

Report of the DIRECTORS

The directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are manufacturing, distribution and sale of footwear and accessories mainly in China.

An analysis of the Group's turnover and revenues is set out in Note 5 to the accounts.

Segment information

An analysis of the Group's performance by business and geographical segments is set out in Note 6 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 24.

The board of directors has declared an interim dividend of HK2.0 cents per ordinary share, totalling HK\$32,758,000, which was paid on 25 October 2006.

The board of directors recommends the payment of a final dividend of HK2.5 cents per ordinary share, totalling HK\$73,705,000 in respect of the year ended 31 December 2006.

Reserves

The distributable reserves of the Company, calculated in accordance with the Companies Laws (Revised) Chapter 22 of the Cayman Islands, comprising share premium, contributed surplus and retained profits of the Company as at 31 December 2006 amounted to HK\$189,726,000.

The share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Movements in the reserves of the Group and of the Company during the year are set out in Note 29 to the accounts.

Fixed assets

Movements in fixed assets of the Group are set out in Note 16 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in Note 28 to the accounts.

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 which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

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.

REPORT OF THE DIRECTORS (Cont'd)

Directors

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

Executive directors

Mr Chen Ying-Chieh *(Chairman)*
Mr Chen Hsien Min *(Managing Director)*
Mr Chang Chih-Kai

Independent non-executive directors

Mr Hsiao Hsi-Ming
Mr Huang Shun-Tsai
Mr Kuo Jung-Cheng

In accordance with Article 99 of the Company's Articles of Association, Mr Kuo Jung-Cheng and Mr Huang Shun-Tsai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The term of directorship of all the independent non-executive directors is one year and the term will continue for successive periods of one year unless terminated by either party giving not less than one month notice to the other party.

All the independent non-executive directors have confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and based on such confirmation, the Company is of the opinion that the independence status of the independent non-executive directors remains intact as at 31 December 2006.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 12.

Directors' service contracts

None of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Group's business 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' and chief executives' interests in shares and underlying shares of the Company

As at 31 December 2006, the interests of each director and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in ordinary shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of shares held	Percentage of the issued share capital of the Company
Mr Chen Ying-Chieh	Corporate	147,738,920 (Note)	9.02

Note: Mr Chen Ying-Chieh has beneficial interest in 147,738,920 shares in the Company through Pushkin Holding Limited, a company incorporated in the British Virgin Islands, in which Mr Chen Ying-Chieh holds one-third of the equity interests.

Directors' and chief executives' interests in shares and underlying shares of the Company (Continued)

Long positions in ordinary shares of HK\$0.10 each of the Company (Continued)

In addition to the above, Mr Chen Hsien Min, the Managing Director of the Company, also holds non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiaries have more than one member.

Save as disclosed above, as at 31 December 2006, none of the directors or chief executives, nor any of their associates (including their spouses and children under 18 years of age), had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in shares or underlying shares in, or debentures of, the Company or its associated corporations.

Share options

The Company operates a share option scheme (the "Scheme") which was adopted by shareholders of the Company on 29 May 2003. Pursuant to the Scheme, the directors may, at their discretion, invite eligible participants to take up options to subscribe for the Company's shares subject to the terms and conditions stipulated therein.

Details of the Scheme are as follows:

i) Purpose

The purpose of the Scheme is to provide incentives to the employees, including any executive or non-executive directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees and attract or retain human resources that are valuable to the Group.

ii) Qualifying participants

Any person being an employee, officer, agent or consultant, including executive and non-executive director, of the Group.

iii) Maximum number of shares available for issue under the Scheme

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme or 30% of the issued share capital of the Company from time to time. No options may be granted under the Scheme if this will result in such limit exceeded. As at 31 December 2006, the number of shares available for issue in respect thereof is 10,339,238 shares.

iv) Limit for each participant

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

v) Option period

The option period within which the shares must be taken up an option shall be determined by the board of directors in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

The board of directors has the authority to determine the minimum period for which an option must be held before it can vest. The Scheme itself does not specify any minimum holding period.

vi) Acceptance and payment on acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the date of grant. A consideration of HK\$1 shall be paid by a participant upon acceptance of the option.

REPORT OF THE DIRECTORS (Cont'd)

Share options (Continued)

vii) Subscription price

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

viii) Remaining life of the Scheme

The board of directors is entitled at any time within 10 years between 29 May 2003 and 28 May 2013 to offer the grant of an option to any qualifying participants.

No share options were granted to any qualifying participants of the Scheme during the year and no share options were outstanding as at 31 December 2006 and 31 December 2005.

Substantial shareholders' interests in shares and underlying shares of the Company

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2006, 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 under the section headed "Directors' and chief executives' interests in shares and underlying shares of the Company".

Long positions in ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Lucky Earn International Limited	Beneficial owner	434,669,995 (Note 1)	26.54
Top Glory Assets Limited	Beneficial owner	192,192,895 (Note 2)	11.73
Ms Chen Yi-Chen	Interest of controlled corporations	192,192,895 (Note 2)	11.73
Mr Chen Yi-Hsun	Interest of controlled corporations	192,192,895 (Note 2)	11.73
Pushkin Holding Limited	Beneficial owner	147,738,920 (Note 3)	9.02
Mr Chen Ying-Chieh	Interest of controlled corporations	147,738,920 (Note 3)	9.02
Mr Chen Ying-Tien	Interest of controlled corporations	147,738,920 (Note 3)	9.02
Mr Chen Ying-Che	Interest of controlled corporations	147,738,920 (Note 3)	9.02

Notes:

1. Mr Chang Chih-Kai, an executive director of the Company, his brother and his two sisters have beneficial interests of 26%, 26% and 24% each, respectively, in Lucky Earn International Limited, a company incorporated in the British Virgin Islands.
2. Ms Chen Yi-Chen ("Ms Chen") and Mr Chen Yi-Hsun ("Mr Chen") have beneficial interests of 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands. By virtue of the SFO, they are deemed to be interested in 192,192,895 shares of the Company held by Top Glory Assets Limited. Ms Chen and Mr Chen are the children of Mr Chen Hsien Min, the Managing Director of the Company.
3. Mr Chen Ying-Chieh, the Chairman of the Company, and his two brothers, Mr Chen Ying-Tien and Mr Chen Ying-Che, each has one-third of the beneficial interests of Pushkin Holding Limited. By virtue of the SFO, they are deemed to be interested in the 147,738,920 shares of the Company held by Pushkin Holding Limited.

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.

Major customers and suppliers

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

Major customers and suppliers (Continued)

The aggregate purchases attributable to the Group's largest and five largest suppliers accounted for approximately 18% and 45%, respectively, of the Group's total purchases for the year.

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

Sufficiency of public float

On the basis of information that is publicly available to and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares throughout the year and up to the date of this report.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Chen Ying-Chieh

Chairman

Hong Kong, 23 April 2007