

# REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited consolidated financial statements for the year ended 31st March 2006.

## ***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 its principal subsidiaries are set out in note 28 to the consolidated financial statements.

An analysis of the Group's performance by geographical segments is set out in note 7 to the consolidated financial statements.

## ***RESULTS AND APPROPRIATIONS***

The results of the Group for the year are set out in the consolidated income statement on page 21.

The directors have declared an interim dividend of HK\$0.01 per ordinary share, totalling US\$437,000 and were paid on 20th January 2006.

The directors recommend the payment of a final dividend of HK\$0.03 per ordinary share, totalling US\$1,310,000 for the year ended 31st March 2006.

## ***PROPERTY, PLANT AND EQUIPMENT***

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

## ***SHARE CAPITAL***

Details of the movements in share capital of the Company are set out in note 25 to the consolidated financial statements.

## ***DISTRIBUTABLE RESERVES***

Under the Companies Act 1981 of Bermuda (as amended) (the "Act"), the Company's contributed surplus is distributable to shareholders under certain circumstances as provided in the Act. The reserve of the Company available for distribution to shareholders as calculated under the Act as at 31st March 2006 amounted to US\$49,808,000 (2005: US\$61,710,000).

Details of the movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 24.

# REPORT OF THE DIRECTORS

## *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 page 56.

## *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:

Mr. LEE Chi Keung, Russell (*Chairman*)

Ms. YU Mee See, Maria

Mr. NG Wai Hung \*

Mr. LEE Siu Leung \*

Mr. Yuen Sik Ming \*

\* *Independent non-executive directors*

In accordance with the Bye-laws of the Company, Ms. YU Mee See, Maria and Mr. LEE Siu Leung shall retire by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting of the Company.

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.

# REPORT OF THE DIRECTORS

## *BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT*

### **Directors**

**LEE Chi Keung, Russell**, aged 49, 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 of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in 1993.

**YU Mee See, Maria**, aged 46, is the executive director of the Company and company secretary of the Group. 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 Institute of Certified Public Accountants. She joined the Group in 2001 and is the wife of Mr. Lee Chi Keung, Russell.

**NG Wai Hung**, aged 42, is an independent non-executive director of the Company. He is a practising solicitor and a partner in Lu Lai & Li Solicitors & Notaries, 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 40, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Company in 2000.

**YUEN Sik Ming**, aged 49, is an independent non-executive director of the Company. He is a certified public accountant practising in Hong Kong. He is a fellow of The Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Society of Registered Financial Planners. He joined the Company in 2004.

### **Senior Management**

**YEH Tsun Hsing, Steve**, aged 50, is the vice-president of the Group. He has over 20 years of operational and management experience in footwear industry and he oversees the Group's production operations. He joined the Group in 1990.

**WHOA Ru Yeong, Skeat**, aged 52, is the vice-president of the Group. He has extensive experience in product development and management of footwear manufacturing business and he is in charge of the research and development operation of the Group. He joined the Group in 1993.

# REPORT OF THE DIRECTORS

## *DIRECTORS' INTERESTS IN CONTRACTS*

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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATES CORPORATIONS*

As at 31st March 2006, the interests and short positions of each of the directors in the shares, underlying shares and debentures of the Company and 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 under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### **Long position in shares of the Company**

<b>Name of directors</b>	<b>Number of shares held/interested</b>	<b>Percentage of issued share capital</b>
LEE Chi Keung, Russell ("Mr. Lee")	191,809,484 ( <i>Note</i> )	56.31%
YU Mee See, Maria ("Ms. Yu")	191,809,484 ( <i>Note</i> )	56.31%

*Note:*

The corporate interests of 191,809,484 shares in the Company represent 81,205,184 shares held by Wonder Star Securities Limited ("Wonder Star") and 110,604,300 shares held by its wholly-owned subsidiary, Top Source Securities Limited. The entire issued share capital of Wonder Star is owned by Mr. Lee. In addition, Ms. Yu, the wife of Mr. Lee is deemed to be interested in these shares.

Save as disclosed above and in the section "Directors' rights to acquire shares" below, none of the directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31st March 2006.

# REPORT OF THE DIRECTORS

## *DIRECTORS' RIGHTS TO ACQUIRE SHARES*

### **Share Options Scheme**

On 30th August 2002, the Company adopted a share option scheme (the "Scheme") whereby, the board of directors 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 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 ("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.

# REPORT OF THE DIRECTORS

## *DIRECTORS' RIGHTS TO ACQUIRE SHARES (continued)*

### **Share Options 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 2006, the register of substantial shareholders maintained under 336 of the SFO showed that the Company had been notified of the following substantial shareholders' interests who are interested in 5% or more of the issued share capital of the Company. These interests have been disclosed above in respect of the directors.

### **Long position in shares of the Company**

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Percentage of issued share capital</b>
Wonder Star Securities Limited ("Wonder Star")	191,809,484	56.31% <i>(Note)</i>
Top Source Securities Limited ("Top Source")	110,604,300	32.47%

*Note:*

The interests of Wonder Star include 81,205,184 shares held directly by Wonder Star and 110,604,300 shares held by Top Source, a wholly-owned subsidiary of Wonder Star.

## **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.

None of the directors of the Company in their respective associates had any interests in business which compete or may compete with the Group's business.

# REPORT OF THE DIRECTORS

## **CONNECTED TRANSACTIONS**

During the year, the Group did not enter into any transactions with any connected persons.

## **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	5%
— five largest suppliers combined	18%

### **Sales**

— the largest customer	75%
— five largest customers combined	97%

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 AND REMUNERATION POLICY**

As at 31st March 2006, the Group had a total of 10,000 (2005: 11,000) full time employees (including contracted manufacturing workers) in Hong Kong, Korea and Mainland China. The Group's emolument policy is to pay wages and salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual and the Group's performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes, bonus on performance basis and in-house training programmes.

## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st March 2006.

## **CORPORATE GOVERNANCE**

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 15 to 19 to the annual report.

# REPORT OF THE DIRECTORS

## *AUDITORS*

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years, resigned and Messrs. ShineWing (HK) CPA Limited were appointed as auditors of the Company. A resolution for the re-appointment of Messrs. ShineWing (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**LEE Chi Keung, Russell**

*Chairman*

Hong Kong, 14th July 2006