

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) present their report together with the audited financial statements for the year ended 28 February 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 21 to the financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 28 February 2007 are set out in the consolidated income statement on page 54.

The Directors declared an interim dividend of HK3.0 cents (2006: HK2.8 cents) per ordinary share in respect of the year ended 28 February 2007, totalling HK\$18,717,000, which was paid on 15 December 2006.

The Directors recommend the payment of a final dividend of HK 4.5 cents (2006: HK4.5 cents) per ordinary share, totalling approximately HK\$28,083,000 in respect of the year ended 28 February 2007 (2006: HK\$22,957,000).

SHARE CAPITAL

Details of the issued share capital of the Company during the year are set out in note 32 to the financial statements.

FINANCIAL SUMMARY

The financial summary of the Group is set out on pages 146 and 147.

RESERVES

Movements in the reserves of the Group and the Company during the year under review are set out in note 34 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

PRINCIPAL PROPERTIES

Details of the investment properties held by the Group are set out on page 148.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Lee Tze Bun, Marces (*Chairman*)

Wan Tat Wah (*Chief Executive Officer*)

Chui Kwan Ho, Jacky (*Managing Director*)

Tsui Oi Kuen

Lau Shun Wai (*re-appointed on 1 February 2007*)

Independent Non-Executive Directors

Lam Siu Lun, Simon

Law King Wan

Leung Wai Ki, George

RE-ELECTION OF DIRECTORS

During the year under review, Ms. Lau Shun Wai, an executive Director, was appointed with effect from 1 February 2007. According to Bye-law 86(2) of the Company's Bye-laws, she shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, at the forthcoming annual general meeting, Ms. Lau Shun Wai will retire and, being eligible, offer herself for re-election.

Also, in accordance with Bye-law 87 of the Company's Bye-laws, at the forthcoming annual general meeting, Ms. Chui Kwan Ho, Jacky, Mr. Leung Wai Ki, George and Mr. Law King Wan will retire and, being eligible, offer themselves for re-election.

The Company confirms that it has received from each of the independent non-executive Directors an annual confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules and the Company considers that all the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Lee Tze Bun, Marces, aged 73, is the founder of the Group and Chairman of the Company. With more than 25 years of experience in the shoe retailing business, Mr. Lee has a strong, established and extensive business relation with a vast range of shoe suppliers in Italy.

Wan Tat Wah, aged 53, is Chief Executive Officer and Executive Director of the Group. He has been in the garment trading and retail business for more than 20 years. Prior to joining the Group in February 2003, Mr. Wan was the Chief Operation Officer of Esprit and involved extensively in store operations and merchandising in Asia.

Chui Kwan Ho, Jacky, aged 43, is the Managing Director of the Group and Chief Executive Officer of Maior Ltd., a subsidiary of the Group. She is responsible for the Group's shoe manufacturing operation as well as export business.

Tsui Oi Kuen, aged 51, is Executive Director of the Group. She first joined the Group in 1979 and is a 28-year veteran with rich Hong Kong retail and management experience. She left the Group in 2001 and returned to the Group in 2002. She is responsible for monitoring the Group's retailing, human resources, warehouse and administration functions.

Lau Shun Wai, aged 36, is Executive Director of the Group. She first joined the Group in 1992 and has over 13 years of experience in retail, merchandising and marketing in both Hong Kong and Mainland China markets. She holds a master degree in business administration (financial management) from The University of Hull in the United Kingdom and a diploma in marketing from The Chartered Institute of Marketing. She left the Group in August 2004 and re-joined the Group in February 2007. Prior to re-joining the Group, Ms. Lau was the deputy director of the retail operations of Moisselle International Holdings Limited. She is responsible for the Group's merchandising and marketing.

REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent Non-Executive Directors

Lam Siu Lun, Simon, aged 57, joined the Group in January 2006. Mr. Lam graduated from the University of Hong Kong in 1973. After graduation, he worked at KPMG London and Hong Kong and obtained his qualification as a Chartered Accountant and Certified Public Accountant from the Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants respectively. Mr. Lam has been a practicing accountant for over 17 years and is the proprietor of Messrs. S. L. Lam & Company. He has served as a member of the Insider Dealing Tribunal on a number of occasions. He is an independent non-executive Director and audit committee member of Lifestyle International Holdings Limited, a company whose securities are listed on The Stock Exchange of Hong Kong Limited.

Leung Wai Ki, George, aged 48, has over 20 years of experience in accounting, financial management, auditing and receivership. Mr. Leung is acting as Director and Financial Controller of a real estate development company in Hong Kong. He joined the Group in September 2004.

Law King Wan, aged 70, has over 30 years of experience in sales and marketing of properties. Mr. Law first joined the Group in 1992, left in February 2002 and re-joined the Group in November 2002.

Senior Management

Lau Yin Wan, aged 42, joined the Group in January 2003 as Financial Controller and Company Secretary. Ms. Lau has over 17 years of experience in auditing, accounting and financial management. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants respectively.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior Management (continued)

Yeong Kam Chi, Belinda, aged 42, joined the Group in February 2004, is Merchandising Director of the Group's apparel section. A veteran in the industry, she holds a BA degree in fashion design from the Hong Kong Polytechnic University. Prior to joining the Group, she was responsible for design and merchandising for Esprit in Asia for more than 11 years.

Ho Jun Kim, Joel, aged 43, joined the Group in August 2004 as Group Creative Director. He oversees the development of the Group's various brand images. Mr. Ho has worked for leading international advertising agencies and received numerous awards in relation to creative designs and in recognition of his innovation. Prior to joining the Group, he was the Creative Director of Esprit and was responsible for image enhancement of various brands for the Asia Pacific markets.

Chu Tsui Lan, aged 37, joined the Group in 1992. In August 2004, she was appointed as General Manager (China) of the Group. She has over 15 years of retail experience in Hong Kong and Mainland China and is responsible for the Group's Mainland China retail business operations.

Mak Ping Fai, aged 41, holds a BBA degree. He joined the Group in 1992. Mr. Mak serves as Human Resources Director and is responsible for the Group's human resources and training functions.

Ho King Wing, aged 44, joined the Group in 1996. He has over 20 years of experience in shoe production management. Mr. Ho serves as Production Director of Maior Ltd., a subsidiary of the Group and is responsible for manufacturing management and monitoring the quality of products.

REPORT OF THE DIRECTORS

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DISCLOSURE OF INTERESTS

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

As at 28 February 2007, 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")	22,870,000	31,384,000 <i>(Notes 1 & 2)</i>	205,000,000 <i>(Note 3)</i>	259,254,000	41.54%
Mr. Wan Tat Wah ("Mr. Wan")	6,000,000	—	—	6,000,000	0.96% <i>(Note 4)</i>
Ms. Chui Kwan Ho, Jacky ("Ms. Chui")	3,880,000	—	50,000,000 <i>(Note 5)</i>	53,880,000	8.63% <i>(Note 6)</i>
Ms. Tsui Oi Kuen ("Ms. Tsui")	1,000,000	—	50,000,000 <i>(Note 5)</i>	51,000,000	8.17% <i>(Note 7)</i>
Ms. Lau Shun Wai	350,000	—	—	350,000	0.06%

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

Long positions in Shares in associated corporation of the Company

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

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

Notes:

1. 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.
2. 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.
3. Stable Gain Holdings Limited ("Stable Gain") holds 205,000,000 Shares, representing approximately 32.85% 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.
4. 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 1.59% of the issued share capital of the Company including number of shares in relation to such exercise.
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 8.01% 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 3,880,000 Shares. Together with the Shares mentioned in (5) above, Ms. Chui holds an aggregate of 53,880,000 Shares, representing approximately 8.63% of the issued share capital of the Company.
7. Ms. Tsui personally holds 1,000,000 Shares. Together with the Shares mentioned in (5) above, Ms. Tsui holds an aggregate of 51,000,000 Shares, representing approximately 8.17% 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.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

Long positions in underlying shares 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.

The purpose of the Scheme is to enable the board of Directors (the "Board") to grant options to selected eligible persons (as defined under the Scheme) as incentives or rewards for their contribution or potential contribution to the Group. The maximum number of Shares that may be issued upon exercise of all options to be granted

under the Scheme shall not in aggregate exceed 10% of the Shares in issue as at the date of the shareholders' approval. The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share options schemes of the Company must not exceed 30% of the Shares in issue from time to time.

As at the balance sheet date, a total of 37,671,960 Shares, which represents 6.04% of the issued share capital of the Company, are available for issue under the Scheme.

The maximum number of Shares issued and to be issued upon exercise of options granted under the Scheme and any other share option schemes of the Company to any eligible person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of option in excess of such limit must be separately approved by Shareholders with such eligible person and his associates abstaining from voting.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

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

Share Option Scheme (continued)

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted). The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option.

The amount payable on acceptance of the option is HK\$1.00. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The option price per Share payable on the exercise of an option is to be determined by the Board provided always that it shall be at least the higher of : (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the eligible person), which must be a business day; and (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant.

The Scheme will remain in force until 21 July 2012.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

Long positions in underlying shares 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 year are set out below:

Name or Category of Participant	Date of share options granted <i>(Notes 1 & 2)</i>	Number of Shares				Exercise price per Share	Exercise period
		Outstanding as at 1 March 2006	Exercised during the year <i>(Note 3)</i>	Cancelled during the year	Outstanding as at 28 February 2007		
Directors							
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
<i>Sub-total</i>		12,400,000	8,400,000	—	4,000,000		

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

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

Share Option Scheme (continued)

Name or Category of Participant	Date of share options granted <i>(Notes 1 & 2)</i>	Number of Shares			Outstanding as at 28 February 2007	Exercise price per Share	Exercise period
		Outstanding as at 1 March 2006	Exercised during the year <i>(Note 3)</i>	Cancelled during the year			
Employees							
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	867,000	150,000	204,000	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
<i>Sub-total</i>		18,540,000	5,507,000	600,000	12,433,000		
<i>Total</i>		30,940,000	13,907,000	600,000	16,433,000		

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (continued)

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

Long positions in underlying shares 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\$1.18 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 28 February 2007, 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.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the interests disclosed under the heading "Disclosure of Interests" above, (a) at no time during the year 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 rights to subscribe for Shares or debt securities of the Company, or had exercised any such rights during the year.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 28 February 2007, according to the register of interests in Shares and short positions of the Company required to be kept under section 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	22,870,000	31,384,000	205,000,000	259,254,000	41.54%
LGT	3	—	205,000,000	—	205,000,000	32.85%
Stable Gain	3	205,000,000	—	—	205,000,000	32.85%
Ms. Chui	5	3,880,000	—	50,000,000	53,880,000	8.63%
Ms. Tsui	6	1,000,000	—	50,000,000	51,000,000	8.17%
Ms. Lee	7	4,000,000	—	50,000,000	54,000,000	8.65%
Ms. Chui, Ms. Tsui and Ms. Lee as trustees of the Charitable Foundation Value Partners Limited ("VPL")	5, 6 & 7	—	—	50,000,000	50,000,000	8.01%
Mr. Cheah Cheng Hye ("Mr. Cheah")	8	—	—	42,082,000	42,082,000	6.74%
	8 & 9	—	42,082,000	—	42,082,000	6.74%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS (continued)

Long positions in Shares of the Company (continued)

Notes:

1. Mr. Lee personally holds 22,870,000 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 32.85% 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, to 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 259,254,000 Shares as a result of (1), (2) and (3) above, being approximately 41.54% of the issued share capital of the Company.
5. Ms. Chui holds an aggregate of 53,880,000 Shares (comprising 3,880,000 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 8.63% of the issued share capital of the Company.
6. Ms. Tsui holds an aggregate of 51,000,000 Shares (comprising 1,000,000 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 8.17% of the issued share capital of the Company.
7. Ms. Lee holds an aggregate of 54,000,000 Shares (comprising 4,000,000 Shares personal interests and the 50,000,000 Shares jointly held with Ms. Chui and Ms. Tsui as trustees of the Charitable Foundation), representing approximately 8.65% of the issued share capital of the Company.
8. 42,082,000 Shares representing approximately 6.74% 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, as at 28 February 2007, 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.

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.

DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

During the year under review, for the purposes of the Listing Rules, the Group has entered into the following transactions with the connected persons of the Company (as defined under the Listing Rules):

(1) Pursuant to a tenancy agreement dated 6 March 2006 (“First Lease”) in respect of Room 2507, 25/F Hing Wai Centre, 7 Tin Wan Praya Road, Aberdeen, Hong Kong (“First Premises”) entered into between Dragon Venture Enterprises Limited (“Dragon Venture”) and L. S. Retailing Limited (“L. S. Retailing”), an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by L. S. Retailing to Dragon Venture is HK\$67,656 per annum (inclusive of management fee and rates), payable in advance in cash on a monthly basis. The First Premises was used as warehouse.

The total amount of rent paid (inclusive of management fee and rates) by the Group to Dragon Venture under the First Lease for the year ended 28 February 2007 was HK\$22,552.

On 20 June 2006, L. S. Retailing agreed with Dragon Venture to terminate the First Lease in respect of the First Premises effective on 30 June 2006.

(2) Pursuant to a tenancy agreement dated 6 March 2006 (“Second Lease”) in respect of Room 2705, 27/F Hing Wai Centre, 7 Tin Wan Praya Road, Aberdeen, Hong Kong (“Second Premises”) entered into between Prosper Hon Investment Limited (“Prosper Hon”) and L. S. Retailing, an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by L. S. Retailing to Prosper Hon is HK\$67,656 per annum (inclusive of management fee and rates), payable in advance in cash on a monthly basis. The Second Premises was used as warehouse.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

The total amount of rent paid (inclusive of management fee and rates) by the Group to Prosper Hon under the Second Lease for the year ended 28 February 2007 was HK\$22,552.

On 20 June 2006, L. S. Retailing agreed with Prosper Hon to terminate the Second Lease in respect of the Second Premises effective on 30 June 2006.

- (3) Pursuant to a tenancy agreement dated 6 March 2006 (“Third Lease”) in respect of Room 2711-12, 27/F Hing Wai Centre, 7 Tin Wan Praya Road, Aberdeen, Hong Kong (“Third Premises”) entered into between Prosper Hon and L. S. Retailing, an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by L. S. Retailing to Prosper Hon is HK\$96,936 per annum (inclusive of management fee and rates), payable in advance in cash on a monthly basis. The Third Premises was used as warehouse.

The total amount of rent paid (inclusive of management fee and rates) by the Group to Prosper Hon under the Third Lease for the year ended 28 February 2007 was HK\$32,312.

On 20 June 2006, L. S. Retailing agreed with Prosper Hon to terminate the Third Lease in respect of the Third Premises effective on 30 June 2006.

**CONTINUING CONNECTED
TRANSACTIONS** (continued)

(4) Pursuant to a tenancy agreement dated 6 March 2006 (“Fourth Lease”) in respect of Units 3501-03, 3510-16, 35/F Metro Plaza, 183-187 Tian He North Road, Guangzhou, PRC (中國廣州天河區天河北路183-187號大都會廣場三十五樓3501-03, 3510-16單位) (“Guangzhou Premises”) entered into between Genda Investment Limited (“Genda Investment”) and Le Saunda Business (China) Limited (利信達商業(中國)有限公司) (“Le Saunda Business”), an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by Le Saunda Business to Genda Investment is (i) RMB1,148,201.40 per annum, payable in advance in cash on a monthly basis; (ii) management fee of RMB249,609.60 (approximately HK\$240,261.72) per annum, payable in advance in cash on a monthly basis to Guangzhou Metro Plaza Management Company Limited (廣州大都會廣場物業管理有限公司), an Independent Third Party. The Guangzhou Premises was used as showrooms of “Le Saunda” and

“Comfort & Easy” products and as a conference room.

The total amount of rent paid by the Group to Genda Investment under the Fourth Lease for the year ended 28 February 2007 was RMB1,148,201.40 (approximately HK\$1,124,805.45).

(5) Pursuant to a tenancy agreement dated 17 June 2005 (“Car Park Lease”) in respect of car park No.V09 on the ground floor of Hing Wai Centre, 7 Tin Wan Praya Road, Aberdeen, Hong Kong (the “Car Park”) entered into between Dragon Venture and Le Saunda Management Limited (“Le Saunda Management”), an indirect wholly-owned subsidiary of the Company, for a term of one year commencing on 1 July 2005 and ending on 30 June 2006, the rent payable by Le Saunda Management to Dragon Venture is HK\$38,400 per annum (inclusive of management fee and rates), payable in advance in cash on a monthly basis. The Car Park was used for parking a lorry.

REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

On 1 February 2006, Le Saunda Management agreed with Dragon Venture to terminate the Car Park Lease in respect of the Car Park effective on 28 February 2006.

- (6) Pursuant to a tenancy agreement dated 6 March 2006 (“Fifth Lease”) in respect of the Car Park entered into between Dragon Venture and L. S. Retailing, an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by L. S. Retailing to Dragon Venture is HK\$38,400 per annum (inclusive of management fee and rates), payable in advance in cash on a monthly basis. The Car Park was used for parking a lorry.

The total amount of rent paid by the Group to Dragon Venture under the Fifth Lease for the year ended 28 February 2007 was HK\$38,400.

- (7) Pursuant to a tenancy agreement dated 6 March 2006 (“Sixth Lease”) in respect of AR/ C 2-A; 2-B; 2-C, Beco Da Arruda, 32 Rua De S. Domingos, Macau (the “Macau Premises”) entered into between Mr. Lee, being the chairman, executive director and controlling shareholder (as defined under the Listing Rules) of the Company, and Le Saunda Calcado, Limitada (“Le Saunda Calcado”), an indirect wholly-owned subsidiary of the Company, for a term of three years commencing on 1 March 2006 and ending on 28 February 2009, the rent payable by Le Saunda Calcado is the total of (i) the higher of : (a) HK\$1,320,000 per annum; and (b) 12.5% of the total turnover from the operation of the business at the Macau Premises for each of the years ending 28 February during the term of the Sixth Lease, subject to the maximum rent of HK\$1,600,000 per annum, payable in cash on a monthly basis; and (ii) the government rent of MOP165,629 (approximately HK\$160,804.85) per annum, payable annually on demand in cash to the Government of Macau, an Independent Third Party. The Macau Premises was used to operate as a “Le Saunda” shoe shop.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

The total amount of rent paid by the Group to Mr. Lee under the Sixth Lease for the year ended 28 February 2007 was HK\$1,494,795.50, which was based on 12.5% of the total turnover for the year ended 28 February 2007.

The aggregate rental paid by the Group to Dragon Venture, Prosper Ho, Genda Investment and Mr. Lee under the First, Second, Third, Fourth, Fifth and Sixth Lease was HK\$2,735,416.95 for the year ended 28 February 2007.

Mr. Lee is the chairman, an executive Director and the controlling shareholder (as defined under the Listing Rules) of the Company. Dragon Venture, Prosper Hon and Genda Investment are 100% beneficially owned by Mr. Lee and his associates (as defined under Listing Rules) and hence Dragon Venture, Prosper Hon and Genda Investment are associates of Mr. Lee, who is a connected person of the Company under the Listing Rules. Mr. Lee and Ms. Tsui, an executive Director, are also directors of Dragon Venture, Prosper Hon and Genda Investment. The First, Second, Third,

Fourth, Fifth and Sixth Lease (together known as the “Continuing Connected Transactions”) therefore constitute Continuing Connected Transactions of the Group under Rule 14A.34 of the Listing Rules.

The Directors (including the independent non-executive Directors) have reviewed the Continuing Connected Transactions and have confirmed that they have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings based on the agreed procedures to the Board of Directors.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

Certain connected transactions which are significant are also disclosed as related party transactions (see note 39 to the financial statements).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficiency of public float of the Company's securities as required under the Listing Rules.

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

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

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 under review.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's five largest suppliers and customers respectively are less than 30%.

ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE

On 28 June 2006, a placing agreement was entered into between Lee Tze Bun Trustee Holding Corporation, being the trustee of a unit trust, the units of which are beneficially owned by a discretionary trust established for the family members of Mr. Lee (the "Vendor") and Sun Hung Kai Investment Services Limited (the "Placing Agent") pursuant to which the Placing Agent agreed to place, on a best endeavour basis, up to a total of 101,420,000 Shares, beneficially owned by the Vendor to be placed to independent third parties as defined in the Listing Rules ("Placing Shares") at HK\$1.10 per Placing Share (the "Placing").

On 28 June 2006, a subscription agreement was entered into between the Vendor and the Company, pursuant to which the Company conditionally agreed to allot and issue up to a total of 101,420,000 new Shares ("Subscription Shares"), being the number of Shares actually placed out under the Placing (the "Subscription").

REPORT OF THE DIRECTORS

ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE *(continued)*

The price per Placing Share represents (i) a discount of approximately 8.33% to the closing price of HK\$1.20 per Share as quoted on the Stock Exchange at 4:00 p.m. on 27 June 2006, being the last trading day immediately prior to 29 June 2006; and (ii) a discount of approximately 12.00% to the average closing price of approximately HK\$1.25 per Share as quoted on the Stock Exchange for the last five trading days up to and including 27 June 2006, being the last trading day.

The completion of the Placing took place on 4 July 2006 where a total of 100,000,000 Placing Shares beneficially owned by the Vendor were placed to not less than six Independent Third Parties as defined in the Listing Rules at HK\$1.10 per Placing Share.

On 11 July 2006, the Subscription completed and 100,000,000 Subscription Shares were allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 29 July 2005.

The net proceeds from the Placing and Subscription amounted to approximately HK\$106,372,000 after deducting the professional fees and all related expenses. The Company intends to use the net proceeds as general working capital of the Group and to facilitate future expansion in Mainland China.

Details of the Placing and the Subscription were disclosed in the Company's announcements dated 29 June 2006, 10 July 2006 and 11 July 2006 respectively.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$5,000.

AUDITORS

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

On behalf of the Board

Lee Tze Bun, Marces

Chairman

Hong Kong, 14 June 2007