

The directors submit their report together with the audited financial statements for the year ended 31st December 2004.

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, athletic-style leisure footwear and golf shoes. Details of the activities of the subsidiaries are set out in note 13 to the financial statements.

An analysis of the Group's performance for the year by geographical segment is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 19.

The directors do not recommend the payment of dividend for the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 22 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the movements in property, plant and equipment and construction-in-progress of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

In accordance with Article 140 of the Company's Articles of Association, dividends can only be paid out of the accumulated profits of the Company. Distributable reserves of the Company as at 31st December 2004 amounted to approximately HK\$665,000 (2003: HK\$2,150,000).

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 YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the past five financial years is set out on page 56.

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.

The movements of the options granted under the Share Option Scheme during the year were as follows:–

Grantee	Date of grant	Exercise price	Number of Options			
			Held at 1st January 2004	Granted during the year	Exercised during the year	Held at 31st December 2004
<i>Director</i>						
Feng Shen Chuan	14th December 2004	HK\$0.448	–	268,104	268,104	–

DIRECTORS

The directors of the Company during the year and up to the date of this report are:–

Mr Feng Shen Chuan (*Chairman*)

Ms Kuo Shu Chen

Mr Feng Yung Chuan

Ms Wu Xiaoqin

Mr Lo Kwok Kwei, David *

Mr Au Wing Kit *

Ms Lam Tak Yee *

(appointed on 30th September 2004)

Mr Hung Kun Fu resigned as the Managing Director and an Executive Director of the Company on 18th March 2005.

* *Independent non-executive directors*

In accordance with Article 99 of the Articles of Association of the Company and Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, Mr Feng Shen Chuan, Mr Feng Yung Chuan and Ms Lam Tak Yee will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves of re-election.

The Company has received annual confirmations from all independent non-executive directors concerning their independence. The Board considers that all of them are independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**Executive directors**

Mr Feng Shen Chuan, aged 61, 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 34 years. He is the brother of Mr Feng Yung Chuan.

Ms Kuo Shu Chen, aged 48, is a director of the Company and the financial manager of the Group. She has more than 20 years of experience in the footwear business and financial management. She joined the Group in 1989.

Mr Feng Yung Chuan, aged 60, joined the Group in 1997. He has more than 27 years of experience in the electronics industry. He is the brother of Mr Feng Shen Chuan.

Ms Wu Xiaoqin, aged 40, joined the Group in 1995, was appointed as a director of the Company in 1999. She obtained a bachelor degree in chemistry and has more than 15 years of experience in administrative management.

Independent non-executive directors

Mr Lo Kwok Kwei, David, aged 46, obtained 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 Au Wing Kit, aged 33, obtained a bachelor degree of commerce in accounting and finance from the University of New South Wales, Australia in 1995. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of Australia. He has over 9 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.

Ms Lam Tak Yee, aged 29, obtained a bachelor degree in BBA Finance from The Hong Kong University of Science and Technology. She obtained the Chartered Financial Analyst designation in September 2000. She has over 7 years of experience in corporate finance specialising in takeovers and mergers and other corporate finance advisory activities. She joined the board of directors of the Company in 2004 and is a member of the Audit Committee of the Company.

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

Senior management

Mr Hsu Ching Huang, Kenny, aged 50, 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 25 years of experience in footwear manufacturing.

Mr Chuang Cheng Fen, aged 48, joined the Group in 1989 and has over 25 years of experience in footwear manufacturing. He is the assistant general manager of the Group and is responsible for the overall manufacturing operations.

DIRECTORS' SERVICE CONTRACTS

Mr Feng Shen Chuan has entered into a service contract with the Company for a term of three years commencing from 1st December 2004.

Other than disclosed therein, 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' INTEREST IN CONTRACTS

No contracts of significance 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

Share option scheme of the Company was adopted by the shareholders of the Company on 10th June 2003 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 purpose of the 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 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.

SHARE OPTIONS SCHEME (Continued)

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 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 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 share option scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

Furthermore, 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 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 Scheme.

SHARE OPTIONS SCHEME (Continued)

During the year, there were 268,104 share options granted and exercised under the Scheme. No share option was outstanding as at 31st December 2004.

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 acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2004, 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 (the "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	72,878,313*
Kuo Shu Chen	3,067,248
Feng Yung Chuan	7,501,500
Wu Xiaoqin	80,000

* There were 248,000 shares held in the name of HKSCC Nominees Limited, of which Mr Feng Shen Chuan is the beneficial owner of these shares.

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 2004, 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).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, 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 executives.

SUBSTANTIAL SHAREHOLDERS (Continued)

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	6%
– five largest suppliers combined	22%
Sales	
– the largest customer	33%
– five largest customers combined	82%

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.

CONTINUING OBLIGATIONS UNDER THE LISTING RULES**Advance to an entity**

Pursuant to Rule 13.13 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), an announcement was made by the Company on 22nd September 2004 in respect of the disclosure of the trade receivables due from Fila Sport, Inc., a customer of the Group (the "Trade Receivables") as at 31st August 2004 which exceeded 8% of the total assets of the Group as at 30th June 2004 and total market capitalisation of the Company as at 16th September 2004.

CONTINUING OBLIGATIONS UNDER THE LISTING RULES *(Continued)*

Advance to an entity *(Continued)*

As at 31st December 2004, the circumstances giving rise to the disclosure under Rule 13.13 continued to exist. In accordance with Rule 13.20 of the Listing Rules, the details of the relevant Trade Receivables due from Fila Sport, Inc. to the Group as at 31st December 2004 are set out as below:–

As at 31st December 2004, the total assets of the Group were approximately HK\$281,332,000. As at 31st December 2004, there were 268,372,612 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.43 as stated in the Stock Exchange's daily quotation sheets for the trading days from 23rd December 2004 to 30th December 2004 (both days inclusive), being the five business days immediately preceding 31st December 2004, the total market capitalisation of the Company was approximately HK\$115,400,000 as at 31st December 2004.

As at 31st December 2004, the Trade Receivables due from Fila Sport Inc., a customer of the Group, amounted to approximately HK\$24,768,000, which represented approximately 8.8% of the total assets of the Group as at 31st December 2004 and approximately 21.5% of the Company's total market capitalisation as at 31st December 2004.

On the other hand, as at 31st December 2004, the Trade Receivables due from Roctrans International Corp., another customer of the Group, amounted to approximately HK\$10,103,000, which represented approximately 8.8% of the Company's total market capitalisation as at 31st December 2004.

The Trade Receivables were resulted from sales to Fila Sport, Inc. and Roctrans International Corp. by the Group in its ordinary course of trading business and on normal commercial terms, which are unsecured, interest-free and with payment terms ranging from 1 to 90 days. The customers are independent of, and not connected with, the directors, chief executives or substantial shareholders of the Company and its subsidiaries or any of their respective associates (as defined in the Listing Rules).

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

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (which was in force prior to 1st January 2005) on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except the term of office for the independent non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions effective on 31st March 2004. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the year ended 31st December 2004.

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 Institute of Certified Public 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 three independent non-executive directors, namely Mr Lo Kwok Kwei, David, Mr Au Wing Kit and Ms Lam Tak Yee. Two meetings were held during the current financial year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past years, resigned on 8th November 2004 and Messrs. Ho and Ho & Company were appointed on 9th November 2004 as auditors of the Company. A resolution to re-appoint Messrs Ho and Ho & Company as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Feng Shen Chuan
Chairman

Hong Kong, 15th April 2005