

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

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 performance for the year by geographical segment is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 14.

The directors have declared an interim dividend of 3 HK cents per ordinary share, totalling approximately HK\$8,043,000, which was paid on 23rd October 2001.

The directors recommend the payment of a final dividend of 2 HK cents per ordinary share totalling HK\$5,362,000.

RESERVES

Movements in the reserves of the Group and of 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 and of the Company 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

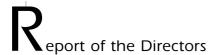
Particulars of the Company's subsidiaries and the Group's associated company as at 31st December 2001 are set out in note 12 to the accounts.

DISTRIBUTABLE 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 2001, the distributable reserves of the Company amounted to HK\$6,452,000 (2000: HK\$408,000) before the declaration of final dividend of HK\$5,362,000 (2000: Nil) for the year.

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 40.



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 CHAN Charn Shek*
Mr KONG Chi How, Johnson*
(retired on

(appointed on 25th May 2001) (retired on 25th May 2001)

In accordance with the Articles 91 and 99 of the Company's Articles of Association, Mr CHAN Charn Shek, Mr FENG Yung Chuan and Mr LO Kwok Kwei, David retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr FENG Shen Chuan, aged 58, 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 31 years. He is the brother of Mr FENG Yung Chuan.

Mr HUNG Kun Fu, aged 48, 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 25 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 45, is a Director of the Company and the Financial Manager of the Group. She has more than 17 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr FENG Yung Chuan, aged 57, joined the Group in 1997. He has more than 24 years of experience in the electronic industry. He is the brother of Mr FENG Shen Chuan.

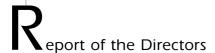
Ms WU Xiaoqin, aged 37, joined the Group in 1995, was appointed as a Director of the Company in 1999. She holds a bachelor's degree in chemistry and has more than 12 years of experience in administrative management.

Independent Non-executive Directors

Mr LO Kwok Kwei, David, aged 42, holds the degrees of bachelor of laws and bachelor of jurisprudence from the 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 14 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 CHAN Charn Shek, aged 56, was appointed as Independent Non-executive Director of the Company in May of 2001 and is also a member of the Audit Committee of the Company. Mr Chan holds a bachelor degree in chemical engineering and has more than 30 years of experience in toy industry.

^{*} Independent Non-executive Directors



Senior Management

Mr HSU Ching Huang, Kenny, aged 47, 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 the Group's office in the People's Republic of China. He has more than 22 years of experience in footwear manufacturing.

Mr HUANG Chang Chou, Frank, aged 46, 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 23 years of experience in footwear manufacturing.

Mr CHUANG Cheng Fen, aged 45, joined the Group in 1989 and has over 22 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 50, is the Group's Business Manager. He holds a bachelor of arts degree in foreign language and literature from National Cheng Kong University in Taiwan. He joined the Group in June 1993. He has more than 22 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 2001.

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

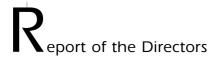
No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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.

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 2001, 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:

Number of ordinary shares of the Company held

Name of Director

Personal interest

FENG Shen Chuan	71,610,209
HUNG Kun Fu	2,600,000
KUO Shu Chen	2,867,248
FENG Yung Chuan	7,001,500

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 2001, 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 2001, 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

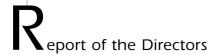
Micon Limited 114,118,540

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

Apart from the aforesaid, as at 31st December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

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

— five largest customers combined

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	9%
— five largest suppliers combined	31%
Sales	
	53%
— the largest customer	53%

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 suppliers and customers noted above.

97%

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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. LO Kwok Kwei, David and CHAN Charn Shek. 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 2001 and once in April 2002 to review the interim and final results 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, 12th April 2002