

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2002.

Principal activities

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 its principal subsidiaries are set out in note 12 to the accounts.

Segment information

An analysis of the Group's performance by geographical segments 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 20.

The directors have declared first and second distributions to the Company's shareholders of HK\$0.3 and HK\$0.15 per ordinary share respectively out of the contributed surplus account of the Company, totalling HK\$153,277,000 and were paid on 20th December 2001 and 9th February 2002 respectively.

The directors recommend the payment of a final dividend of HK\$0.03 per ordinary share, totalling HK\$10,219,000 for the year ended 31st March 2002.

Reserves

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

Fixed assets

Details of the movements in fixed assets of the Group and the Company 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 20 to the accounts.

Distributable reserves

As at 31st March 2002, the distributable reserves of the Company available for distribution to shareholders calculated under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company amounted to HK\$192,287,000 (2001: Nil).

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 49 to 50.

Purchase, sale or redemption of the Company's 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.

Subsidiaries

Details of the Company's principal subsidiaries as at 31st March 2002 are set out in note 12 to the accounts.

Bank borrowings

At 31st March 2002, the Group had no bank borrowings except for a bank overdraft of HK\$1,040,000 (2001: HK\$988,000) and bills payable of HK\$3,969,000 (2001: HK\$5,121,000).

Directors

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

LEE Chi Keung, Russell (<i>Chairman</i>)	
YU Mee See, Maria	(appointed on 26th September 2001)
NG Wai Hung*	
LEE Siu Leung*	
YANG Tien Shen	(resigned on 12th January 2002)
CHIU Ruey Lin	(resigned on 12th January 2002)
CHIU Pou Sou, Peter	(resigned on 12th January 2002)
YEH Tsun Hsing, Steve	(retired on 26th September 2001)
CHEN Po Hsiung	(resigned on 26th September 2001)
YANG Wen Goang	(retired on 26th September 2001)
CHEN Chien Tsu	(resigned on 12th January 2002)
YIP Kwok Keung	(resigned on 12th January 2002)
YU Shu Ting	(appointed on 26th September 2001 and resigned on 12th January 2002)
CHEUNG Shun Hop	(appointed on 26th September 2001 and resigned on 12th January 2002)
YIP Tam Chui Yuk	(appointed on 26th September 2001 and resigned on 12th January 2002)

* *Independent non-executive directors*

In accordance with clauses 87(1) and 87(2) of the Company's Bye-laws, Mr Ng Wai Hung shall retire by rotation and, being eligible, offers himself 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

Directors

LEE Chi Keung, Russell, aged 45, is the chairman of the Company and chief executive officer of the Group. He is responsible for the Group's overall strategic planning as well as sales and marketing. 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.

YU Mee See, Maria, aged 42, is an executive director of the Company. She is responsible for the general management of the Group. She holds a bachelor of science degree from the London School of Economics and Political Science, UK and is an associate of the Hong Kong Society of Accountants. She is the wife of Mr Lee Chi Keung, Russell.

NG Wai Hung, aged 39, is an independent non-executive director of the Company. He is a practising solicitor and a partner in Lu 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 36, 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.

Biographical details of directors and senior management *(continued)*

Senior Management

WHOA Ru Yeong, Skeat, aged 48, is the vice-president the Group's subsidiary, Kong Tai Shoes Manufacturing Company Limited ("KTS"). He is responsible for overall production management of KTS and is in charge of the research and development operation of the Group. He joined the Group in 1993 and has extensive experience in product development and management of footwear manufacturing business.

YEH Tsun Hsing, Steve, aged 46, is the vice-president of the Group's subsidiary, Dongguan Hung Yip Shoes Manufacturing Co., Ltd. He is responsible for production operations and marketing. He joined the Group in 1990 and has over 20 years of experience in product development and management in the footwear manufacturing business.

CHEN Po Hsiung, aged 47, is the vice-president of the Group's subsidiary, Brave Win Industries Limited. He is responsible for the development and operation of shoe soles production. He joined the Group in 1990 and has extensive experience in footwear manufacturing and sole unit production.

Directors' interests in contracts

Save as 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.

Directors' interests in shares

As at 31st March 2002, 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	Nature of interests	Number of shares held
Lee Chi Keung, Russell ("Mr Lee")	Corporate	251,809,484 shares (Note)
Yu Mee See, Maria	Family	251,809,484 shares (Note)

Note:—

The corporate interests of 251,809,484 shares in the Company represent 110,604,300 shares and 141,205,184 shares held by Top Source Securities Limited and Wonder Star Securities Limited respectively. Mr Lee has a beneficial interest in both companies. In addition, Ms Yu Mee See, Maria, the wife of Mr Lee is deemed to be interested in the said interest of Mr Lee.

Save as disclosed above and in the section "Directors' rights to acquire shares" below, as at 31st March 2002, none of the directors and chief executives and their respective associates had any interests in the securities of the Company and its associated corporations as defined in the SDI Ordinance.

Directors' rights to acquire shares

Pursuant to the special general meeting of the Company held 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.

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, the subscription rights attached to the unexercised share options lapsed and no share options would be granted or exercised under the Scheme.

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 (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

As at 31st March 2002, 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	Number of ordinary shares
Wonder Star Securities Limited ("Wonder Star")	251,809,484 (Note)
Top Source Securities Limited ("Top Source")	110,604,300

Note:—

The interests of Wonder Star include 141,205,184 shares held directly by Wonder Star and 110,604,300 shares held by Top Source, a wholly-owned subsidiary of Wonder Star.

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.

Connected transactions

Certain subsidiaries of the Company had entered into connected transactions with Brilliant Footwear Company Limited ("Brilliant") for the four years ended 31st March 2001 and for the period from 1st April 2001 to 25th September 2001. 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.

Brilliant is a company which two former directors of the Company, namely Mr Tang Kim Kwan, Patrick ("Mr Tang") and Mrs Tang Chu Kam Siu, Una ("Mrs Tang") have beneficial interests. Both Mr Tang and Mrs Tang, who resigned on 25th September 2000 and 27th July 2000 respectively, were regarded as connected persons of the Company until 25th September 2001 within the definitions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). After such date, the transactions between the Group and Brilliant would not be considered as connected transactions as set out in Chapter 14 of the Listing Rules. Newspaper announcement setting out details of these transactions were made by the Company on 11th February 2002.

Connected transactions (continued)

Details of these connected transactions for the period from 1st April 2001 to 25th September 2001 and for the year ended 31st March 2001, were as follows:

	Period from 1st April 2001 to 25th September 2001 HK\$'000	Year ended 31st March 2001 HK\$'000
Sale of raw materials	979	3,263
Subcontracting income for provision of poly clothing work	828	1,422
Sale of moulds	—	2,124
Sale of used plant, machinery and tools	—	484
Subcontracting income for provision of embroidery work	932	328
Subcontracting fee paid for assembling of sole unit	—	(3,818)
	<u> </u>	<u> </u>

Save as disclosed above, there is no other connected transaction for the year.

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	14%
— five largest suppliers combined	31%
Sales	
— the largest customer	71%
— five largest customers combined	91%

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

Employees

At 31st March 2002, the Group had approximately 90 (2001: 110) staff stationed in Hong Kong, Taiwan and Mainland China as well as approximately 9,600 (2001: 10,000) workers in the PRC factories in Mainland China. 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.

Performance of staff is appraised annually to provide a base for the review of the remuneration package.

Retirement benefits scheme

Information on the retirement benefits scheme of the Group is set out in note 10 to the accounts.

Code of best practice of the Listing Rules

Throughout the year, the Company was 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; and
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, attending 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.

Audit committee

The Company set up an audit committee on 25th November 1999 comprising two independent non-executive directors of the Company. The role of the audit committee is to monitor the Group's accounting and financial reporting practices, the internal control systems and to increase the level of corporate governance.

Auditors

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

On behalf of the Board

Lee Chi Keung, Russell
Chairman

Hong Kong, 26th July 2002