

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2005.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the principal activities of the Group during the year.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 62.

An interim dividend of HK3.5 cents per ordinary share was paid during the year. The directors recommend the payment of a final dividend of HK7.0 cents per ordinary share in respect of the year, to shareholders on the register of members on 30 August 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 7 October 2005, in cash in Hong Kong dollars, with a scrip dividend alternative.

### SUMMARY FINANCIAL INFORMATION

A summary of the results, and of the assets and liabilities of the Group for the last five financial years, as extracted from the respective published audited financial statements is set out below. This summary does not form part of the audited financial statements.

#### Results

	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER	<b>1,432,388</b>	1,360,856	1,240,651	1,035,709	1,057,599
PROFIT BEFORE TAX	<b>92,796</b>	108,934	125,105	117,498	162,922
Tax	<b>(4,896)</b>	(5,845)	(4,184)	(6,576)	(14,077)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<b>87,900</b>	103,089	120,921	110,922	148,845

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### SUMMARY FINANCIAL INFORMATION *(continued)*

#### Assets and liabilities

	<b>31 March</b>				
	<b>2005</b>	2004	2003	2002	2001
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
FIXED ASSETS	<b>463,469</b>	447,484	420,712	327,082	232,608
INVESTMENTS IN CLUB MEMBERSHIPS	<b>1,060</b>	–	–	–	–
LONG TERM INVESTMENTS	<b>970</b>	652	288	465	388
CURRENT ASSETS	<b>454,921</b>	490,058	486,518	505,882	599,842
<b>TOTAL ASSETS</b>	<b>920,420</b>	938,194	907,518	833,429	832,838
CURRENT LIABILITIES	<b>239,137</b>	275,214	272,670	254,356	287,282
LONG TERM BANK LOAN	–	–	5,850	–	19,500
<b>TOTAL LIABILITIES</b>	<b>239,137</b>	275,214	278,520	254,356	306,782
	<b>681,283</b>	662,980	628,998	579,073	526,056

#### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

#### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 22 and 23 to the financial statements, respectively.

#### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

#### PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

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

## REPORT OF THE DIRECTORS

### RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 March 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$134,422,000, of which HK\$45,838,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$71,132,000, may be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's sales to the five largest customers accounted for 94% of the total sales for the year and sales to the largest customer included therein amounted to 39%. The Group's purchases from the five largest suppliers accounted for less than 30% of the Group's purchases for the year.

None of the directors of the Company or any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Chen Ming-hsiung, Mickey

Huang Hsiu-duan, Helen

Lee Kung

Chan Ho-man, Daniel

Kimmel, Phillip Brian

*Non-executive directors:*

Chow Wing-kin, Anthony SBS, J.P.

*Independent non-executive directors:*

Tam King-ching, Kenny

Chan Mo-po, Paul (appointed on 1 September 2004)

Choy Hok-man, Constance (appointed on 1 September 2004)

In accordance with article 87, 86b(2) of the Company's bye-laws, Lee Kung, Chan Ho-man, Daniel, Huang Hsiu-duan, Helen, Chan Mo-po, Paul and Choy Hok-man, Constance, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position held	Number of years of service	Business experience
Chen Ming-hsiung, Mickey	52	Chairman and managing director	24	Mr. Chen is a co-founder of the Group. Mr. Chen has more than 27 years' experience in the footwear industry. He is responsible for formulating the overall business strategy and plans of the Group. He also oversees the functions of marketing and product design and development. He is the husband of Huang Hsiu-duan, Helen.
Huang Hsiu-duan, Helen	48	Director	24	Ms. Huang is the wife of Mr. Chen Ming-hsiung, Mickey and is a co-founder of the Group. She is responsible for the Group's administration and has more than 28 years' experience in the footwear industry.
Lee Kung	50	Director	24	Mr. Lee is a co-founder of the Group and is responsible for the Group's overall production in Vietnam. He is also responsible for formulating and controlling the Group's quality control policy and procedures. Mr. Lee has more than 25 years' experience in the footwear industry.
Chan Ho-man, Daniel	50	Director	9	Mr. Chan is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. He is responsible for the Group's corporate finance and is also the Company Secretary of the Company. Mr. Chan has more than 26 years' accounting and finance experience in Hong Kong.

## REPORT OF THE DIRECTORS

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

Name	Age	Position held	Number of years of service	Business experience
Kimmel, Phillip Brian	53	Director	11	Mr. Kimmel is responsible for the Group's marketing and customer relations. He holds a master's degree in China regional studies from the University of Washington. Mr. Kimmel has more than 29 years' experience in the footwear industry in Taiwan, the USA, Canada and the PRC.
Chow Wing-kin, Anthony, SBS, J.P.	55	Director	11	Mr. Chow has been practicing as a solicitor in Hong Kong for the past 25 years and is a partner in the law firm, Peter C. Wong, Chow & Chow. Mr. Chow is the Vice Chairman of Estate Agents Authority. He is also a Member of the Law Reform Commission of Hong Kong, a Council Member of the Hong Kong Institute of Education and a member of the Hong Kong Housing Authority. He was appointed as a Member of National Committee of the Chinese People's Political Consultative Conference, and also serves as a steward of the Hong Kong Jockey Club.
Tam King-ching, Kenny	56	Director	11	Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is a Certified Public Accountant and Past President of The Society of Chinese Accountants Auditors in Hong Kong

## REPORT OF THE DIRECTORS

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

Name	Age	Position held	Number of years of service	Business experience
Chan Mo Po, Paul	50	Director	1	Mr. Chan has over 27 years' experience in accounting and finance field and is the managing partner of Paul Chan & Partners, Certified Public Accountants. Mr. Chan holds both a Bachelor's and a Master's degree in Business Administration from the Chinese University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants ("ACCA"), the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Institute of Chartered Secretaries and Administrators, the Taxation Institute of Hong Kong, the Society of Chinese Accountants and Auditors, the Hong Kong Institute of Company Secretaries, and a member of the Macau Society of Certified Practising Accountants. He is currently the vice president of the HKICPA. He had been a former Chairman of the ACCA – Hong Kong Branch and a former member of the World Council of the ACCA in the United Kingdom.
Choy Hok Man, Constance	44	Director	1	Ms. Choy is a solicitor qualified in Hong Kong and England. She is also a partner of Sidley Austin Brown & Wood, an international law firm. She holds a bachelor degree in laws from the University of Hong Kong, a master degree in laws from Osgoode Hall Law School, York University, Canada, and a master degree in business administration from York University, Canada.

## REPORT OF THE DIRECTORS

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

Name	Age	Position held	Number of years of service	Business experience
<i>Hong Kong Office:</i>				
Lai Chi-hang, David	38	Financial controller	12	Mr. Lai is responsible for the Group's accounting and financial management. He has 16 years' experience in the fields of auditing, accounting and financial management.
<i>Taiwan Office:</i>				
Huang Pen-yuan, David	52	Senior marketing manager	14	Mr. Huang is responsible for the Group's marketing and Taiwan operations in respect of customer relations. He has more than 26 years' experience in the footwear industry.
<i>Zhuhai factory I:</i>				
Hsieh Jih-lin, Cassandra	51	Senior marketing manager	4	Ms. Hsieh holds a bachelor's degree in Business of Arts from Providence University, Taiwan. She is responsible for the Group's marketing and China operations in respect of customer relations. She has more than 26 years' experience in the footwear industry.
Wann Ker-chung, Kevin	44	MIS manager	9	Mr. Wann holds a Master of Science in Physics from University of Arizona and a Master of Science in Computer Science from Southwest Texas State University. He is responsible for the Group's Information and Systems Management.
<i>Zhuhai factory II:</i>				
Yu Ming-yuan, Jerry	55	Senior production manager	11	Mr. Yu holds a bachelor's degree in Sociology from Tunghai University, Taiwan. He is responsible for the Group's production in PRC. He has more than 28 years' experience in the footwear industry.

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

Name	Age	Position held	Number of years of service	Business experience
Mathias Yeu	27	Customer account manager	3	Mr . Yeu holds a master's degree in Business Administration from Business School of Management of Rouen, France and a university degree in Business Administration from D.U.T. Gea, Universite Du Maine. Le Mans, France. He is responsible for the Group's marketing and customer relations.
<i>Vietnam factory:</i>				
Kuo Chien-kuei, James	54	Senior production manager	15	Mr. Kuo is responsible for the Group's production in Vietnam. He has more than 25 years' experience in footwear production management.
Chen Hsien-yu, Simon	46	Senior technical & marketing manager	11	Mr. Chen is responsible for the Group's technical control operation and customer relations in Vietnam. Mr. Chen has over 18 years' experience in the footwear industry.
<i>Zhongshan factory:</i>				
Chen Ying-Hui, Anita	52	Senior marketing manager	1	Ms. Chen holds a bachelor's degree in Business of Arts from Providence University, Taiwan. She is responsible for the Group's marketing and China operations in respect of customer relations. She has more than 20 years' experience in the footwear industry.
Huang Chao-sheng, Charles	49	Senior production manager	8	Mr. Huang is responsible for the Group's production in PRC. He has more than 21 years' experience in footwear production management.

### DIRECTORS' SERVICE CONTRACTS

Neither the executive directors, nor the independent non-executive directors proposed for re-election at the forthcoming annual general meeting, have 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' INTERESTS IN CONTRACTS

Apart from those contracts disclosed in note 2 to the financial statements, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued capital
	Directly beneficially owned	Through spouse or minor children*	Through controlled corporation**			
Chen Ming-hsiung, Mickey	7,906,250	9,219,250	269,704,752		286,830,252	43.80%
Huang Hsin-duan, Helen	9,219,250	7,906,250	269,704,752		286,830,252	43.80%
Lee Kung	–	–	269,704,752		269,704,752	41.19%
Chan Ho-man, Daniel	3,173,750	–	–		3,173,750	0.48%
Kimmel, Phillip Brian	2,400,000	–	–		2,400,000	0.37%

\* Huang Hsin-duan, Helen is the wife of Mr. Chen Ming-hsiung, Mickey.

\*\* These shares represent a 41.19% equity interest in the Company and are owned by King Strike Limited. The issued share capital of King Strike Limited is beneficially owned by Chen Ming-hsiung, Mickey as to 75.80%, Huang Hsiu-duan, Helen as to 22.07% and Lee Kung as to 2.13%.

The interests of the directors in the share options of the Company are separately disclosed in note 23 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to 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.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option schemes disclosures in note 23 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 23 to the financial statements.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued capital
King Strike Limited ( <i>Note 1</i> )	Directly beneficially owned	269,704,752	41.19%
J.P. Morgan Chase & Co. ( <i>Note 2</i> )	Custodian	58,805,399	8.98%
Gryphon International Investment Corporation	Investment Manager	46,288,313	7.07%

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes:

- 1) The issued share capital of King Strike Limited is beneficially owned by Chen Ming Hsiung, as to 75.8%. Huang Hsiu Duan as to 22.07% and Lee Kung as to 2.13%.
- 2) The following is a breakdown of the interests in shares of J.P. Morgan Chase & Co.:

Controlled corporation	Controlling shareholder	% of control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
JPMorgan Chase Bank, N.A.	J.P.Morgan Chase & Co.	100.00	58,805,399	–	8.98%

The 58,805,399 shares included a lending pool of 58,805,399 shares.

Save as disclosed above, as at 31 March 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises one non-executive director and three independent non-executive directors of the Company. The Group’s financial statements for the year ended 31 March 2005 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chen Ming Hsiung, Mickey**

*Chairman*

Hong Kong

11 July 2005