

## REPORT OF THE DIRECTORS

The directors are pleased to present their annual report together with the audited financial statements of the Group for the year ended 31st December 2005.

### *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 36 to the financial statements.

An analysis of the Group's performance for the year by geographical segment is set out in note 7 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 28.

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

### *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 16 to the financial statements.

### *SHARE CAPITAL*

Details of the share capital of the Company are set out in note 30 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. There is no distributable reserves of the Company as at 31st December 2005 (2004: HK\$665,000).

## REPORT OF THE DIRECTORS

### 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 80.

### 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 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 Eugenia Yang \*

Ms Lam Tak Yee \*

(appointed on 5th August 2005)

(resigned on 5th August 2005)

\* *Independent non-executive directors*

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

## REPORT OF THE DIRECTORS

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

**Mr Feng Shen Chuan**, aged 62, 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 35 years. He is the brother of Mr Feng Yung Chuan and father of Mr Feng Jim Chia Chun.

**Ms Kuo Shu Chen**, aged 49, is a director of the Company and the financial manager of the Group. She has more than 21 years of experience in the footwear business and financial management. She joined the Group in 1989.

**Mr Feng Yung Chuan**, aged 61, joined the Group in 1997. He has more than 28 years of experience in the electronics industry. He is the brother of Mr Feng Shen Chuan.

**Ms Wu Xiaoqin**, aged 41, 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 16 years of experience in administrative management.

**Independent non-executive directors**

**Mr Lo Kwok Kwei, David**, aged 47, 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 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 34, 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 10 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 Eugenia Yang**, aged 29, obtained a bachelor degree in Commerce, a bachelor degree in Laws and a master degree in Commerce (Finance). She is a member of the Australian Society of Certified Practising Accountants and a member of the Hong Kong Institute of Certified Public Accountants. She joined the board of directors of the Company in 2005 and is a member of the Audit Committee of the Company.

# REPORT OF THE DIRECTORS

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

### **Senior management**

**Mr Feng Jim Chia Chun**, aged 33 is the Chief Executive Officer of the Group. He is responsible for coordinate of the Group's business and assist the Chairman of the Company to market and locate potential business opportunities and also execute the policy of the Company. He joined the Group during 2005 and is the son of Mr Feng Shen Chuan, the Chairman of the Company.

**Mr Hsu Ching Huang, Kenny**, aged 51, 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 26 years of experience in footwear manufacturing.

**Mr Chan Chi Tak**, aged 29, is the Qualified Accountant of the Group. Mr Chan holds a bachelor degree in Accountancy from University of Melbourne and a master degree in Business System from Monash University (Melbourne). He is a member of Hong Kong Institute of Certified Public Accountant and a member of the Australian Society of Certified Practicing Accountants. He joined the Group in 2005.

## *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 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.

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 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.

## REPORT OF THE DIRECTORS

### *SHARE OPTIONS SCHEME (Continued)*

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.

During the year, the Company has not granted any option to any directors or eligible persons under the Scheme. No share option was outstanding as at 31st December 2005.

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.

REPORT OF THE DIRECTORS

**DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES**

As at 31st December 2005, 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:-

<b>Name of director</b>	<b>Number of shares held in personal interests</b>
Feng Shen Chuan	79,188,515
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 2005, 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 2005, 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.

<b>Name of shareholder</b>	<b>Number of Shares</b>
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.

None of the Directors of the Company or their respective associates had any interests in business which competes or may compete with the business of the Group.

## 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	26%

### Sales

- the largest customer	32%
- five largest customers combined	81%

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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established written guidelines regarding the required standard of dealings in securities by directors of the Company. The Company confirms that, having made specific enquiry of all directors, the directors have fully complied with the required standard with respect to the securities dealing of the Company pursuant to the Listing Rules during the year ended 31st December 2005.



## REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE

The Company is committed to achieving high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the “Corporate Governance Report” on pages 7 to 16.

## 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

Messrs. Ho and Ho & Company were auditors of the Company for the year ended 31st December 2005. The accompanying financial statements were audited by Messrs. Ho and Ho & Company. A resolution for their reappointment 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, 26th April 2006