



The directors submit their report together with the audited accounts for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its principal subsidiaries are engaged in the manufacture and export of athletic and athletic-style footwear.

An analysis of the Group's turnover by markets is set out in note 2 to the accounts.

No analysis of contribution by geographical markets has been presented as the ratios of contribution to profit achieved for individual market is not substantially out of line with the normal ratio of profit to turnover.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 16.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the share capital and share option scheme of the Company are set out in notes 18 and 19 to the accounts respectively.

SUBSIDIARIES AND ASSOCIATED COMPANY

Particulars of the Company's subsidiaries and the Group's associated company as at 31st December 2000 are set out in note 12 to the accounts.

DISTRIBUTION RESERVES

In accordance with the Company's Articles of Association, dividends can only be distributed out of the retained profits of the Company. At 31st December 2000, the distributable reserves of the Company available for distribution amounted to HK\$408,000 (1999: HK\$411,000).

BANK LOANS

Particulars of bank loans as at 31st December 2000, all of which are repayable within one year, are set out in note 17 to the accounts.



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 44.

DIRECTORS

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

Mr FENG Shen Chuan (*Chairman*)

Mr HUNG Kun Fu (*Managing Director*)

Ms KUO Shu Chen

Mr FENG Yung Chuan

Ms WU Xiaoqin

Mr LO Kwok Kwei, David*

Mr KONG Chi How, Johnson*

Mr HUI Chuen Kin, Daniel#

(resigned on 10th May 2000)

Non-executive Director

* *Independent Non-executive Directors*

Save as the Chairman and the Managing Director, all remaining Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

Ms KUO Shu Chen and Ms WU Xiaoqin retire in accordance with the Article 99 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Mr KONG Chi How, Johnson retires in accordance with the Article 99 of the Company's Articles of Association and, though being eligible, does not offer himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr FENG Shen Chuan, aged 57, is the founder of the Group and Chairman of the Company. He oversees the Group's overall policy and development as well as its sales and marketing and he has been in the footwear business for more than 30 years. Mr FENG is the brother of Mr FENG Yung Chuan.

Mr HUNG Kun Fu, aged 47, is the Managing Director of the Company. He is responsible for engineering and production management of the Group and takes an active role in its sales and marketing activities. He has more than 24 years of experience in the footwear business in both Taiwan and the People's Republic of China. He joined the Group in 1988.

Ms KUO Shu Chen, aged 44, is a Director of the Company and the Financial Manager of the Group. She has more than 16 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr FENG Yung Chuan, aged 56, joined the Group in 1997. He has more than 23 years of experience in the electronic industry. He is the brother of Mr FENG Shen Chuan.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Executive Directors (Cont'd)

Ms WU Xiaoqin, aged 36, joined the Group in 1995, was appointed as a Director of the Company in 1999. She holds a bachelor degree in chemistry and has more than 11 years of experience in administrative management.

Independent Non-executive Directors

Mr LO Kwok Kwei, David, aged 41, holds the degrees of bachelor of laws and bachelor of jurisprudence from University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984. He has been a member of The Law Society of Hong Kong since 1987. He has been practising as a solicitor in Hong Kong for over 13 years and is a partner in David Lo & Partners. He joined the Board of Directors of the Company in 1992 and is a member of the Audit Committee of the Company.

Mr KONG Chi How, Johnson, aged 40, holds a bachelor degree in accounting and finance. He is a member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants. Being a practising Certified Public Accountant, he is currently a partner in BDO International, an international accounting firm. He joined the Board of Directors of the Company in early 1999 and is the Chairman of the Audit Committee of the Company.

Senior Management

Mr HSU Ching Huang, Kenny, aged 46, joined the Group in 1991 and is the Group's Deputy General Manager responsible for the overall manufacturing operations. He is responsible for footwear materials purchases and research and development in our People's of Republic of China Office. He has more than 21 years of experience in footwear manufacturing.

Mr HUANG Chang Chou, Frank, aged 45, joined the Group in May 1998 and is the Group's Assistant General Manager, He is responsible for footwear development and marketing, and has more than 22 years of experience in footwear manufacturing.

Mr CHUANG Cheng Fen, aged 44, joined the Group in 1989 and has over 21 years of experience in footwear manufacturing. He is the Assistant General Manager of the Group and is responsible for the overall manufacturing operations.

Mr CHOU Pao Sheng, William, aged 49, is the Group's Business Manager. He holds a bachelor of arts degree in foreign language and literature from National Cheng Kung University in Taiwan. He joined the Group in June 1993. He has more than 21 years of experience in marketing, purchasing, shipping, quality and delivery control over production.

DIRECTORS' SERVICE CONTRACTS

Mr FENG Shen Chuan and Mr HUNG Kun Fu have each entered into service agreements with the Company for a term of three years commencing on 1st December 1998.

The Directors being proposed for re-election at the forthcoming annual general meeting of the Company do not have any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.



DIRECTORS' INTERESTS IN CONTRACTS

During the year, a 75% owned subsidiary of the Company, Chung Been Footwear Limited (“Chung Been”) paid administrative fee of approximately HK\$951,000 to a wholly owned subsidiary of the Company. Mr FENG Yung Chuan is interested in this transaction to the extent that he had beneficial interests in Chung Been. On 8th December 2000, Mr FENG Yung Chuan transferred his beneficial interests in Chung Been to a person who is not a connected person as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

During the year, the law firm in which Mr LO Kwok Kwei, David is a partner, had provided professional services to the Group and the Certified Public Accountants firm in which Mr KONG Chi How Johnson is a partner, had provided company secretarial services to the Group.

Apart from the above, no contracts of significance in relation to the Group’s business to which the Company or any of 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.

CONNECTED TRANSACTIONS

During the year, in the normal course of business of the Group, Chung Been had the following transaction with a wholly-owned subsidiary of the Company as follows:

A wholly-owned subsidiary of the Company purchased leather and certain consumable goods from independent suppliers on a bulk purchase basis which were directly or indirectly allocated to the Company’s subsidiaries. An administrative fee of 5% on cost of the materials was charged to the subsidiaries including Chung Been. The rate was changed to 12% since July 2000 and the aggregate amount of administrative fee paid by Chung Been to this subsidiary was HK\$951,000 during the year ended 31st December 2000.

Mr FENG Yung Chuan is a Director of the Company and was a shareholder of Chung Been. On 8th December 2000, Mr FENG Yung Chuan transferred his equity shares in Chung Been to a person who is not a connected person as defined in the Listing Rules.

The above transaction is a connected transaction and is disclosed in accordance with a waiver granted by the Listing Division of the Stock Exchange. In the opinion of the Independent Non-executive Directors of the Company, the above transaction was carried out on normal commercial terms and in the ordinary course of business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company’s share option scheme, which became effective on 16th January 1993, the Directors of the Company may grant share options to employees of the Company or its subsidiaries, including Directors of any of such companies, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. However, no share options were granted during the year or outstanding at the balance sheet date.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

Apart from the share option scheme mentioned above,

- (a) none of the Directors and chief executives or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right; and
- (b) at no time during the year was the Company, or any of its subsidiaries a party to any arrangements 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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st December 2000, the interests of the Directors in the shares of the Company or any of 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 Director	Number of ordinary shares of the Company held
	Personal interest
FENG Shen Chuan	71,162,209
HUNG Kun Fu	2,500,000
KUO Shu Chen	18,038,000
FENG Yung Chuan	6,801,500

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr FENG Shen Chuan in trust for the Group as at 31st December 2000, none of the Directors and chief executives had any other beneficial interests in the shares of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2000, as far as the Directors were aware, the interest of the only substantial shareholder in the shares of the Company was as follows:

Name	Number of Ordinary shares
Micon Limited	114,098,540

Note: Micon Limited is a wholly-owned subsidiary of South China Industries Limited which is itself a subsidiary of South China Holdings Limited.



SUBSTANTIAL SHAREHOLDERS (Cont'd)

Apart from the aforesaid, as at 31st December 2000 the Company had not been notified of any interest (other than those stated above under the heading “Directors’ interest in equity or debt securities” in respect of the Directors) amounting to 10% or more of the issued share capital of the Company required to be disclosed pursuant to the SDI Ordinance.

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

The percentages of sales for the year attributable to the Group’s major customers are as follows:

Sales	
— the largest customer	82%
— five largest customers combined	99%

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company’s share capital) had any beneficial interests in the major customers noted above.

During the year, the Group purchased less than 30% of its goods from its five largest suppliers.

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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company’s Articles of Association or the Companies Law (Revised) of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The term of office for the Independent Non-executive Directors of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s Articles of Association. In the opinion of the Directors, the Company was in compliance with the aim of the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

Saved as disclosed above, throughout the year, the Company was in compliance with the Code of Best Practice, as set out in the Listing Rules.



AUDIT COMMITTEE

The Audit Committee of the Board has been established in January 1999 and currently comprises two Independent Non-executive Directors, namely Messrs. KONG Chi How, Johnson and LO Kwok Kwei, David. The Company has formulated its written terms of reference in accordance with the requirements of the Stock Exchange. The Audit Committee met two times during 2000 and once in April 2001 in conjunction with the auditors, to review the interim results and final financial statements, internal controls of the Group prior to recommending them to the Board for approval.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

FENG Shen Chuan

Chairman

Hong Kong, 11th April 2001