For the six months ended 31 August 2011, the Group posted a consolidated revenue of HK$655.2 million, an increase of 22.8% over the last corresponding period. Consolidated gross profit increased by 30.2% to HK$415.6 million, while the overall gross profit margin rose 3.6 percentage points to 63.4%. Consolidated operating profit increased by 24.9% to HK$87.7 million. Taking into account the Group's share of loss of a jointly controlled entity (property development business) of HK$1.1 million (2010/11: profit of HK$8.0 million), consolidated profit attributable to equity holders of the Company was HK$70.0 million, an increase of 16.0% over the last corresponding period. Basic earnings per share was HK10.95 cents. Underlying profit, which reflects the performance of Group's core footwear business, increased by 35.0% over the last corresponding period to HK$67.6 million, indicating that our core retail business performed as expected during the period.

The Board resolved to declare an interim dividend of HK5.0 cents per ordinary share for the six months ended 31 August 2011 (2010/11 interim dividend: HK4.3 cents).

Note: "Underlying profit" is an indicator of the Group's performance in core sales of the footwear business. It is calculated by excluding the share of profit/loss of a jointly controlled entity, rental income, profit on disposal of investment properties, foreign exchange gains/losses, unrealized fair value changes on investment properties and available-for-sale financial assets, and impairment losses for the amount due from available-for-sale financial assets from profit for the period attributable to equity holders of the Company.

BUSINESS REVIEW

Retail Operations and Sales Network

Retail operations remain the Group's principal revenue contributor, accounting for 96.3% of our consolidated revenue. The retail markets in Hong Kong, Macau and Mainland China continued to be robust during the period. With our rapidly expanding retail network, the Group's average number of outlets increased by approximately 28% compared to the last corresponding period. Along with the overall same-store-sales growth of approximately 12.5%, our retail segment recorded a total revenue of HK$630.9 million, up by 36.6% over the last corresponding period.

Consolidated Revenue	Six months ended 31 August 2011 (HK$ Million)	% to Total	Year-on-year Growth (%)
Retail Operations:			
Mainland China	548.5	83.7	38.2
Hong Kong and Macau	82.4	12.6	26.6
Retail Sub-total	**630.9**	**96.3**	**36.6**
Export	**24.3**	**3.7**	**-66.2**
Group's Total Revenue	**655.2**	**100.0**	**22.8**

The Group continued to expand its footprint nationwide to capture the opportunities arising from China's rapid urbanization and growing purchasing power. As at 31 August 2011, the Group had a network of 790 retail outlets in Hong Kong, Macau and Mainland China, 143 more compared to last August.

Number of Outlets by Region	As at 31 August 2011 Self-owned	Franchised	Total
Mainland China	**609**	**164**	**773**
• Northern, Northern East & Northern West	121	102	223
• Eastern	193	8	201
• Central & Southern West	119	39	158
• Southern	176	15	191
Hong Kong and Macau	**17**	**—**	**17**
Total	**626**	**164**	**790**

Product Mix & Offerings

In terms of product mix, ladies' footwear remained the Group's major revenue contributor by product category during the period, achieving year-on-year growth of 42.4%. Men's footwear also registered remarkable growth of 33.1%.

Product Category	Year-on-year Growth (%)	Sales Mix (%)
Ladies' Footwear	42.4	78.7
Men's Footwear	33.1	11.9
Ladies' Handbags and Accessories	5.7	9.4
Total		100.0

The Group has been targeting the mid-to-high-end segment of footwear market. Leveraging the surge of purchasing power in the PRC market, the Group was committed to enriching its product mix during the period, offering quality products to a wide range of customers. On top of our existing mid-to-high-end brand "Le Saunda" which targets stylish executives and the "CnE" brand which targets young and trendy ladies, the Group has duly launched the counter of the high-end brand "Linea Rosa" featuring trendy and refined ladies' footwear, as well as promoting the high-end line "Itauomo" of prestige Italian men's footwear at the Le Saunda men's footwear counters. By launching diversified product lines, the Group intends to promote its brand image with its men's and ladies' footwear and to increase its presence in the high-end market.

Geographical Review

Hong Kong and Macau

During the period under review, with the economic conditions in the region becoming more stable, total revenue generated by our retail business in Hong Kong and Macau reached HK$82.4 million, representing a year-on-year increase of 26.6% and accounting for 12.6% of Group consolidated revenue. The average selling price also rose by approximately 6.0% over the last corresponding period.

To enhance Le Saunda's brand image and exposure, 4 new retail outlets located mainly in commercial and tourist hotspots were opened during the period. As at the end of the first half year, the total number of outlets in Hong Kong and Macau reached 17. In light of rising rental expense and inflationary pressure, the Group has adopted a flexible and timely store optimization strategy to adjust its store locations and store layout, so as to tighten control over rental costs.

Apart from gaining a foothold in shopping hotspots, the Group put more effort into organizing promotional activities and marketing campaigns to enhance its brand image and recognition. Recently, the Group had held a fashion show at Times Square in Causeway Bay to unveil its 2011 Fall/Winter collections. Celebrity model Chrissie Chau was invited along with a team of professional models to grace the occasion, bringing wide coverage of the Le Saunda brand by the local media. We believe that promotional activities such as new product fashion shows can further facilitate our product positioning while also enhancing media exposure of our brand.

Mainland China

The Mainland China market is the main profit contributor of the Group. Though faced with rising labour costs in Mainland China, the Group's retail business in Mainland China achieved impressive growth during the period, benefited from the continuing expansion of its retail network and prudent operation strategies. Revenue from Mainland China went up by 38.2% to HK$548.5 million, accounting for 83.7% of the consolidated revenue of the Group. The average selling price was 5.3% higher than that of the last corresponding period.

During the period under review, the Group continued to set up retail outlets and counters in second- and third-tier cities, including the first high-end "Linea Rosa" specialty store in Wuhan and 11 new stand-alone counters for men's footwear. The Group also tapped into new markets with significant spending potential in Wuzhou, Jiling, Anshan, Jining and Anyang. As at 31 August 2011, the Group had a nationwide network of 609 self-owned outlets and 164 franchised outlets.

Meanwhile, the Group invested heavily in marketing and advertising campaigns in Mainland China in a bid to enhance its brand recognition nationwide. In April 2011, the Group organized a major fashion show and the product launch for the high-end "Linea Rosa" brand, which targets young and fashionable consumers, at the popular landmark "1933" in Shanghai to showcase Le Saunda's 2011 Spring/Summer ladies' and men's collections. Hong Kong Canto-pop star Ms. Miriam Yeung and Mr. Real Ting, for the first time as a couple, strolled down the catwalk for the event. Their well-received performance generated a considerable amount of publicity for our brand in Mainland China and Hong Kong.

New Sales Channels

With the growing popularity of the Internet in China, the development of online sales is entering into a mature stage. To expand its sales channels, the Group started online sales in 2010 and set up points of sale at different retail platforms. During the first half of this financial year, the Group's online sales doubled when compared to the last corresponding period. Conducting our sales through online platforms not only brings in considerable revenue, but also enables the Group to reach out to a different customer base.

Export Business

The export market remained sluggish during the period under review as a result of weak demand from European countries hit by the European debt crisis. The Group's overall export revenue dropped by 66.2% compared to the last corresponding period. However, the export business accounted for only 3.7% of Group consolidated revenue.

Inventory & Supply Chain Management

As at 31 August 2011, the Group's inventory balance was HK$461.4 million, up 19.3% from HK$386.9 million as at the end of the last financial year. A breakdown of the increase in inventory balance is as follows:

HK$ (million)	As at 31 August 2011	As at 28 February 2011	Increase in Value	Growth (%)
Raw Materials and Work-in-progress	109.2	106.9	2.3	2.2
Finished Goods	352.2	280.0	72.2	25.8
Total	461.4	386.9	74.5	19.3

As the Group has been actively expanding the new store network over the past few years, maintaining relatively high inventory levels can help to facilitate market development more effectively. At the end of the half-year period, finished goods increased by HK$72.2 million, a majority of which was attributed to the early production and delivery of goods for the next season. As a result, the Group's stock turnover days increased to 210 days (31 August 2010: 172 days). However, our inventory level remained healthy as nearly 90% of finished goods aged less than one year (31 August 2010: 85%).

Expecting a more volatile external environment in the second half year, the Group has taken the initiative to clear the stock since September 2011 through various channels such as its permanent and temporary factory outlets with new promotional strategies. All these aim to bring the off-season inventory level in end of February 2012 lower than that in end of February 2011. To enhance the supply-chain management at our production bases, the Group committed to investing in a new ERP management system during the period. The new system implementation is expected to be commissioned in the second half of 2012. This will further improve the operation efficiency of the production bases at Shunde and Gaoming, shorten their production cycle and enhance their supply chains.

FINANCIAL REVIEW

Operating results

Consolidated revenue increased by 22.8% to HK$655.2 million (2010/11: HK$533.7 million). Retail revenue maintained its growth momentum with year-on-year growth of approximately 36.6%, while the weakening export markets have recorded a year-on-year decline of 66.2%. As a result, the Group's overall revenue growth slowed down comparatively in the first half of the financial year.

During the period, costs of sales increased by 11.6% to HK$ 239.6 million (2010/11: HK$214.6 million). Shoe products sold by the Group are primarily produced in our manufacturing base in Shunde. During the period under review, finished goods from our Shunde facilities recorded a slight increase in average cost per unit for materials. As the majority of the materials are imported, the pressure from rising material costs was partially offset by the appreciation of the RMB. Wage costs per unit on average saw a moderate single-digit increase during the period under review. Thanks to improvements in efficiency, the increase in average cost per unit for labor was lower than the increment in labor salary.

Selling and distribution costs increased by 42.6% to HK$261.7 million (2010/11: HK$183.5 million) during the period under review. The rise in selling and distribution costs outstripped revenue growth because (i) there was a change in the business mix as export sales, which generally incur lower selling and distribution costs, accounted for only 3.7% of total revenue (2010/11: 13.4%); (ii) rents and wages were the two major components of selling costs. During the period, there was an increase of more than 35% in fixed rental expenses for our stores in Hong Kong while the concession rate applicable to our counters in the PRC remained relatively stable. Along with inflation, there was a sharp rise in wages for sales personnel while it took time for new stores to achieve operational efficiency. As a result, the increase in wage costs is higher than the growth of revenue; and (iii) there was a year-on-year increase of more than 90% in advertising and promotional expenses to cope with brand building initiatives and opening of new stores. In terms of sales ratio, selling and distribution costs accounted for 39.9% of revenue (2010/11: 34.4%).

General and administrative expenses increased by 3.0% to HK$69.7 million (2010/11: HK$67.7 million). In terms of sales ratio, general and administrative expenses accounted for 10.6% of revenue (2010/11: 12.7%). Upward pressure on payroll for management and administrative staff grew stronger while other expenditures such as depreciation of office equipment remained relatively stable.

Income tax expenses for the period under review was approximately HK$18.2 million (2010/11: HK$18.5 million), representing an effective tax rate (net of non-taxable items) of approximately the same as that of last corresponding period. All PRC tax benefits currently enjoyed by the Group are due to expire by the end of 2011. The effective tax rate is expected to gradually increase to close to 25%. For our Hong Kong business, the effective tax rate is maintained at 16.5%.

During the period under review, the Group's share of losses of a jointly controlled entity amounted to HK$1.1 million (2010/11: profit of HK$8.0 million). This jointly controlled entity is principally engaged in property development in the PRC. As at end of 2010, it had completed its projects on hand and there were no plans to launch new projects.

OUTLOOK

In its 12th Five-Year Plan, the PRC central government proposed the strategy of boosting domestic demand and building a long-term mechanism for expanding consumer demand. The economic structure of the PRC is thus shifting towards a consumer- and urbanization-oriented model in which retail consumption will remain the mainstay of economic growth in the PRC. With the rising per capita income and the quest for better quality of life, we believe that the PRC has immense market potential and that the retail industry will benefit in the long run.

In the near term, ongoing austerity measures to curb the overheating economy may affect consumer sentiments to some extent. Even worse, markets across the globe have become increasingly volatile since July and August 2011. Uncertainties concerning the prospects of the US economy and the relapse of the European debt crisis have generated concerns over the global economy which are likely to hit some Asian markets with a slowdown in economic growth. Retail markets in Hong Kong and the PRC may suffer as consumer sentiment turns sour. Facing a business environment characterized by possible instability, the Group will adhere to its prudent approach to expand its business by setting up new self-owned stores in promising second- and third-tier cities, mainly the prefecture-level cities untapped by the Group and maintain its target of setting up a total of 1,000 outlets by August of 2012. In addition, the Group will strive to lower the inventory level to expedite its cash flow. Starting from Spring/Summer 2012, the Group will adopt more aggressive merchandising policies to speed up the launch of new styles in the market and to reduce the growth rate of inventory. Through timely repeat orders for our best-sellers, the Group will further improve its operational efficiency and profit margin. The Group endeavours to cope with the ever-changing market with a more flexible approach.

With the rapid growth being seen in the PRC retail market, market competition is expected to intensify. The Group will continue to enrich its product mix and instill new elements to its brands to cope with the ever-changing market. The CnE line will consolidate to introduce more new fashionable products at a faster pace. Our expanding men's footwear business will develop new lines with specific elements to target the trendy and smart executive customers, coupled with the newly launched "Linea Rosa" women's footwear brand which targets high-end young customers with elegant fashion sense, thus further strengthening our leading position in the mid-to-high-end market in Mainland China.

In contrast to the strong economic growth in the PRC, economies across Europe remain weak. Export markets are expected to stay depressed for the second half of the financial year. This may have an impact on the original equipment manufacturing (OEM) division within the Group's export segment. As our retail business continues to grow, the proportion of Group's revenue contributed by export business will gradually diminish.

As strong economic growth in Mainland China drives up labor costs, the Group faces the pressure of higher operating costs. Besides, persistently high shop rents during the period under review also exerted pressure on our operating costs. We expect that labor costs at home and across the border as well as the rental expense for retail outlets in Hong Kong will remain challenging for the second half of the year. The Group will forge ahead with its strategy of optimizing its operations, enhancing efficiency through various cost control measures, opening up effective sales channels, and boosting turnover and profit margins in order to mitigate the impact from rising costs. In so doing, we are translating the impact from rising labor costs and shop rents into a driving force to enhance the Group's operational efficiency.

Leveraging our competitive edges, we will continue to strengthen the Group's position as one of the leading retailers of brand name shoes in Hong Kong and Mainland China. Meanwhile, we will spare no effort in overcoming the challenges that stem from the difficult operating environment, striving to enhance our profitability and creating higher value for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity Ratio

As at 31 August 2011, the Group's cash position remains strong and healthy with net cash balance of HK$346.1 million as compared with HK$348.4 million as at 28 February 2011. Total equity is maintained at HK$1,098.6 million, along with a quick ratio of 1.8 times (28 February 2011: 2.1 times).

Pledge of Assets

As at 31 August 2011, bank deposit of HK$4.3 million (28 February 2011: HK$2.2 million) have been pledged as rental deposits for certain subsidiaries of the Group.

Capital Structure and Financial Resources

During the six months ended 31 August 2011, the Group's cash and bank balances were in Hong Kong dollars, US dollars, Euro and Renminbi and were deposited in leading banks with maturity dates falling within one year. The Group did not borrow any bank loan during the period. Forward contracts will be used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. The Group did not enter into any forward contract to hedge its foreign exchange risk during the period. In addition, working capital requirements for business operations in Mainland China will be financed, if necessary, by local bank loans, denominated in Renminbi.

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

CORPORATE GUARANTEES

The Company has given corporate guarantees in favour of banks for banking facilities granted to certain subsidiaries on letters of credit and bank loan to the extent of HK$120.0 million (28 February 2011: HK$120.0 million) of which HK$8.8 million (28 February 2011: HK$19.0 million) was utilised as at 31 August 2011.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK5.0 cents per ordinary share for the six months ended 31 August 2011 (2010: HK4.3 cents) payable on Wednesday, 23 November 2011 to all shareholders of the Company whose names appear on the Register of Members of the Company on Wednesday, 16 November 2011.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2011, the Group had a staff force of 5,410 people. Of this, 176 were based in Hong Kong and 5,234 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 comprised basic salaries, bonuses and long-term incentives. Total staff costs for the six months ended 31 August 2011, including Directors' emoluments, net pension contributions and value of employee services, amounted to HK$162.7 million (31 August 2010: HK$116.6 million). The Group has all along organized structured and diversified training programmes for staff of different levels. Outside consultants would be invited to broaden the contents of the programmes.

CLOSURE OF REGISTER OF MEMBERS — INTERIM DIVIDEND PAYMENT

For the payment of interim dividend, the Register of Members of the Company will be closed from Monday, 14 November 2011 to Wednesday, 16 November 2011, both days inclusive, during such period no transfer of shares will be effected. In order to qualify for the interim dividend which will be payable on Wednesday, 23 November 2011, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Unit 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 11 November 2011.

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

The Company has not redeemed, and 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 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group continues to commit itself to maintaining a high standard of corporate governance with an emphasis on enhancing transparency and accountability and ensuring the application of these principles within the Group and thereby, enhancing shareholder value and benefiting our stakeholders at large.

During the period under review, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

AUDIT COMMITTEE

During the six months ended 31 August 2011, the Audit Committee was constituted by three independent non-executive Directors, Mr. Lam Siu Lun, Simon, who presided as the chairman, Mr. Leung Wai Ki, George and Mr. Hui Chi Kwan. No member of the Audit Committee is a member of the former or external auditors of the Company. One of the members possesses recognized professional qualifications in accounting and has wide experience in audit, accounting and financial management.

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial information for the six months ended 31 August 2011.

The role and authorities of the Audit Committee were clearly set out in its terms of reference which are available on request to shareholders of the Company and are posted on the Company's website: http://www.lesaunda.com.hk.

REMUNERATION COMMITTEE

During the six months ended 31 August 2011, the Remuneration Committee was constituted by three independent non-executive Directors, Mr. Lam Siu Lun, Simon, who presided as the chairman, Mr. Leung Wai Ki, George and Mr. Hui Chi Kwan, and one executive Director, Mr. Lee Tze Bun, Marces.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management and to ensure that executive Directors and senior management could be retained and motivated by being fairly rewarded for their individual contribution to the Group's overall performance as measured against corporate objectives, having regard to the interests of shareholders. The principal duties include the revision of the terms of the remuneration packages of all Directors and senior management as well as reviewing and approving performance-based remuneration on the basis of their merit, qualification and competence by reference to corporate goals and objectives resolved by the Board from time to time.

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board. No Director or senior management or any of his associate will be involved in deciding his own remuneration.

The role and authorities of the Remuneration Committee were clearly set out in its terms of reference which are available on request to shareholders of the Company and are posted on the Company's website: http://www.lesaunda.com.hk.

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 (the "Code of Conduct") regarding securities transactions by the Directors since 4 October 2005. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors, any employee of the Company, or a director or employee of a subsidiary or holding company of the Company, who, by reason of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standard set out in the Model Code during the six months ended 31 August 2011.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkex.com.hk) and the Company (http://www.lesaunda.com.hk). The interim report of the Company for the current period containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same website in due course on or before 30 November 2011.

ACKNOWLEDGEMENT

On behalf of the Board, I would also like to take this opportunity to express my gratitude to all our staff for their dedication and hard work, plus my sincere appreciation to all customers, business partners and shareholders for their continuing supports.

By Order of the Board
Lee Tze Bun, Marces
Chairman

Hong Kong, 24 October 2011

As at the date of this announcement, the Company's executive Directors are Mr. Lee Tze Bun, Marces, Ms. Lau Shun Wai, Ms. Wong Sau Han, Ms. Chu Tsui Lan and Ms. An You Ying; non-executive Director is Mr. James Ngai; independent non-executive Directors are Mr. Lam Siu Lun, Simon, Mr. Leung Wai Ki, George and Mr. Hui Chi Kwan.

(All monetary values in this announcement are expressed in Hong Kong Dollars unless stated otherwise).

* *For identification purpose only*