

Directors' Report

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BRANDS



Directors' Report

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31st December, 2005.

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. The activities of its principal jointly controlled entities and subsidiaries are set out in notes 17 and 38 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 26 of the annual report.

The Directors now recommend the payment of a final dividend of HK\$0.073 per share to the shareholders on the register of members on 24th May, 2006 amounting to approximately HK\$121,523,000, and the retention of the remaining profit for the year of HK\$94,427,000.

PROPERTY, PLANT AND EQUIPMENT

The Group's buildings were revalued at 31st December, 2005. The revaluation resulted in a surplus amounting to HK\$5,561,000 of which HK\$344,000 has been credited directly to the consolidated income statement and HK\$5,217,000 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 12 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2005 were revalued by an independent firm of professional property valuers on an open market value basis. The net increase in fair value amounts to HK\$9,200,000, which has been credited directly to the consolidated income statement.

During the year, investment properties of HK\$15,709,000 was transferred to prepaid lease payments and buildings.

Details of movements in the investment properties of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The reserves of the Company available for distribution to shareholders as at 31st December, 2005 were as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Share premium	288,308	82,044
Contributed surplus	63,561	63,561
Retained profits	168,648	123,070
	520,517	268,675

Under the Companies Act 1981 of Bermuda (as amended), the balance in the Company's contributed surplus and share premium accounts in the Company is also available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus and share premium if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the assets of the Company would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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 and Managing Director) (appointed as Managing Director on 1st February, 2005)
- Mr. Chang Tsung Yuan
(Deputy Chairman) (appointed on 1st February, 2005)
- Mr. Ku Edward Y.
- Mr. Chan Lu Min
- Dr. Ho Ting Seng (appointed on 7th April, 2006)

Non-executive Directors:

- Mr. Li I Nan
- Mr. Chan Ting Chuen (redesignated from executive Director to non-executive Director on 1st January, 2005)

Independent non-executive Directors:

- Mr. Cheng Kar Shing
- Mr. Feng Lei Ming
- Mr. Ho Shing Chak

In accordance with the bye-laws of the Company, Messrs. Ku Edward Y., Cheng Kar Shing and Feng Lei Ming will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS (Continued)

No Director proposed for re-election at the forthcoming annual general meeting has a service 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

At 31st December, 2005, the interests and short positions of the Directors and the chief executives and their associates of the Company in the shares, underlying shares and share options of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), 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, were as follows:

(1) Long positions

Ordinary shares of HK\$0.25 each of the Company

Name of Director	Notes	Number of issued ordinary shares held			Percentage of the issued share capital of the Company
		Beneficial owner	Held by controlled corporation	Total	
Chan Ting Chuen	1	–	874,700,772	874,700,772	52.54%
Sze Sun Sun, Tony	1	6,599,934	841,101,000	847,700,934	50.92%
Li Kwok Lung, Alfred Ronald	2	11,740,000	16,799,886	28,539,886	1.71%

Notes:

1. Well Success Investment Limited ("Well Success") had a direct interest in 841,101,000 shares of the Company.

First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") had a direct interest in 33,599,772 shares of the Company and 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 874,700,772 shares of the Company.

Alexon International Limited ("Alexon International") 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 International and was deemed to be interested in 841,101,000 shares of the Company.

2. Ever Growing Assets Limited ("Ever Growing ") had a direct interest in 16,799,886 shares of the Company. Mr. Li Kwok Lung, Alfred Ronald held the entire issued share capital of Ever Growing and was deemed to be interested in 16,799,886 shares of the Company.

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

(2) Short positions

Other than as disclosed above, none of the Directors, chief executives nor their associates 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, 2005.

SHARE OPTIONS

Particulars of the Company's share option scheme adopted on 22nd October, 2001 (the "2001 Scheme") are set out in note 28 to the consolidated financial statements.

During the year ended 31st December, 2005, no option was granted, lapsed or exercised under the 2001 Scheme.

The following table discloses the outstanding share options of the Company under the 2001 Scheme at 31st December, 2005:

Category I: Directors	Date of grant	Exercise price per share	Number of outstanding share options at 31.12.2005
Mr. Chan Ting Chuen	9.1.2004	HK\$1.91	–
Mr. Chan Lu Min	9.1.2004	HK\$1.91	10,449,896
Mr. Chang Tsung Yuan	9.1.2004	HK\$1.91	9,679,903
Mr. Cheng Kar Shing	9.1.2004	HK\$1.91	329,997
Mr. Feng Lei Ming	9.1.2004	HK\$1.91	329,997
Mr. Li Kwok Lung, Alfred Ronald	9.1.2004	HK\$1.91	5,499,945
Mr. Sze Sun Sun, Tony	9.1.2004	HK\$1.91	6,599,934
			32,889,672
Category II: Employees			
Other employees	9.1.2004	HK\$1.91	42,380,376

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 to acquire benefits by means of the acquisition of shares in, or 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31st December, 2005, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

(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	Total interests	
Well Success	1	Beneficial owner	841,101,000	–	841,101,000	50.53%
First Dynamic	1	Held by controlled corporation	–	841,101,000	841,101,000	50.53%
Alexon International	1	Held by controlled corporation	–	841,101,000	841,101,000	50.53%
Royal Pacific	1	Beneficial owner and held by controlled corporation	33,599,772	841,101,000	874,700,772	52.54%
Frensham Investments Limited ("Frensham")	2	Beneficial owner and held by controlled corporation	83,999,430	841,101,000	925,100,430	55.57%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Pou Hing Industrial Company Limited ("Pou Hing Company")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%

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	Total interests	
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	-	925,100,430	925,100,430	55.57%
Madam Lau Yuk Wah	3	Held by spouse	-	847,700,934	847,700,934	50.92%
Madam Ng Shuk Fong	3	Held by spouse	-	874,700,772	874,700,772	52.54%
Government of Singapore Investment Corporation Pte Ltd.		Investment manager	56,306,000	-	56,306,000	3.38%
Chartered Asset Management Pte Ltd.		Investment manager	67,252,000	-	67,252,000	4.04%

(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, 2005.

Notes:

- Well Success was directly interested in 841,101,000 shares of the Company.

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 International were deemed to be interested in 841,101,000 shares of the Company.

- Frensham had a direct interest in 83,999,430 shares of the Company and 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 was deemed to be interest in 841,101,000 shares of the Company and Pou Yuen (Holdings), Yue Yuen Industrial, Pou Hing Company, Yue Yuen, Wealthplus and Pou Chen were deemed to be interested in 925,100,430 shares of the Company.

- Madam Lau Yuk Wah is the wife of Mr. Sze Sun Sun, Tony and was deemed to be interested in 847,700,934 shares of the Company. Madam Ng Shuk Fong is the wife of Mr. Chan Ting Chuen and was deemed to be interested in 874,700,772 shares of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 79% 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.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately HK\$341,000 (2004: HK\$130,000).

EMOLUMENT POLICY

The Group's employee emolument policy is formulated by the board of Directors on the basis of the merits, qualifications and competence of the Group's employees.

The emoluments of the Directors of the Company are decided by the board of Directors, as authorised by shareholders at the annual general meeting, having regard to the operating results of the Company, individual performance and prevailing market conditions.

The Remuneration Committee which was set up in December 2005 advises the Board on the emoluments of the Directors and senior management. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 28 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

AUDITORS

Deloitte Touche Tohmatsu 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, 11th April, 2006