

# DIRECTORS' REPORT

The directors have pleasure in presenting the annual report and the audited consolidated financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacturing and trading of footwear, property investment and investment holding. The activities of its jointly controlled entities and principal subsidiaries are set out in notes 20 and 37 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 21 of the annual report.

An interim dividend of HK\$0.03 per share amounting to approximately HK\$49,941,000 was paid during the year. The directors now recommend the payment of a final dividend of HK\$0.0613 per share to the shareholders whose names appear on the register of members of the Company on Wednesday, 20 June 2007. The total amount of final dividend payable is approximately HK\$102,059,000, and the remaining profit of HK\$105,228,000 will be retained for the year.

## PROPERTY, PLANT AND EQUIPMENT

The Group's buildings were revalued at 31 December 2006. The revaluation resulted in a net deficit amounting to HK\$2,560,000 of which HK\$190,000 has been charged directly to the consolidated income statement and HK\$2,370,000 has been charged directly to the revaluation reserve.

Details of these and other movements during the year in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

## INVESTMENT PROPERTIES

The Group's investment properties at 31 December 2006 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\$5,000,000, 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 14 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 30 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.

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES OF THE COMPANY

The reserves of the Company available for distribution to shareholders as at 31 December 2006 were as follows:

	2006 HK\$'000	2005 HK\$'000
Share premium	288,308	288,308
Contributed surplus	63,561	63,561
Share options reserve	29,900	–
Retained profits	137,703	168,648
	<b>519,472</b>	<b>520,517</b>

Under the Companies Act 1981 of Bermuda (as amended), the balance in the Company's contributed surplus and share premium accounts 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*)  
Mr. Chang Tsung Yuan (*Deputy Chairman*)  
Mr. Ku Edward Y.  
Mr. Chan Lu Min  
Dr. Ho Ting Seng (appointed on 7 April 2006)

### Non-executive Directors:

Mr. Li I Nan  
Mr. Chan Ting Chuen

### Independent Non-executive Directors:

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

In accordance with the Bye-laws, Mr. Li Kwok Lung Alfred Ronald, Mr. Sze Sun Sun Tony, Mr. Chang Tsung Yuan and Mr. Ho Shing Chak 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 contract which is not determinable by the Group within 1 year without payment of compensation, other than statutory compensation.

## SHARE OPTIONS

Particulars of the Company's share option scheme adopted on 22 October 2001 (the "2001 Scheme") are set out in note 31 to the consolidated financial statements.

During the year ended 31 December 2006, an aggregate of 75,270,048 shares options of the Company granted pursuant to the 2001 Scheme expired. On 2 August 2006, the Company granted 166,050,000 share options to eligible participants at an exercise price of HK\$1.032 pursuant to the 2001 Scheme.

The following table discloses the outstanding share options of the Company as at 31 December 2006:

	Date of grant	Exercise price per share	Number of outstanding share options as at 31.12.2006
<b>Category I: Directors</b>			
Chan Lu Min	2 August 2006	HK\$1.032	5,000,000
Chan Ting Chuen	2 August 2006	HK\$1.032	5,000,000
Chang Tsung Yuan	2 August 2006	HK\$1.032	16,500,000
Cheng Kar Shing	2 August 2006	HK\$1.032	500,000
Feng Lei Ming	2 August 2006	HK\$1.032	600,000
Ho Shing Chak	2 August 2006	HK\$1.032	500,000
Ho Ting Seng	2 August 2006	HK\$1.032	10,000,000
Ku Edward Y	2 August 2006	HK\$1.032	16,500,000
Li I Nan	2 August 2006	HK\$1.032	16,500,000
Li Kwok Lung Alfred Ronald	2 August 2006	HK\$1.032	10,000,000
Sze Sun Sun Tony	2 August 2006	HK\$1.032	16,500,000
			97,600,000
<b>Category II: Employees</b>			
Employees	2 August 2006	HK\$1.032	67,450,000
<b>Category III: Consultants</b>			
Consultant	2 August 2006	HK\$1.032	1,000,000

# DIRECTORS' REPORT

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

As at 31 December 2006, 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 SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Code, were as follows:

### 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	5,000,000	877,598,772	882,598,772	53.02%
Sze Sun Sun Tony	1	16,500,000	843,999,000	860,499,000	51.69%
Li Kwok Lung Alfred Ronald	2	21,640,000	16,799,886	38,439,886	2.31%
Chan Lu Min	3	5,000,000	–	5,000,000	0.30%
Chang Tsung Yuan	3	16,500,000	–	16,500,000	0.99%
Cheng Kar Shing	3	500,000	–	500,000	0.03%
Feng Lei Ming	3	600,000	–	600,000	0.04%
Ho Shing Chak	3	500,000	–	500,000	0.03%
Ho Ting Seng	3	10,000,000	–	10,000,000	0.60%
Ku Edward Y	3	16,500,000	–	16,500,000	0.99%
Li I Nan	3	16,500,000	–	16,500,000	0.99%

### Notes:

- Well Success had a direct interest in 843,999,000 shares of the Company.

First Dynamic held more than one-third (1/3) of the issued share capital of Well Success. Royal Pacific had a direct interest in 33,599,772 shares of the Company and held more than one-third (1/3) 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 843,999,000 shares of the Company.

Alexon held more than one-third (1/3) 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 843,999,000 shares of the Company.

Mr. Chang Tsung Yuan was a substantial shareholder of Well Success, in which he held 20% of its issued share Capital.

- 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.
- The interests of directors and chief executive of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the 2001 Scheme are detailed in the section "share options".

# DIRECTORS' REPORT

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

Save as disclosed above and in the section "Share Options", 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 31 December 2006.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save 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.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2006, 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	843,999,000	–	843,999,000	50.70%
First Dynamic	1	Held by controlled corporation	–	843,999,000	843,999,000	50.70%
Alexon	1	Held by controlled corporation	–	843,999,000	843,999,000	50.70%
Royal Pacific	1	Beneficial owner and held by controlled corporation	33,599,772	843,999,000	877,598,772	52.72%
Frensham Investments Limited ("Frensham")	2	Beneficial owner and held by controlled corporation	83,999,430	843,999,000	927,998,430	55.75%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)")	2	Held by controlled corporation	–	927,998,430	927,998,430	55.75%

# DIRECTORS' REPORT

## 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	
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	-	927,998,430	927,998,430	55.75%
Pou Hing Industrial Company Limited ("Pou Hing Company")	2	Held by controlled corporation	-	927,998,430	927,998,430	55.75%
Yue Yuen	2	Held by controlled corporation	-	927,998,430	927,998,430	55.75%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	-	927,998,430	927,998,430	55.75%
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	-	927,998,430	927,998,430	55.75%
Madam Lau Yuk Wah ("Madam Lau")	3	Held by spouse	-	860,499,000	860,499,000	51.69%
Madam Ng Shuk Fong ("Madam Ng")	4	Held by spouse	-	882,598,772	882,598,772	53.02%
Chartered Asset Management Pte Ltd.		Investment manager	115,743,000	-	115,743,000	6.95%

#### Notes:

- Well Success was directly interested in 843,999,000 shares of the Company.

First Dynamic held more than one-third (1/3) of the issued share capital of Well Success. Royal Pacific and Alexon each held more than one-third (1/3) of the issued share capital of First Dynamic.

Accordingly, Well Success, First Dynamic, Royal Pacific and Alexon were deemed to be interested in 843,999,000 shares of the Company.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS (Continued)

### (1) Long positions (Continued)

2. Frensham had a direct interest in 83,999,430 shares of the Company and held more than one-third (1/3) 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 interested in 843,999,000 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 927,998,430 shares of the Company.

3. Madam Lau is the wife of Mr. Sze Sun Sun Tony ("**Mr. Sze**"), a director of the Company. Mr. Sze was deemed to be interested in 843,999,000 shares of the Company (see Note 1). Mr. Sze was granted 16,500,000 share options of the Company on 2 August 2006 and thus Madam Lau was deemed to be interested in a total of 860,499,000 shares of the Company.
4. Madam Ng is the wife of Mr. Chan Ting Chuen ("**Mr. Chan**"), a director of the Company. Mr. Chan was deemed to be interested in 843,999,000 shares of the Company (see Note 1). Royal Pacific was directly interested in 33,599,772 shares of the Company. Mr. Chan was interested in the entire issued share capital of Royal Pacific and therefore was deemed to be interested in 877,598,772 shares of the Company. On 2 August 2006, Mr. Chan was granted 5,000,000 share options of the Company and thus Madam Ng was deemed to be interested in a total of 882,598,772 shares of the Company.

### (2) Short positions

Save 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 31 December 2006.

## 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 Listing Rules. 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 5 largest customers comprised approximately 75% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 36% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's 5 largest suppliers were less than 30% of the Group's total purchases.

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

# DIRECTORS' REPORT

## DONATIONS

During the year, the Group made charitable and other donations totalling approximately HK\$58,000 (2005: HK\$341,000).

## EMOLUMENT POLICY

The Group's employee emolument policy is set up by the Board on the basis of the merit, qualification and competence of the Group's employees.

The emoluments of the directors of the Company are decided by the Board, 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 was set up in December 2005, advising 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 31 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws, 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 31 December 2006.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 8 to 10 of this Annual Report.

## AUDITORS

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

On behalf of the Board

**Li Kwok Lung Alfred Ronald**  
*Chairman*

Hong Kong, 11 April 2007