

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the manufacture and export of athletic and athletic-style footwear. Details of the activities of the subsidiaries are set out in note 12 to the accounts.

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 16.

The directors recommend the payment of a final dividend of HK\$0.02 per 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 21 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

Details of the share capital of the Company are set out in note 20 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2002 amounted to approximately HK\$9,256,000 before the declaration of a final dividend of HK\$5,362,000 (2001: HK\$6,452,000 before the declaration of a final dividend of HK\$5,362,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out on page 46.

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.

Report of the Directors

DIRECTORS

The directors during the year 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 AU Wing Kit*

(resigned on 1st June 2002)

(appointed on 1st June 2002)

* *Independent non-executive directors*

In accordance with Articles 91 and 99 of the Company's Articles of Association, Ms WU Xiaoqin and Mr AU Wing Kit 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 59, 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 functions. Mr FENG has been in the footwear business for more than 32 years. He is the brother of Mr FENG Yung Chuan.

Mr HUNG Kun Fu, aged 49, is the managing director of the Company. He is responsible for the engineering and production management of the Group and takes an active role in its sales and marketing activities. He has more than 26 years of experience in the footwear business in both Taiwan and Mainland China. He joined the Group in 1988.

Ms KUO Shu Chen, aged 46, is a director of the Company and the financial manager of the Group. She has more than 18 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr FENG Yung Chuan, aged 58, joined the Group in 1997. He has more than 25 years of experience in the electronics industry. He is the brother of Mr FENG Shen Chuan.

Ms WU Xiaoqin, aged 38, 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 13 years of experience in administrative management.

Report of the Directors

Independent non-executive directors

Mr LO Kwok Kwei, David, aged 43, holds 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 15 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 AU Wing Kit, aged 31, obtained a bachelor's degree of commerce in accounting and finance from the University of New South Wales, Australia in 1995. He is an associate member of the Hong Kong Society of Accountants and a Certified Practising Accountant of CPA Australia. He has been working in an international accounting firm since 1996 and is currently a senior manager. He has over 7 years of experience in auditing. He joined the board of directors of the Company in 2002 and is a member of the Audit Committee of the Company.

Senior management

Mr HSU Ching Huang, Kenny, aged 48, 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 Mainland China. He has more than 23 years of experience in footwear manufacturing.

Mr CHUANG Cheng Fen, aged 46, joined the Group in 1989 and has over 23 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 51, is the Group's business manager. He holds a bachelor's degree of arts in foreign language and literature from National Cheng Kung University in Taiwan. He joined the Group in June 1993. He has more than 23 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 entered into service contracts with the Company for a term of three years commencing on 1st December 2001.

None of the directors have any service contract with the Company or any of its subsidiaries which are not determinable by the employing company 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 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.

SHARE OPTIONS SCHEME

Under the terms of the Company's share option scheme adopted on 16th January 1993, the directors of the Company may, within a period of 10 years from that date of adoption, grant share options to full-time employees of the Group, including the directors of any of the Company and its subsidiaries, to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No share option was granted during the year or outstanding as at the balance sheet date.

Report of the Directors

Apart from the share option scheme mentioned above, as at the balance sheet date:

- (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 share in, or debentures of, the Company or any other body corporate.

The above share option scheme ceased to be effective on 16th January 2003, being the date falling 10 years after its adoption date. It is therefore proposed that, subject to the approval of the shareholders, the Company shall conditionally adopt a new share option scheme which shall come into effect upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in any shares which may fall to be issued by the Company pursuant to an exercise of options granted under the new share option scheme. The terms of the proposed new share option scheme will have to comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Some details of the proposed new share option scheme are set out below:

The purpose of the proposed new share option scheme is to enable the Company to grant options to eligible participants in recognition of their contribution to the Group.

Subject to the terms of the proposed new share option scheme, the directors may, at the discretion, invite full-time employees of the Group, including directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The maximum number of share in respect of which options may be granted (together with options exercised and options then outstanding) at any time under the new share option scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company to, or for the benefit of eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company as at the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the new share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Company may, from time to time, seek approval from shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the new share option scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

Further, the total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant to each eligible participant shall not exceed 1% of the total issued shares.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days inclusive of and from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with the consideration of HK\$10 is received by the Company.

Report of the Directors

The subscription price for the shares shall be determined by the directors at their discretion but shall not be less than the higher of:

- (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer;
- (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and
- (c) the nominal value of the shares on the date of offer.

An option may be exercised at any time during a period to be determined and identified by the directors to each grantee at the time of making the offer, but in any event, shall not exceed the period of ten years from the date of grant of the particular option, subject always to the early termination of the new share option scheme.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2002, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Name of director	Number of shares held
	Personal interests
FENG Shen Chuan	72,362,209
HUNG Kun Fu	2,600,000
KUO Shu Chen	3,067,248
FENGYung Chuan	7,501,500
WU Xiaoqin	30,000

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 2002, none of the directors and chief executives had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Name of shareholder	Number of 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.

Report of the Directors

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 SUPPLIERS AND CUSTOMERS

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	7%
– five largest suppliers combined	30%
Sales	
– the largest customer	39%
– five largest customers combined	94%

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 and customers noted above.

CONNECTED TRANSACTIONS

No connected transactions required to be disclosed by the Company pursuant to the Listing Rules were entered into by the Company or any of its subsidiaries during the year.

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. Save for this, throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the board and the Company's auditors on matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr LO Kwok Kwei, David and Mr AU Wing Kit. Two meetings were held during the current financial year.

Report of the Directors

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, 10th April 2003