

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 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 17 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 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 31 to 80.

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 HK4.5 cents and a special dividend of HK2.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 29 August 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or around 5 October 2006, in cash of Hong Kong dollars.

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 restated as appropriate, is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 March				
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
REVENUE	1,278,488	1,432,388	1,360,856	1,240,651	1,035,709
PROFIT BEFORE TAX	70,360	92,796	108,934	125,105	117,498
Tax	(10,225)	(4,896)	(5,845)	(4,184)	(6,576)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	60,135	87,900	103,089	120,921	110,922

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SUMMARY FINANCIAL INFORMATION *(continued)*

Assets and liabilities

	2006 HK\$'000	2005 HK\$'000 (Restated)	31 March		2002 HK\$'000 (Restated)
			2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	
PROPERTY, PLANT AND EQUIPMENT	367,716	378,793	361,214	332,847	252,902
PREPAID LAND LEASE PAYMENTS	76,064	82,752	84,676	86,270	72,776
INVESTMENT PROPERTIES	2,973	–	–	–	–
INVESTMENTS IN CLUB MEMBERSHIPS	1,045	1,060	–	–	–
AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS	1,369	970	652	288	465
CURRENT ASSETS	498,120	456,845	491,652	488,113	507,286
TOTAL ASSETS	947,287	920,420	938,194	907,518	833,429
CURRENT LIABILITIES	261,154	239,137	275,214	272,670	254,356
LONG TERM BANK LOAN	–	–	–	5,850	–
TOTAL LIABILITIES	261,154	239,137	275,214	278,520	254,356
	686,133	681,283	662,980	628,998	579,073

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

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 24 and 25 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.

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RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$141,984,000, of which HK\$29,477,000 and HK\$16,376,000 have been proposed as a final dividend and a special dividend respectively for the year. In addition, the Company's share premium account, in the amount of HK\$71,497,000, 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 96% of the total sales for the year and sales to the largest customer included therein amounted to 31%. The Group's purchases from the five largest suppliers accounted for less than 24% 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:

Mr. Chen Ming-hsiung, Mickey

Mdm. Huang Hsiu-duan, Helen

Mr. Lee Kung, Bobby

Mr. Chan Ho-man, Daniel

Mr. Kimmel, Phillip Brian

Non-executive director:

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

Independent non-executive directors:

Mr. Tam King-ching, Kenny

Mr. Chan Mo-po, Paul

Ms. Choy Hok-man, Constance

Subsequent to the balance sheet date, on 1 July 2006, Ms. Choy Hok-man, Constance resigned as a director of the Company and Mr. Yung Tse-kwong, Steven was appointed as a director of the Company.

In accordance with article 86(2) and 87 of the Company's bye-laws, Mr. Tam King-ching, Kenny, Mr. Kimmel, Phillip Brian and Mr. Yung Tse-kwong, Steven, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position held	Number of years of service	Business experience
Chen Ming-hsiung, Mickey	53	Chairman and managing director	25	Mr. Chen is a co-founder of the Group. Mr. Chen has more than 28 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	49	Director	25	Mdm. 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 29 years' experience in the footwear industry.
Lee Kung, Bobby	51	Director	25	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 26 years' experience in the footwear industry.
Chan Ho-man, Daniel	51	Director	10	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 27 years' accounting and finance experience in Hong Kong.
Kimmel, Phillip Brian	54	Director	12	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 30 years' experience in the footwear industry in Taiwan, the USA, Canada and the PRC.

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Name	Age	Position held	Number of years of service	Business experience
Chow Wing-kin, Anthony, SBS, J.P.	56	Director	12	<p>Mr. Chow has been practicing as a solicitor in Hong Kong for the past 26 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. He is a Member of National Committee of the Chinese People's Political Consultative Conference, and also serves as a steward of Hong Kong Jockey Club. He also serves on the boards of several listed companies in Hong Kong and is the former President of the Law Society of Hong Kong.</p>
Tam King-ching, Kenny	57	Director	12	<p>Mr. Tam King Ching, Kenny, aged 57. Mr. Tam was appointed as an Independent Non-executive Director of the Company in May 1994. He is a practising Certified Public Accountant in Hong Kong. He 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 serving as a member of the Ethics Committee, Insolvency Practitioners Committee, Professional Risk Management Committee and Small and Medium Practitioners Committee in the Hong Kong Institute of Certified Public Accountants. He is also a Past President of The Society of Chinese Accountants and Auditors.</p> <p>Mr. Tam also serves as an independent non-executive director of five other listed companies on the main board of The Stock Exchange of Hong Kong Limited, namely, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Swank International Manufacturing Company Limited and Van Shung Chong Holdings Limited, and a listed company on the GEM board of The Stock Exchange of Hong Kong Limited, namely, North Asia Strategic Holdings Limited.</p>

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Name	Age	Position held	Number of years of service	Business experience
Chan Mo-po, Paul	51	Director	2	<p>Mr. Chan has over 28 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 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.</p>
Choy Hok-man, Constance	45	Director	2	<p>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.</p>
Yung Tse-kwong, Steven	56	Director	1	<p>Mr. Yung is the Chairman of the Board of Clear Media Limited which is listed on the main board of Hong Kong Stock Exchange. During his 25 years of media, advertising, consumer marketing, manufacturing and retailing career, he also held senior management positions with The Coca-Cola Company in the U.S. & Asia Pacific. Mr. Yung has extensive experience from multinational companies.</p>

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Name	Age	Position held	Number of years of service	Business experience
Hong Kong Office:				
Lai Chi-hang, David	39	Financial controller	13	Mr. Lai is responsible for the Group's accounting and financial management. He has 17 years' experience in the fields of auditing, accounting and financial management.
Taiwan Office:				
Huang Pen-yuan, David	53	Senior marketing manager	15	Mr. Huang is responsible for the Group's marketing and Taiwan operations in respect of customer relations. He has more than 27 years' experience in the footwear industry.
Zhuhai factory:				
Rebekah A. Maley	34	Vice President	1	Ms. Maley joined the Group in January 2006 to handle social and legal compliance, with a special focus on the Group's operations in Vietnam and new investment. She is a graduate of The University of Texas School of Law (USA) and a member of the New York State Bar. Ms. Maley has previous experience in the Taiwan shoe industry in managing business accounts. She has also worked for human rights initiatives in South Africa and acted as a corporate consultant in Thailand.
Hsieh Jih-lin, Cassandra	52	Senior marketing manager	5	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 27 years' experience in the footwear industry.
Wann Ker-chung, Kevin	45	Senior MIS manager	10	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.

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Name	Age	Position held	Number of years of service	Business experience
Vietnam factory:				
Kuo Chien-kuei, James	55	Senior production manager	16	Mr. Kuo is responsible for the Group's production in Vietnam. He has more than 26 years' experience in footwear production management.
Chen Hsien-yu, Simon	47	Senior technical & marketing manager	12	Mr. Chen is responsible for the Group's technical control operation and customer relations in Vietnam. Mr. Chen has over 19 years' experience in the footwear industry.
Zhongshan factory:				
Liu San-teng, Gerry	44	Senior Manager	14	Mr. Liu is responsible for the Group's administration and operation in China. He has been involved in the development of Vietnam factory and has experience in international trade. He has more than 14 years' experience in the footwear industry.

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DIRECTORS' SERVICE CONTRACTS

Neither the executive directors, non-executive director, 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.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those contracts disclosed in note 30 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 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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**			
Mr. Chen Ming-hsiung, Mickey	7,906,250	9,219,250	269,704,752	286,830,252	43.79%	
Mdm. Huang Hsiu-duan, Helen	9,219,250	7,906,250	269,704,752	286,830,252	43.79%	
Mr. Lee Kung, Bobby	–	–	269,704,752	269,704,752	41.17%	
Mr. Chan Ho-man, Daniel	3,200,000	–	–	3,200,000	0.49%	
Mr. Kimmel, Phillip Brian	1,400,000	–	–	1,400,000	0.21%	

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

** These shares represent a 41.17% equity interest in the Company and are owned by King Strike Limited. The issued share capital of King Strike Limited is beneficially owned by Mr. Chen Ming-hsiung, Mickey as to 75.80%, Mdm. Huang Hsiu-duan, Helen as to 22.07% and Mr. Lee Kung, Bobby as to 2.13%.

The interests of the directors in the share options of the Company are separately disclosed in note 25 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.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed above, as at 31 March 2006, 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 Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option schemes disclosures in note 25 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 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 SCHEMES

Details of the share option schemes of the Company are set out in note 25 to the financial statements.

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

At 31 March 2006, 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 share capital
King Strike Limited <i>(Note 1)</i>	Directly beneficially owned	269,704,752	41.17%
J.P. Morgan Chase & Co.	Custodian	51,091,399	7.80%
Gryphon Investment Counsel Inc.	Investment Manager	49,792,313	7.60%
Aberdeen Asset Management Plc and its Associates	Investment Manager	42,782,000	6.53%

Note:

- (1) The issued share capital of King Strike Limited is beneficially owned by Mr. Chen Ming-hsiung, Mickey, as to 75.8%, Mdm. Huang Hsiu-duan, Helen as to 22.07% and Mr. Lee Kung, Bobby as to 2.13%.

Save as disclosed above, as at 31 March 2006, 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.

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SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in Note 32 to the financial statements.

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
10 July 2006