

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture of athletic and sports leisure footwear products. The activities of the principal subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's turnover by geographical markets is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 18 of the accounts.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda and the Bye-laws of the Company, the Company's contributed surplus is distributable to shareholders in certain circumstances. However, as at 31st March 2001, the Company had no distributable reserves.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

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SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st March 2001 are set out in note 12 to the accounts.

BANK BORROWINGS

At 31st March 2001, the Group had no bank borrowings except for a bank overdraft of HK\$988,000 (2000: HK\$535,000) and bills payable of HK\$5,121,000 (2000: HK\$4,648,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 43 to 44.

PURCHASE, SALE OR REDEMPTION OF 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.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

YANG Tien Shen (<i>Chairman</i>)	(appointed on 27th July 2000)
CHIU Ruey Lin (<i>Co-chairman and President</i>)	(resigned on 19th June 2000 and re-appointed on 22nd August 2000)
LEE Chi Keung, Russell	
CHIU Pou Sou, Peter	(appointed on 27th July 2000)
YEH Tsun Hsing, Steve	
CHEN Po Hsiung	
TANG Kim Kwan, Patrick	(retired on 25th September 2000)
TANG Chu Kam Shiu, Una	(resigned on 27th July 2000)

Non-executive directors

YANG Wen Goang	
CHEN Chien Tsu	(appointed on 27th July 2000)
YIP Kwok Keung	

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DIRECTORS *(continued)*

Independent non-executive directors

NG Wai Hung	
LEE Siu Leung	(appointed on 22nd August 2000)
LI Kwok Po, David	(resigned on 15th June 2000)
WONG Po Yan	(resigned on 19th June 2000)
WAN Yim Keung, Daniel	(resigned on 15th June 2000)
(alternate to Dr. Li Kwok Po, David)	

In accordance with clauses 87(1) and 87(2) of the Company's Bye-laws, Mr Lee Chi Keung, Russell, Mr Yang Wen Goang and Mr Yeh Tsun Hsing, Steve shall retire by rotation and, being eligible, offer themselves for re-election.

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 by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

YANG Tien Shen, aged 62, is the chairman of the Company. He joined the Company in 2000 and is responsible for overseeing the corporate strategy of the Group. He is a well-known entrepreneur in Taiwan and is the chairman of Ever Fortune Industrial Co., Limited, a company listed on the Taiwan Stock Exchange Corporation. Ever Fortune Industrial Co., Limited is a Taiwan based conglomerate and its core business includes property development, construction, electric utilities as well as financial services. He has received an Honorary Doctorate from Oklahoma City University in the United States of America.

CHIU Ruey Lin, aged 68, is the co-chairman of the Company and president of the Group. He has more than 30 years of management experience in planning and managing international business in both the United States of America and Taiwan. He first joined the Group in 1997 until June 2000 and subsequently rejoined the Group in August 2000.

LEE Chi Keung, Russell, aged 45. He joined the Group in 1993 and is responsible for corporate development, financial planning and strategic investments of the Group. He holds a bachelor of arts degree in economics and accounting from the University of Newcastle upon Tyne, UK. He is a fellow member of The Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

CHIU Pou Sou, Peter, aged 38, is the vice-president of the Group. He joined the Group in July 2000 and is responsible for the Group's business development. He holds master degrees in engineering, business administration and finance. He has over 10 years' experience in engineering operations and project management in the United States of America. He is the son of Mr Chiu Ruey Lin.

YEH Tsun Hsing, Steve, aged 45, is the vice-president of the Group. He joined the Group in 1990 and is responsible for production management and marketing. He has over 20 years of experience in product development and management in the footwear manufacturing business.

CHEN Po Hsiung, aged 46, is the vice-president of the Group. He joined the Group in 1990 and is responsible for the development and operation of shoe soles production. He has extensive experience in footwear manufacturing and sole unit production.

YANG Wen Goang, aged 34, is a non-executive director of the Company. Mr Yang joined the Company in 1999. He is the son of Mr Yang Tien Shen and the representative of Viet-Fortune Investment Co., Limited.

CHEN Chien Tsu, aged 44, is a non-executive director of the Company. He joined the Company in 2000 and is the son-in-law of Mr Chiu Ruey Lin.

YIP Kwok Keung, aged 46, is a non-executive director of the Company. He joined the Company in 1999.

NG Wai Hung, aged 37, is an independent non-executive director of the Company. He is a practising solicitor and a partner in Iu Lai & Li, a Hong Kong law firm of solicitors and notaries. He has extensive experience in the area of securities law, corporate law and commercial law in Hong Kong. He joined the Company in 1999.

LEE Siu Leung, aged 35, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow member of The Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. He joined the Company in 2000.

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DIRECTORS' INTERESTS IN SHARES

As at 31st March 2001, the interests of the directors and their associates in the shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Directors	Personal interests	Corporate interests	Total
Yang Tien Shen	—	105,792,570 shares ⁽¹⁾	105,792,570 shares
Lee Chi Keung, Russell	—	90,451,752 shares ⁽²⁾	90,451,752 shares
Chiu Pou Sou, Peter	10,860,000 shares	—	10,860,000 shares
Chen Chien Tsu	20,900,000 shares	—	20,900,000 shares
Yip Kwok Keung	219,300 shares	16,572,637 shares ⁽³⁾	16,791,937 shares

Notes:—

1. The corporate interests in shares are held by Viet-Fortune Investment Co., Limited, a wholly-owned subsidiary of Ever Fortune Industrial Co., Limited, a company listed on the Taiwan Stock Exchange Corporation. Mr Yang Tien Shen is the chairman of both Ever Fortune Industrial Co., Limited and Viet-Fortune Investment Co., Limited.
2. The corporate interests of 90,451,752 shares represent 88,000,000 shares and 2,451,752 shares held by Top Source Securities Limited and Wonder Star Securities Limited respectively. Mr Lee Chi Keung, Russell has a beneficial interest in both companies.
3. The corporate interests in shares are held by Gekeosco International Limited, a company in which Mr Yip Kwok Keung has a beneficial interest.

Save as disclosed above and in the section “Directors’ rights to acquire shares” below, as at 31st March 2001, none of the directors and chief executives or their respective associates had any interests in the equity securities of the Company and its associated corporations as defined in the SDI Ordinance.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the special general meeting of the Company on 2nd December 1993, a share option scheme (the "Scheme") was adopted whereby the directors of the Company, at their discretion, are authorised to invite eligible employees (including directors) of the Group to take up options to subscribe for shares in the Company.

As at 31st March 2001, the following directors of the Company had personal interests in options to subscribe for shares in the Company granted under the Scheme:

Name	Date of grant	Number of share options granted	Exercise price <i>HK\$</i>	Expiry date
Lee Chi Keung, Russell	23rd September 1998	1,000,000	0.178	1st December 2003
	25th October 1996	750,000	1.000	1st December 2003
	7th June 1994	375,000	2.900	1st December 2003
Yeh Tsun Hsing, Steve	23rd September 1998	1,000,000	0.178	1st December 2003
	25th October 1996	500,000	1.000	1st December 2003
	7th June 1994	125,000	2.900	1st December 2003
Chen Po Hsiung	23rd September 1998	1,000,000	0.178	1st December 2003
	25th October 1996	750,000	1.000	1st December 2003
	7th June 1994	250,000	2.900	1st December 2003

No share option was granted or exercised during the year.

Pursuant to a resolution passed at the board meeting on 25th July 2001, the Scheme was terminated with immediate effect. In addition, with the written approval of all option holders of the Company all the unexercised share options granted in prior years under the Scheme were cancelled on the same date. After such date, any subscription rights attaching to the unexercised share options will lapse and no share options shall be granted or exercised under the Scheme.

Apart from the Scheme mentioned above, at no time during the year, the directors or chief executives (including their spouse and children under 18 years of age) had been granted, or exercised any rights to subscribe for shares in the Company and of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the year was the Company or its subsidiary companies a party to any arrangement 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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DIRECTORS' INTERESTS IN CONTRACTS

Save as those disclosed in the accounts, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests have been disclosed above in respect of the directors.

Name of shareholders	Number of ordinary shares
Viet-Fortune Investment Co., Limited	105,792,570
Top Source Securities Limited	88,000,000

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of Bermuda in relation to the issue of new shares by the Company.

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.

CONFLICT OF INTEREST AND CONNECTED TRANSACTIONS

As mentioned in last year's annual report, the Company had set up an independent board committee to investigate into a complaint against a former director of the Company, which alleged the former director's personal business interest in Brilliant Footwear Company Limited ("Brilliant") conflicted with his interest in the Company (the "Investigation"). The board of directors of the Company is still in the process of reviewing the results of the Investigation and other relevant documents to consider any future actions to be taken by the Company. The Company will make an announcement when there is any further development.

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CONFLICT OF INTEREST AND CONNECTED TRANSACTIONS *(continued)*

Certain subsidiaries of the Company entered into transactions with Brilliant during the year. These transactions were entered into in the normal course of business with prices and terms which were determined with reference to the relevant industrial practices. Details of the transactions, classified in general nature of the transactions for the year ended 31st March 2001, were as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of raw materials	3,263	5,398
Subcontracting income for provision of poly clothing work	1,422	3,145
Sale of moulds	2,124	2,436
Sale of used plant, machinery and tools	484	2,153
Subcontracting income for provision of embroidery work	328	1,299
Subcontracting fee paid for assembling of sole unit	(3,818)	(3,363)

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases and sales attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	15%
— five largest suppliers combined	35%
Sales	
— the largest customer	72%
— five largest customers combined	89%

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

EMPLOYEES

At 31st March 2001, the Group had approximately 110 staff stationed in Hong Kong, Taiwan and the People's Republic of China ("PRC") as well as approximately 10,000 workers in the PRC factories. In addition to salaries, the Group provides certain benefits including a discretionary bonus programme, a provident fund scheme as well as an in-house training programme for its employees.

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AUDIT COMMITTEE

Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), an audit committee, comprising two independent non-executive directors of the Company, namely, Mr Ng Wai Hung and Mr Wan Yim Keung, Daniel, was established on 25th November 1999. Mr Wan Yim Keung, Daniel resigned on 15th June 2000 and was replaced by Mr Lee Siu Leung on 22nd August 2000.

The role of the audit committee is to monitor the Group’s accounting and financial reporting practices and the internal control systems.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31st March 2001 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except for the followings:

1. Independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company’s Bye-Laws;
2. Board meetings held on certain matters involving a potential conflict of interest for the former directors of the Company were not on every occasion, attended by full board members of the Company but by most of the executive directors and at least one non-executive director of the Company. In the opinion of the directors, this substantially meets the objective of the Code of Best Practice; and
3. Due to the substantial change in the shareholding structure and the composition of the board of directors of the Company in June and July 2000, the Company had only one independent non-executive director during the period from 19th June 2000 to 21st August 2000.

AUDITORS

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

PricewaterhouseCoopers replaced Price Waterhouse in 1999 following the merger with Coopers & Lybrand.

On behalf of the Board

Chiu Ruey Lin

Co-chairman

Hong Kong, 25th July 2001