

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

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 19.

The directors do not recommend the payment of dividend in respect of the year ended 31st December 2003.

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 are set out in note 11 to the accounts.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 19 to the accounts.

DISTRIBUTABLE RESERVES

In accordance with Article 140 of the Company's Articles of Association, dividends can only be paid out of the retained profits of the Company. Distributable reserves of the Company at 31st December 2003 amounted to approximately HK\$2,150,000 (2002: HK\$9,256,000 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 50.

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.

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 AU Wing Kit *

* *Independent non-executive directors*

In accordance with Article 99 of the Company's Articles of Association, Mr LO Kwok Kwei, David and Ms KUO Shu Chen retire at the forthcoming Annual General Meeting and, being eligible, offer themselves of re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr FENG Shen Chuan, aged 60, 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 33 years. He is the brother of Mr FENG Yung Chuan.

Mr HUNG Kun Fu, aged 50, 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 27 years of experience in the footwear business in both Taiwan and Mainland China. He joined the Group in 1988.

Ms KUO Shu Chen, aged 47, is a director of the Company and the financial manager of the Group. She has more than 19 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr FENG Yung Chuan, aged 59, joined the Group in 1997. He has more than 26 years of experience in the electronics industry. He is the brother of Mr. FENG Shen Chuan.

Ms WU Xiaoqin, aged 39, 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 14 years of experience in administrative management.

Independent non-executive directors

Mr LO Kwok Kwei, David, aged 45, 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 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.

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

Independent non-executive directors *(continued)*

Mr AU Wing Kit, aged 32, 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 Australia. He has over 8 years of experience in financial accounting and 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 49, 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 24 years of experience in footwear manufacturing.

Mr CHUANG Cheng Fen, aged 47, joined the Group in 1989 and has over 24 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 52, 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 24 years of experience in marketing, purchasing, shipping, quality and delivery control over production.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable 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

The Company's share option scheme adopted on 16th January 1993 (the "Old Scheme") expired on 16th January 2003. At the 2003 Annual General Meeting of the Company held on 10th June 2003, a new share option scheme (the "New Scheme") of the Company was adopted by the shareholders of the Company to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Under the terms of the Company's Old Scheme, the directors of the Company may, within a period of 10 years from the adoption date, 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 under the Old Scheme during the year or outstanding as at the date of the expiration date.

SHARE OPTIONS SCHEME *(continued)*

The purpose of the New option scheme is to enable the Company to grant options to eligible participants in recognition of their contribution to the Group. Under the terms of the New Scheme, the directors may, at their 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 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 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 other 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.

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 Scheme.

No share option was granted under the New Scheme during the year or outstanding at 31st December 2003.

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SHARE OPTIONS SCHEME *(continued)*

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 2003, the interests of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Name of director	Number of shares held in personal interests
FENG Shen Chuan	72,610,209
HUNG Kun Fu	2,600,000
KUO Shu Chen	3,067,248
FENG Yung Chuan	7,501,500
WU Xiaoqin	80,000

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 2003, none of the directors and chief executives (including their spouse and children under 18 years of age) had any other beneficial interests in the shares of the Company or any of its associated corporations (within the meaning of the SFO Ordinance).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO Ordinance shows that as at 31st December 2003, the Company had been notified of the following substantial shareholders' interests, being 5% 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.

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	9%
– five largest suppliers combined	27%
Sales	
– the largest customer	39%
– five largest customers combined	91%

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

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, 23rd April 2004