

## Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries consisted of the manufacture and trading of footwear, and property and investment holding. There were no significant changes in the Group's principal activities during the year.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 16 to 60.

An interim dividend of HK6 cents per share was paid on 18 October 2002. The directors recommend the payment of a final dividend and a special dividend of HK7 cents and HK10 cents per share, respectively, in respect of the year to shareholders whose names appear on the register of members of the Company as at close of business on 5 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the respective audited financial statements is set out on page 61 of the annual report. This summary does not form part of the audited financial statements.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively. Particulars of the Group's investment properties are set out on page 42.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 30 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for distribution were HK\$116,004,000 (2001: HK\$115,500,000). In addition, in accordance with the Companies Act 1981 of Bermuda, the Company's share premium account, in the amount of HK\$28,057,000 (2001: HK\$28,057,000), may be distributed in the form of fully paid bonus shares.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$11,800 (2001: HK\$33,800).

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 78% of the total sales for the year and sales to the largest customer included therein amounted to 25%. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

None of the directors of the Company or any of their associates, or any of the shareholders of the Company which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers.

# Report of the Directors

## DIRECTORS

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

### EXECUTIVE DIRECTORS

Mr. Li Kwok Lung, Alfred Ronald	(re-designated as Executive Director and Chairman on 28 June 2002)
Mr. Sze Sun Sun, Tony	(re-designated as Executive Director and Deputy Chairman on 28 June 2002)
Mr. Chan Ting Chuen	(re-designated as Executive Director and Managing Director on 28 June 2002)
Mr. Ku Edward Y.	(appointed on 28 June 2002)
Mr. Chan Lu Min	(appointed on 28 June 2002)
Mr. Fung Cheong Yee, Alfred	(appointed on 28 June 2002)
Mr. Chu Hon Pong	(resigned as Executive Director, Chairman and Managing Director on 27 June 2002)
Mr. Chang Tsung Yuan	(resigned as Executive Director and Deputy Chairman on 27 June 2002)
Mr. Wong Mo Wah, Gordon	(resigned on 27 June 2002)
Mr. Sy Edward D.	(resigned on 2 May 2002)

### NON-EXECUTIVE DIRECTORS

Mr. Li I Nan	(appointed on 28 June 2002)
Mr. Chow Ching Kit	(appointed on 28 June 2002)
Mr. Lam Lap Wai	(appointed on 28 June 2002)
Ms. Chou Wan Ling, Charlotte	(resigned on 27 June 2002)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Kar Shing	
Dr. Chow King Sing, Gerald	
Mr. Tsao Kwang Yung, Peter	(retired on 28 June 2002 and did not offer himself for re-election)
Mr. Goh Gen Cheung	(retired on 28 June 2002 and did not offer himself for re-election)

In accordance with the Company's bye-laws, Mr. Cheng Kar Shing, Mr. Fung Cheong Yee, Alfred and Mr. Chow Ching Kit will retire. Mr. Cheng Kar Shing, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Mr. Fung Cheong Yee, Alfred and Mr. Chow Ching Kit have informed the Company that they will not offer themselves for re-election as directors at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Name of director	Nature of interest	Number of ordinary shares held
Mr. Sze Sun Sun, Tony ( <i>Note</i> )	Corporate	127,205,282
Mr. Chan Ting Chuen ( <i>Note</i> )	Corporate	127,205,282
Mr. Li Kwok Lung, Alfred Ronald	Personal	4,400,000
Dr. Chow King Sing, Gerald	Personal	64,000

*Note:* 127,205,282 shares of the Company were held by Well Success Investment Limited ("Well Success"). First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Alexon International Limited ("Alexon International") and Royal Pacific Limited ("Royal Pacific") each held more than one-third of the issued share capital of First Dynamic. Mr. Sze Sun Sun, Tony and Mr. Chan Ting Chuen were interested in the entire issued share capital of Alexon International and Royal Pacific, respectively, and were thus deemed to be interested in 127,205,282 shares of the Company.

Save as disclosed above, as at 31 December 2002, none of the directors of the Company or their associates had any interest in the securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" in note 30 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of the Company or any other body corporate.

## SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 30 to the financial statements.

## Report of the Directors

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material beneficial interest in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

### BIOGRAPHICAL DETAILS OF DIRECTORS

#### EXECUTIVE DIRECTORS

Mr. Li Kwok Lung, Alfred Ronald, aged 50, joined the Group in 1997 and has been the Chairman of the Company since 28 June 2002. He is also the chairman of SPS Group, a Hong Kong based financial services group and brokerage house which is a member of the Stock Exchange, and of the Hong Kong Futures Exchange Limited. Mr. Li is the chairman of Momentum Technologies (Holdings) Limited, an information technology solutions provider that specialises in customer relationship management software in the banking and finance sector in mainland China and Hong Kong. He is a co-founder of KLM Capital Group, an international venture capital management firm based in the Silicon Valley (California) with regional offices in Austin (Texas) and Hong Kong, as well as being a co-founder and consultant to the Hong Kong law firm, Messrs. Lu, Lai & Li. Mr. Li is a director of Well Success Investment Limited ("Well Success"), which is a substantial shareholder of the Company under the SDI Ordinance.

Mr. Sze Sun Sun, Tony, aged 51, joined the Group in 1997. Mr. Sze was re-designated to the position of Deputy Chairman on 28 June 2002. He has over 25 years' experience in investment and property development in Hong Kong, mainland China and overseas markets and is a director of each of Alexon International Limited ("Alexon International"), First Dynamic International Limited ("First Dynamic") and Well Success which are deemed or direct substantial shareholders of the Company under the SDI Ordinance.

Mr. Chan Ting Chuen, aged 55, joined the Group in 1997. Mr. Chan was re-designated as Managing Director of the Company on 28 June 2002. He graduated with a bachelor's degree in civil engineering from the University of Hong Kong and has more than 25 years' experience in property development. He is an independent non-executive director of Wing Shan International Limited, a company listed on the Stock Exchange. Mr. Chan is also a director of each of Royal Pacific Limited ("Royal Pacific"), First Dynamic and Well Success which are deemed or direct substantial shareholders of the Company under the SDI Ordinance.

Mr. Ku Edward Y., aged 60, joined the Group on 28 June 2002 as an Executive Director. He was the senior partner of the law firm, Ku & Fong, in Los Angeles and is licensed to practice law in California and Taiwan. He served as an executive director and the secretary of First Public Bank in Los Angeles. He is also an executive director of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), a company engaged in shoe manufacturing which is listed on the Stock Exchange, and which is deemed as a substantial shareholder of the Company under the SDI Ordinance. Mr. Ku holds a bachelor-in-law degree from National Taiwan University and received his J.D. degree from Washington University in St. Louis, United States.

**BIOGRAPHICAL DETAILS OF DIRECTORS** (continued)**EXECUTIVE DIRECTORS** (continued)

Mr. Chan Lu Min, aged 48, joined the Group on 28 June 2002 as an Executive Director. He is also an executive director of Yue Yuen. Mr. Chan graduated from National Chung Hsing University and has 25 years of finance and accounting experience in Taiwan.

Mr. Fung Cheong Yee, Alfred, aged 53, joined the Group on 28 June 2002 as an Executive Director. By profession, he is a solicitor and notary public and he has been practising in Hong Kong for over 20 years. He is a co-founder of Messrs. Sit, Fung, Kwong & Shum, a Hong Kong law practice, of which he is presently serving as a consultant.

**NON-EXECUTIVE DIRECTORS**

Mr. Li I Nan, aged 61, joined the Group on 28 June 2002 as a Non-executive Director. He has many years of experience in the footwear business including sourcing and wholesale operations. He is also an executive director of Yue Yuen. Mr. Li received a bachelor and a master of arts degree from National Chengchi University in Taiwan and the University of Southern California, respectively.

Mr. Chow Ching Kit, aged 38, joined the Group on 28 June 2002 as a Non-executive Director. He received his bachelor of laws degree and postgraduate certificate in laws from the University of Hong Kong.

Mr. Lam Lap Wai, aged 35, joined the Group on 28 June 2002 as a Non-executive Director. Mr. Lam holds a bachelor's degree in accounting and finance from the Polytechnic of Wales in the United Kingdom. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Society of Accountants. He has over 10 years of experience in accounting and finance.

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Cheng Kar Shing, aged 50, was appointed as an Independent Non-executive Director in 1997. He holds a master's degree in engineering from the University of California in Los Angeles. He has been a director of NWD (Hotels Investments) Limited since 1984 and New World Development Company Limited since 1994. Mr. Cheng is now an executive director of New World China Land Limited. He is also a director of Macao Water Supply Company Limited and Polytown Company Limited.

Dr. Chow King Sing, Gerald, aged 46, was appointed as an Independent Non-executive Director on 17 October 2001. He is a dental surgeon in private practice in Hong Kong.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Notes	Number of ordinary shares of the Company held	
		Direct interest	Deemed interest
Well Success		127,205,282	–
First Dynamic	1	–	127,205,282
Alexon International	1	–	127,205,282
Royal Pacific	1	–	127,205,282
Frensham Investments Limited	2	–	127,205,282
Pou Yuen Industrial (Holdings) Limited	2	–	127,205,282
Yue Yuen Industrial Limited	2	–	127,205,282
Pou Hing Industrial Company Limited	2	–	127,205,282
Yue Yuen	2	–	127,205,282
Wealthplus Holdings Limited	2	–	127,205,282
Pou Chen Corporation	2	–	127,205,282

*Notes:*

1. First Dynamic held more than one-third of the issued share capital of Well Success. Alexon International and Royal Pacific each held more than one-third of the issued share capital of First Dynamic.

Accordingly, First Dynamic, Alexon International and Royal Pacific were deemed to be interested in the 127,205,282 ordinary shares in the Company held by Well Success. These interests have also been disclosed as corporate interests of Mr. Sze Sun Sun, Tony and Mr. Chan Ting Chuen in the directors' interests above.

2. Frensham Investments Limited ("Frensham") held more than one-third of the issued share capital of Well Success. Frensham was a wholly-owned subsidiary of Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)") which in turn was a wholly-owned subsidiary of Yue Yuen Industrial Limited ("Yue Yuen Industrial"). Yue Yuen Industrial was a wholly-owned subsidiary of Pou Hing Industrial Company Limited ("Pou Hing Company") which in turn was a wholly-owned subsidiary of Yue Yuen. Wealthplus Holdings Limited ("Wealthplus"), a wholly-owned subsidiary of Pou Chen Corporation ("Pou Chen"), held over 35% interest in Yue Yuen.

Accordingly, Frensham, Pou Yuen (Holdings), Yue Yuen Industrial, Pou Hing Company, Yue Yuen, Wealthplus and Pou Chen were deemed to be interested in the 127,205,282 ordinary shares of the Company held by Well Success.

**SUBSTANTIAL SHAREHOLDERS** (continued)

Save as disclosed above, at 31 December 2002, no person, other than the directors of the Company and the companies controlled by them, whose interests are set out under the section headed "Directors' interests in securities" above, had registered as having an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

**PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the provisions of the Company's bye-laws. The Company has appointed two independent non-executive directors of the Company as members of the audit committee, which was established in December 1998 to assist the board of directors in fulfilling its duties by providing review and supervision of the Company's financial reporting process and internal controls.

**AUDITORS**

Ernst & Young will retire at the forthcoming annual general meeting. A resolution will be proposed to appoint auditors and to authorise the board of directors to fix their remuneration.

On behalf of the Board

**Li Kwok Lung, Alfred Ronald**

*Chairman*

Hong Kong

27 March 2003