

# DIRECTORS' REPORT



The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacture and trading of footwear and property and investment holding.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 26 of the annual report.

An interim dividend of HK\$0.02 per share amounting to HK\$19,934,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.06 per share to the shareholders on the register of members on 12th May, 2004, amounting to approximately HK\$60,295,000.

### PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31st December, 2003. The revaluation resulted in a surplus amounting to HK\$13,696,000 of which HK\$1,471,000 has been credited directly to the consolidated income statement and HK\$12,225,000 has been credited directly to the revaluation reserve.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

### INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2003 were revalued by an independent firm of professional property valuers on an open market value basis. The revaluation resulted in a surplus over book value amounting to HK\$3,500,000, which has been credited directly to the consolidated income statement.

Details of movements in the investment properties of the Group during the year are set out in note 11 to the financial statements.

### SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 22 to the financial statements.

## Directors' Report

### 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 (*Chairman*)

Mr. Sze Sun Sun, Tony (*Deputy Chairman*)

Mr. Chan Ting Chuen (*Managing Director*)

Mr. Ku Edward Y.

Mr. Chan Lu Min

Mr. Fung Cheong Yee, Alfred (retired on 5th May, 2003)

#### Non-executive directors

Mr. Li I Nan

Mr. Chow Ching Kit (retired on 5th May, 2003)

Mr. Lam Lap Wai (resigned on 12th May, 2003)

#### Independent non-executive directors

Mr. Cheng Kar Shing

Dr. Chow King Sing, Gerald (resigned on 12th May, 2003)

Mr. Feng Lei Ming (appointed on 12th May, 2003)

In accordance with the Company's bye-laws, Messrs. Sze Sun Sun, Tony and Ku Edward Y. will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No directors 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 by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

### (1) Long positions

Ordinary shares of HK\$0.25 each of the Company

Name of director	Note	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Chan Ting Chuen	1	Held by controlled corporation	640,821,128	64.30%
Sze Sun Sun, Tony	1	Held by controlled corporation	640,821,128	64.30%
Li Kwok Lung, Alfred Ronald		Beneficial owner	5,600,000	0.56%

### (2) Short positions

Other than as disclosed above, none of the directors nor chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

#### (2) Short positions (continued)

Note:

- Well Success Investment Limited ("Well Success") had a direct interest in 508,821,128 shares of the Company and was deemed to be interested in the 132,000,000 shares of the Company held by Ko Shing Limited by virtue of section 317 of the SFO with regards to the subscription agreement entered into between Symphony Holdings Limited, Ko Shing Limited and Mr. Chang Tsung Yuan on 27th May, 2003.

First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") held more than one-third of the issued share capital of First Dynamic. Mr. Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific and was deemed to be interested in 640,821,128 shares of the Company.

First Dynamic held more than one-third of the issued share capital of Well Success. Alexon International Limited ("Alexon") held more than one-third of the issued share capital of First Dynamic. Mr. Sze Sun Sun, Tony was interested in the entire issued share capital of Alexon and was deemed to be interested in 640,821,128 shares of the Company.

Save as disclosed above, as at 31st December, 2003, to the knowledge of the Company, none of the directors, the chief executives of the Company had or was deemed to have any interests or short position in any shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors and the chief executives are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

#### SHARE OPTIONS

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 22nd October, 2001, a new share option scheme (the "2001 Scheme") was adopted by the Company. The 2001 Scheme replaced the share option scheme adopted on 9th February, 1995 (as amended on 9th December, 1997) (the "1997 Scheme"). After the adoption of the 2001 Scheme, no further options can be granted under the 1997 Scheme. No share option of the 1997 Scheme and 2001 Scheme was outstanding as at 31st December, 2003. During the year ended 31st December, 2003, there was no option granted under the 1997 Scheme and the 2001 Scheme.

**SHARE OPTIONS (continued)**

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Other than as disclosed in the section "Share options", at no time during the year was the Company or any of its subsidiaries, a party to any arrangements 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.

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of 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.

**CONNECTED TRANSACTION**

On 27th May, 2003, the Company entered into a subscription agreement with Ko Shing Limited and Mr. Chang Tsung Yuan ("Mr. Chang") for the subscription by Ko Shing Limited of 41,000,000 new ordinary shares of HK\$1.00 each in the share capital of the Company ("Subscription Share(s)") for a subscription price of HK\$2.38 per Subscription Share. The subscription price represented a discount of approximately 23.23% to HK\$3.10 per share, being the last traded price per share immediately before trading in the shares was suspended at the request of the Company with effect from 2:30 pm on 27th May, 2003.

Ko Shing Limited is wholly beneficially owned by Mr. Chang who is a chairman and director of various subsidiaries of the Company and has been so for many years. Therefore, Mr. Chang is a connected person of the Company. Mr. Chang is one of the key founders of the footwear business of the Group and the subscription serves as an incentive for Mr. Chang to continue to contribute to the growth of the Group.

The net proceeds from the subscription amounted to approximately HK\$97,000,000, of which approximately HK\$30,000,000 was used to enhance the footwear production facilities of the Group, as to approximately HK\$47,000,000 was used for general working capital purposes and as to approximately HK\$20,000,000 has been held as term deposits with banks for the future expansion in related footwear businesses should appropriate opportunities arise.

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31st December, 2003, the persons or companies (not being a director or chief executive of the Company) who have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

#### (1) Long positions

Ordinary shares of HK\$0.25 each of the Company

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	
Well Success	1	Beneficial owner	508,821,128	132,000,000	64.30%
First Dynamic	1	Held by controlled corporation	-	640,821,128	64.30%
Alexon	1	Held by controlled corporation	-	640,821,128	64.30%
Royal Pacific	1	Held by controlled corporation	-	640,821,128	64.30%
Frensham Investments Limited ("Frensham")	2	Held by controlled corporation	-	640,821,128	64.30%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)")	2	Held by controlled corporation	-	640,821,128	64.30%
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	-	640,821,128	64.30%
Pou Hing Industrial Company Limited ("Pou Hing Company")	2	Held by controlled corporation	-	640,821,128	64.30%

**SUBSTANTIAL SHAREHOLDERS (continued)****(1) Long positions (continued)**

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	2	Held by controlled corporation	–	640,821,128	64.30%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	–	640,821,128	64.30%
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	–	640,821,128	64.30%
Madam Lau Yuk Wah	3	Held by controlled corporation	–	640,821,128	64.30%
Madam Ng Shuk Fong	3	Held by controlled corporation	–	640,821,128	64.30%
Ko Shing Limited	4	Beneficial owner	132,000,000	–	13.24%
Mr. Chang Tsung Yuan ("Mr. Chang")	4	Held by controlled corporation	–	132,000,000	13.24%
Madam Chou Mei Yueh	4	Held by controlled corporation	–	132,000,000	13.24%



## Directors' Report

### SUBSTANTIAL SHAREHOLDERS (continued)

#### (2) Short positions

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2003.

#### Notes:

1. Well Success was directly interested in 508,821,128 shares of the Company and deemed to be interested in 132,000,000 shares of the Company held by Ko Shing Limited pursuant to section 317 of the SFO with regards to the subscription agreement entered into among Symphony Holdings Limited, Ko Shing Limited and Mr. Chang on 27th May, 2003.

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

Accordingly, Well Success, First Dynamic, Royal Pacific and Alexon were deemed to be interested in 640,821,128 shares of the Company.

2. Frensham held more than one-third of the issued share capital of Well Success. Frensham was a wholly-owned subsidiary of Pou Yuen (Holdings) which in turn was a wholly-owned subsidiary of Yue Yuen Industrial. Yue Yuen Industrial was a wholly-owned subsidiary of Pou Hing Company which in turn was a wholly-owned subsidiary of Yue Yuen. Wealthplus, a wholly-owned subsidiary of Pou Chen, held over 35% interests 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 640,821,128 shares of the Company.

3. Madam Lau Yuk Wah is the wife of Mr. Sze Sun Sun, Tony and was deemed to be interested in 640,821,128 shares of the Company. Madam Ng Shuk Fong is the wife of Mr. Chan Ting Chuen and was deemed to be interested in 640,821,128 shares of the Company.
4. Ko Shing Limited had a direct interest in 132,000,000 shares. Mr. Chang was interested in the entire issued share capital of Ko Shing Limited and was deemed to be interested in 132,000,000 shares of the Company. Madam Chou Mei Yueh is the wife of Mr. Chang and was deemed to be interested in 132,000,000 shares of the Company.

**SUBSTANTIAL SHAREHOLDERS (continued)**

Save as disclosed above, as at 31st December, 2003, the directors are not aware of any other person or companies (not being a director or chief executive of the Company) who has an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 87% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 27% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

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

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

During the year, neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**CORPORATE GOVERNANCE**

Recent changes to the Listing Rules require listed issuers to amend their bye-laws to comply with the new changes. Since there have also been other changes in applicable laws and regulations since the adoption of the Company's existing bye-laws, the directors propose that a new set of bye-laws which complies with all current applicable rules and laws be adopted instead of amending the existing bye-laws on a piecemeal basis. A special resolution will be proposed at the forthcoming annual general meeting to adopt a new set of bye-laws in substitution for the existing bye-laws. A summary of certain important provisions of the new bye-laws will be sent to shareholders by way of a circular shortly.

## Directors' Report

### 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 year ended 31st December, 2003, 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.

### AUDIT COMMITTEE

The Company has appointed two independent non-executive directors and one non-executive director of the Company as members of the audit committee 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. The audit committee has reviewed the annual results.

### DONATIONS

During the year, the Group made charitable and other donations totalling approximately HK\$110,000 (2002: HK\$11,800).

### PRE-EMPTIVE RIGHTS

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

### AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired on 5th May, 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on the same day.

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

**LI KWOK LUNG, ALFRED RONALD**

*Chairman*

Hong Kong, 15th April, 2004