



REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2003.

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 for the year are set out in the consolidated profit and loss account on page 18.

The directors have declared an interim dividend of HK\$0.01 per ordinary share, totalling HK\$3,406,000 and were paid on 17th January 2003.

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 2003.

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

At 31st March 2003, 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\$237,715,000 (2002: HK\$192,287,000).

PRE-EMPTIVE RIGHTS

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

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 47 to 48.

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.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st March 2003 are set out in note 12 to the accounts.

BANK BORROWINGS

At 31st March 2003, the Group had no bank borrowings except for a bank overdraft of HK\$977,000 (2002: HK\$1,040,000) and bills payable of HK\$2,633,000 (2002: HK\$3,969,000).

DIRECTORS

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

LEE Chi Keung, Russell (*Chairman*)
YU Mee See, Maria
NG Wai Hung *
LEE Siu Leung *

** Independent non-executive directors*

In accordance with clauses 87(1) and 87(2) of the Company's Bye-laws, Mr. Lee Siu Leung 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 46, 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, the United Kingdom. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

YU Mee See, Maria, aged 43, is the executive director and company secretary of the Company. She is responsible for the general management of the Group. She holds a bachelor degree from The London School of Economics and Political Science in the United Kingdom and is a fellow member 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 37, 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 member of the Hong Kong Society of Accountants. He joined the Company in 2000.

Senior Management

WHOA Ru Yeong, Skeat, aged 49, is the vice-president of the Group's subsidiary, Kong Tai Shoes Manufacturing Company Limited ("KTS"). He is responsible for overall production management of KTS and 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 47, 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 48, 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 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.

Directors' interests in shares

As at 31st March 2003, 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:

Name of directors	Nature of interests	Number of shares held
Lee Chi Keung, Russell ("Mr. Lee")	Corporate interest	251,809,484 shares (Note)
Yu Mee See, Maria ("Ms. Yu")	Family interest	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 ("Wonder Star") respectively. Mr. Lee has a beneficial interest in both companies and his wife, Ms. Yu is deemed to have interest in the said shares of Mr. Lee.

Subsequent to the balance sheet date, the Company was informed that Wonder Star had on 2nd June 2003 placed down its 35,000,000 shares in the Company to several independent investors and reduced its direct shareholding in the Company to 106,205,184 shares. Accordingly, the interests of both Mr. Lee and Ms. Yu in the shares of the Company had been reduced to 216,809,484 shares.

Save as disclosed above and in the section "Directors' rights to acquire shares" below, at no time during the year, 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

Share Option Scheme

On 30th August 2002, the Company adopted a share option scheme (the "Scheme") whereby, the board of directors (the "Board") of the Company may, at their discretion, invite any eligible participants (including any employees, executive, non-executive and independent non-executive directors of the Group), who have contributed or will contribute to the development of the Group to take up options to subscribe for the shares of the Company.

The Company operates the Scheme for the purpose of providing eligible participants with an opportunity to acquire proprietary interests in the Company, which the directors believe will help the building of common objective of the Group and the eligible participants for the betterment of business and profitability of the Group.

The maximum number of option shares can be granted under the Scheme shall not exceed 3,406,169, which is 10% of the total number of shares in issue on the date of the adoption. Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and unexercised options) under the Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 14 days from the date on which the document containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the Board at the time the option is offered to the participants. No options may be granted under the Scheme after the date of the tenth anniversary of the adoption of the Scheme.

No share options have been granted under the Scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(continued)*

Share Option Scheme *(continued)*

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 and none of the directors or chief executive, nor any of their respective spouses or children under the age of 18 had any rights to subscribe for the shares in the Company or had exercised any such rights during the year.

Substantial shareholders

As at 31st March 2003, 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 <i>(Note)</i>
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. Subsequent to the balance sheet date, the Company was informed that Wonder Star had on 2nd June 2003 placed down its 35,000,000 shares in the Company to several independent investors and its interests in the Company had been reduced from 251,809,484 shares to 216,809,484 shares accordingly.

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

Purchases

—	the largest supplier	13%
—	five largest suppliers combined	26%

Sales

—	the largest customer	77%
—	five largest customers combined	91%

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 or customers noted above.

EMPLOYEES

At 31st March 2003, the Group had approximately 70 (2002: 90) staff stationed in Hong Kong, Taiwan and Mainland China as well as approximately 11,500 (2002: 9,600) workers in the factories in Mainland China. In addition to salaries, the Group provides certain benefits including a discretionary bonus programme, provident fund schemes 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.

CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that independent non-executive directors are not appointed for a specific term as they are subjected to retirement by rotation in accordance with the Company's Bye-Laws.

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 review and provide supervision over the Group's accounting and financial reporting practices, the internal control systems and to increase the level of corporate governance.



REPORT OF THE DIRECTORS

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, 23rd July 2003