

REPORT OF THE DIRECTORS

The Directors present their report together with the audited accounts for the year ended 28th February 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by principal activities and markets is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 28th February 2001 are set out in the consolidated profit and loss account on page 25.

The Directors recommend the payment of a final dividend of HK1.0 cent per share, totalling HK\$4,486,000 approximately.

FINANCIAL SUMMARY

The financial summary of the Group is set out on page 57.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

SHARE CAPITAL

Details of share capital of the Company are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets are shown in note 11 to the accounts.

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EMPLOYEES

At 28th February 2001, the Group has a total of 1,616 employees of which 190 are based in Hong Kong and 1,426 are based in China. The Group has structured training programs provided for all employees. Outside consultants are invited as lecturers to enrich the scope of the programs.

Remuneration packages are updated on a periodic basis. Employees are rewarded with bonuses and share options according to the assessment of individual performance.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

Lee Keung (*Lee Tze Bun Marces*)

Chui Kwan Ho Jacky

Lui Miu Lan Winnie

Lam Sing Hung Danny

Tsui Oi Kuen Doris

Wong Sau Han Carmen

Non-executive Directors

Law King Wan

Wong Kong Chi

Ho Man Kei (*resigned on 8th January 2001*)

In accordance with bye-laws 86(2) and 169(2) of the Company's Bye-laws, Ms. Chui Kwan Ho Jacky, Mr. Lam Sing Hung Danny and Mr. Wong Kong Chi retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS, SENIOR MANAGEMENT BIOGRAPHIES

Executive Directors

Lee Keung, aged 68, is the founder of the Group and the Chairman of the Company. Mr. Lee has more than 20 years of experience in the shoes retailing business and has established strong and extensive business relation with shoe suppliers in Italy.

Chui Kwan Ho Jacky, aged 38, is the Managing Director of the Group and is responsible for the overall management and strategic corporate planning of the Group. She joined the Group in 1981.

Lui Miu Lan Winnie, aged 44, joined the Group in 1989. Prior to joining the Group, Ms. Lui had more than five years of experience in the banking industry. She is responsible for human resources, administration and corporate affairs.

Lam Sing Hung Danny, aged 47, has been responsible for China operations and corporate development and serve as the Chief Executive Officer for new business ventures of the Group. Mr. Lam joined the Group in 1995 and has over 20 years of management experience on consumer products and services in Asia Pacific region.

Tsui Oi Kuen Doris, aged 45, joined the Group in 1979 and is responsible for Hong Kong and Macau retail and administration functions.

Wong Sau Han Carmen, aged 42, is the human resources director of the Group. Prior to joining the Group in 1989, she had more than 7 years' experience in personnel field.

Non-executive Directors

Law King Wan, aged 65, is an Executive Director of Sun Hung Kai Properties Limited. Mr. Law has over 30 years of experience in sales and marketing of properties. He joined the Group in 1992.

Wong Kong Chi, aged 43, is a qualified accountant and has substantial experience in merchant banking. He also acts as independent non-executive director of several listed companies in Hong Kong. He joined the Group in 1994.

DIRECTORS, SENIOR MANAGEMENT BIOGRAPHIES *(Continued)*

Senior Management

Lau Shun Wai Alice, aged 30, joined the Group in 1992, and is the regional marketing manager of the Group. She obtained her MBA in Financial Management in England. She has 8 years of merchandising and marketing experience.

Ku Hok Ping Perry, aged 45, information technology director of the Group. Mr. Ku holds a B.Sc. degree obtained from Canada and a MBA from Great Britain. He joined the Group in January 1998 and has over 21 years experience in computer industry with 15 years in retail sector.

Yiu Chun Kit Kelvin, aged 42, joined the Group in September 1998 as the finance director and company secretary. Mr. Yiu is a qualified accountant of Hong Kong, Great Britain and Canada, and has 17 years of financial and accounting experience.

Lee Wing Kam Jackie, aged 40, joined the Group in 1984. In August 1999, she has been appointed as Assistant General Manager of Shunde Shuang Qiang Property Development Company Limited responsible for real estate business in China.

Wong Lai Sheung Esther, aged 39, joined the Group in September 2000 as Business Development Manager for Asia markets. She holds an MBA degree and is responsible for developing all non-retailing sales and marketing initiatives of the Group. She has 16 years of experience with 10 years in regional sales, marketing and operation management.

Chan Wing An Ian, aged 40, joined the Group in September 2000 and is the Assistant General Manager of the Group responsible for the business in China. He has 14 years of China trading, retail and management experience.

REPORT OF THE DIRECTORS

PARTICULARS OF SHARES HELD BY DIRECTORS

At the balance sheet date, the interests of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained under section 29 of the SDI Ordinance were as follows:

Name of Directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Lee Keung ("Mr. Lee")	35,670,000	30,000,000 <i>(note 1)</i>	–	255,000,000 <i>(notes 2, 3 & 4)</i>	320,670,000
Ms. Chui Kwan Ho Jacky	2,500,000	–	–	50,000,000 <i>(note 4)</i>	52,500,000
Ms. Lui Miu Lan Winnie	2,070,000	–	–	–	2,070,000
Mr. Lam Sing Hung Danny	1,380,000	–	–	–	1,380,000
Ms. Tsui Oi Kuen Doris	2,144,000	–	–	–	2,144,000
Ms. Wong Sau Han Carmen	200,000	–	–	–	200,000

Notes:

1. Madam Ho Fai Yee, wife of Mr. Lee, beneficially owns 30,000,000 shares.
2. Lee Tze Bun Trustee Holding Corporation ("LTB Trustee") in the capacity as trustee of a unit trust called The Lee Tze Bun Unit Trust ("LTB Trust") holds 155,000,000 shares, representing approximately 34.55% of the issued share capital of the Company. Mr. Lee is the appointor of the LTB Trust and all units in the LTB Trust (other than one unit which is beneficially owned by Mr. Lee) are beneficially owned by The Lee Keung Family Trust ("Lee Family Trust"), a discretionary trust the beneficiaries of which include Mr. Lee, his wife and issues.
3. Lee Keung Trustee Holding Corporation ("LK Trustee") in the capacity as trustee of a unit trust called The Lee Keung Unit Trust ("LK Trust") holds 50,000,000 shares, representing approximately 11.15% of the issued share capital of the Company. Mr. Lee is the appointor of the LK Trust and all units of the LK Trust (other than one unit which is beneficially owned by Mr. Lee) are beneficially owned by the Lee Family Trust.
4. Mr. Lee and Ms. Chui Kwan Ho Jacky in their capacity as trustees of The Lee Keung Charitable Foundation ("Charitable Foundation") together hold 50,000,000 shares, representing approximately 11.15% of the issued share capital of the Company.

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PARTICULARS OF SHARES HELD BY DIRECTORS *(Continued)*

At the balance sheet date, Mr. Lee and Madam Ho Fai Yee beneficially owned 18,000 and 2,000 non-voting deferred shares respectively in L.S. Retailing Limited, a wholly owned subsidiary of the Company.

During the year, the Company did not grant to any Director or their spouse or children under 18 years of age any rights to subscribe for shares of the Company.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, according to the register of interests required to be kept by the Company under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10% or more of the issued share capital of the Company were as follows:

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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DIRECTORS' INTERESTS IN CONTRACTS

Except for the connected transactions as detailed below, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following transactions with "connected persons" for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"):

1. The Group rented out its investment property located in Macau of gross floor area 718 sq. ft to G & F Holdings Limited, a company controlled by Mr. Lee Keung (Lee Tze Bun Marces) ("Mr. Lee"), Chairman of the Group. Rental income for the year is approximately HK\$332,000.
2. The Group also provided administrative services to G & F Holdings Limited and certain of its subsidiaries. Management fee from these companies for the year was approximately HK\$1,038,000.
3. The Group also rented a shop located in Macau from Mr. Lee, as retail outlet in Macau. The gross floor area rented is approximately 1,120 sq. ft and rental expense for the year is approximately HK\$1,197,000.

These are connected transactions by virtue of Mr. Lee's shareholding in the Company and are also related party transactions (see also note 26 to the accounts).

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ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

A Share Option Scheme is maintained by the Company under which eligible employees of the Group, including Executive Directors of the Company, may be granted options to subscribe for shares in the Company. Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. Details of outstanding share options as of 28th February 2001 granted to and accepted by Executive Directors under the scheme are as follows:

Name of Director	Date of share options granted/accepted	Number of outstanding options	Subscription price per share
Ms. Chui Kwan Ho Jacky	19th August 1994	600,000	HK\$0.767
	8th February 1996	750,000	HK\$0.67
Ms. Lui Miu Lan Winnie	19th August 1994	600,000	HK\$0.767
	8th February 1996	600,000	HK\$0.67
Mr. Lam Sing Hung Danny	8th February 1996	500,000	HK\$0.67
Ms. Tsui Oi Kuen Doris	19th August 1994	500,000	HK\$0.767
Ms. Wong Sau Han Carmen	19th August 1994	300,000	HK\$0.767
	8th February 1996	350,000	HK\$0.67

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

No option were exercised by the Executive Directors during the year.

Except for the above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	39%
– five largest suppliers combined	62%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

CODE OF BEST PRACTICE

With the exception that Non-executive Directors have not been appointed for a specific term of office but retire from office on a rotational basis, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year ended 28th February 2001.

AUDIT COMMITTEE

In compliance with the requirements of The Stock Exchange of Hong Kong Limited, an audit committee was formed in 1999. The committee composed of two Non-executive Directors and report to the Board of Directors. The audit committee reviews matters within the purview of audit, such as financial statements and internal control, to protect the interests of the Company's shareholders. Two meetings were held during the current financial year.

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AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Keung (Lee Tze Bun Marces)
Chairman

Hong Kong, 11th June 2001