

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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the principal activities of the Group during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 60.

An interim dividend of HK3.5 cents per ordinary share was paid during the year. The directors recommend the payment of a final dividend and a special dividend of HK7 cents and HK2.5 cents per ordinary share, respectively, in respect of the year, to shareholders on the register of members on 28 August 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in notes 2 and 12 to the financial statements.

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, and reclassified as appropriate, is set out as below. Certain amounts in the five year summary have been adjusted for the effect of retrospective changes in accounting policy affecting dividends, as detailed in notes 2 and 12 to the financial statements. The result of this change in accounting policy is that prior year adjustments have been made to reclassify the proposed final dividends of HK\$23,047,000, HK\$29,927,000, HK\$32,228,000 and HK\$40,191,000 for the years ended 31 March 1998, 1999, 2000 and 2001, respectively, and the proposed special dividend of HK\$2,762,000 for the year ended 31 March 1999, which were recognised under the current liabilities section at the respective year ends, to the proposed final dividend reserve account and proposed special dividend reserve account within the capital and reserves section of the respective balance sheets. The result of this has been to reduce both the Company's and the Group's current liabilities and increase the Company's and the Group's reserves previously reported as at 31 March 1998, 1999, 2000 and 2001, by HK\$23,047,000, HK\$32,689,000, HK\$32,228,000 and HK\$40,191,000, respectively.

REPORT OF THE DIRECTORS (CONTINUED)

SUMMARY FINANCIAL INFORMATION (continued)

Results

	Year ended 31 March				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	1,035,709	1,057,599	975,613	949,426	947,657
PROFIT BEFORE TAX	117,498	162,922	140,921	112,970	91,734
Tax	(6,576)	(14,077)	(12,446)	(13,005)	(11,777)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	110,922	148,845	128,475	99,965	79,957

Assets and liabilities

	31 March				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
FIXED ASSETS	327,082	232,608	162,764	153,699	158,697
LONG TERM INVESTMENTS	465	388	776	556	1,248
DEPOSITS PAID	–	–	14,321	–	–
CURRENT ASSETS	505,882	599,842	621,002	501,550	357,089
TOTAL ASSETS	833,429	832,838	798,863	655,805	517,034
CURRENT LIABILITIES	254,356	287,282	367,525	311,928	223,147
LONG TERM BANK LOAN	–	19,500	–	2,112	1,992
TOTAL LIABILITIES	254,356	306,782	367,525	314,040	225,139
	579,073	526,056	431,338	341,765	291,895

REPORT OF THE DIRECTORS (CONTINUED)

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 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 note 23 to the financial statements.

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.

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.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$69,283,000. In addition, the Company's share premium account, in the amount of HK\$59,878,000, may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the Group's sales to the five largest customers accounted for 91% of the Group's sales for the year and Group's sales to the largest customer included therein amounted to 28%. 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 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

Chen Cheng-hsiung

Huang Hsiu-duan, Helen

Lee Kung

Chan Ho-man, Daniel

Kimmel, Phillip Brian

Independent non-executive directors:

Chow Wing-kin, Anthony

Tam King-ching, Kenny

In accordance with article 87 of the Company's bye-laws, Huang Hsiu-duan, Helen and Lee Kung, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS (CONTINUED)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position held	Number of years of service	Business experience
Chen Ming-hsiung, Mickey	49	Chairman and managing director	21	Mr. Chen is a co-founder of the Group. Mr. Chen has more than 25 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 a brother of Chen Cheng-hsiung and the husband of Huang Hsiu-duan, Helen.
Chen Cheng-hsiung	57	Director	21	Chen Cheng-hsiung is the elder brother of Mr. Chen Ming-hsiung, Mickey and is a co-founder of the Group. He is responsible for handling relations with government authorities in the People's Republic of China. He is also responsible for the business development and overall administration of the Group's PRC operations. He has more than 21 years' experience in the footwear industry in the PRC and Taiwan.

REPORT OF THE DIRECTORS (CONTINUED)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Name	Age	Position held	Number of years of service	Business experience
Huang Hsiu-duan, Helen	45	Director	21	Huang Hsiu-duan, Helen 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 26 years' experience in the footwear industry.
Lee Kung	47	Director	21	Lee Kung is a co-founder of the Group and is responsible for the Group's overall production in the PRC. He is also responsible for formulating and controlling the Group's quality control policy and procedures. Mr. Lee has more than 24 years' experience in the footwear industry.
Chan Ho-man, Daniel	47	Director	6	Mr. Chan is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants. He is responsible for the Group's corporate finance and is also the Company Secretary of the Company. Mr. Chan has more than 24 years' accounting and finance experience in Hong Kong.

REPORT OF THE DIRECTORS (CONTINUED)

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

Name	Age	Position held	Number of years of service	Business experience
Kimmel, Phillip Brian	50	Director	8	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 27 years' experience in the footwear industry in Taiwan, the USA, Canada and the PRC.
Chow Wing-kin, Anthony J.P.	52	Director	8	Mr. Chow has been practicing as a solicitor in Hong Kong for the past 22 years and is a partner in the law firm, Peter C. Wong, Chow & Chow. Mr. Chow is a Council Member of the Law Society of Hong Kong, having previously served three terms as President of the Society. He is a Steward of the Hong Kong Jockey Club and is also a director of the Hong Kong Solicitors' Indemnity Fund Limited.
Tam King-ching, Kenny	53	Director	8	Mr. Tam is a fellow member of the Hong Kong Society of Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is a Certified Public Accountant in Hong Kong and practices under the name of Kenny Tam & Co.

REPORT OF THE DIRECTORS (CONTINUED)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Name	Age	Position held	Number of years of service	Business experience
Cho Chin-fu, George	49	Senior production manager	12	Mr. Cho holds a bachelor's degree in industrial management from the Tam Kang University. He has more than 23 years' experience in footwear production management and is responsible for the Group's production in the PRC.
Huang Pen Yuan, David	49	Senior marketing manager	11	Mr. Huang is responsible for the Group's marketing and Taiwan operations in respect of customer relations. He has more than 24 years' experience in the footwear industry.
Lai Chi Hang, David	35	Assistant financial controller	9	Mr. Lai is responsible for the Group's accounting and financial management. He has 14 years' experience in the fields of auditing, accounting and financial management.

REPORT OF THE DIRECTORS (CONTINUED)

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

Name	Age	Position held	Number of years of service	Business experience
Chen Hsien Yu, Simon	43	Senior Technical & marketing manager	8	Mr. Chen is responsible for the technical control, operations and customer relations in Vietnam. Mr. Chen has over 16 years' experience in the footwear industry.
MacGregor, Wayne Lyndon	32	Customer relations manager	3	Mr. MacGregor holds a master's degree in international relations focused on Greater China, a bachelor's degree in international relations and a bachelor's degree in law from the University of the Witwatersrand, Johannesburg. He is responsible for the Group's marketing and customer relations.
Liao Mei-yueh, Linda	40	Senior accounts manager	3	Ms. Liao holds a diploma in commercial from Soochow University, Taiwan. She has more than 16 years' experience in the footwear industry.

REPORT OF THE DIRECTORS (CONTINUED)

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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those contracts disclosed in note 3 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of directors	Number of ordinary shares of the Company held and nature of interest	
	Personal interest	Corporate interest*
Chen Ming-hsiung, Mickey	5,706,250	357,082,950
Chen Cheng-hsiung	5,362,500	357,082,950
Huang Hsiu-duan, Helen	12,465,750	357,082,950
Lee Kung	–	357,082,950
Chan Ho-man, Daniel	2,568,750	–
Kimmel, Phillip Brian	1,938,750	–

* These shares represent a 55.9% 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 57.25%, Chen Cheng-hsiung as to 24.47%, Huang Hsiu-duan, Helen as to 16.67% and Lee Kung as to 1.61%.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance).

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, 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 children under 18 years of age, 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

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees (including executive directors) of the Company or any of its subsidiaries. The Scheme became effective on 3 September 1994 and will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 16,523,750, which represented approximately 2.6% of the Company's shares in issue as at that date. There is no limit on the maximum number of shares issuable under share options to each eligible participant in the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion based on the higher of 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the offer date, and the nominal value of the Company's shares.

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, any options granted after 1 September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is to be approved and adopted by the shareholders of the Company in a general meeting. A new share option scheme in compliance with the New Rules is proposed to be adopted in a forthcoming annual general meeting.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME (continued)

No share options were granted or cancelled during the year.

Subsequent to the balance sheet date, on 4 April 2002, 6,888,750 and 3,839,000 share options were exercised at exercise prices of HK\$0.742 and HK\$0.918, respectively.

The following share options were outstanding under the Scheme during the year:

Name or category of participants	Number of share options			At 31 March 2002	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares at exercise date of options** HK\$
	At 1 April 2001*	Exercised during the year	Lapsed during the year [®]					
Directors								
Chen Ming-hsiung, Mickey	1,687,500	(1,687,500)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816	1.556
	2,200,000	-	-	2,200,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	-
Chen Cheng-hsiung	1,625,000	(1,625,000)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816	1.556
	1,320,000	-	-	1,320,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	-
Huang Hsiu-duan, Helen	1,237,500	(1,237,500)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816	1.556
	1,100,000	-	-	1,100,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	-
Lee Kung	556,875	-	-	556,875	22 March 2000	22 March 2000 to 2 September 2004	0.742	-
	385,000	-	-	385,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	-
Chan Ho-man, Daniel	562,500	(562,500)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816	1.556
	605,000	-	-	605,000	2 January 2001	2 January 2001 to 2 September 2004	0.918	-
Kimmel, Phillip Brian	500,000	(500,000)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816	1.556
	440,000	(440,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	0.918	1.650
	12,219,375	(6,052,500)	-	6,166,875				

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participants	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares at exercise date of options** HK\$
	At 1 April 2001*	Exercised during the year	Lapsed during the year ^⑥	At 31 March 2002				
Directors	12,219,375	(6,052,500)	-	6,166,875				
Other employees In aggregate	200,000	(200,000)	-	-	2 January 2001	2 January 2001 to 2 September 2004	1.010 2.500	
	375,000	(375,000)	-	-	22 March 2000	22 March 2000 to 2 September 2004	0.816 1.556	
	220,000	(100,000)	-	120,000	2 January 2001	2 January 2001 to 2 September 2004	0.918 1.700	
	82,500	-	-	82,500	31 December 1996	31 December 1996 to 2 September 2004	0.429 -	
	6,606,875	-	(275,000)	6,331,875	22 March 2000	22 March 2000 to 2 September 2004	0.742 -	
	4,510,000	-	(687,500)	3,822,500	2 January 2001	2 January 2001 to 2 September 2004	0.918 -	
	11,994,375	(675,000)	(962,500)	10,356,875				
	24,213,750	(6,727,500)	(962,500)	16,523,750				

^⑥ The share options previously granted to certain employees lapsed upon their resignation.

* The number of share options and the exercise price were adjusted on 15 August 2001 pursuant to the one for ten bonus issue of shares, further details of which are set out in note 23 to the financial statements.

** The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

SUBSTANTIAL SHAREHOLDERS

Apart from the interest of King Strike Limited in the issued share capital of the Company as disclosed in the "Directors' interests in shares" section above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

REPORT OF THE DIRECTORS (CONTINUED)

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 by-laws of the Company.

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 the two independent non-executive directors of the Company. The Group’s financial statements for the year ended 31 March 2002 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

9 July 2002