2007
ANNUAL REPORT

SYMPHONY

SYMPHONY HOLDINGS LIMITED
INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
Stock Code: 01223

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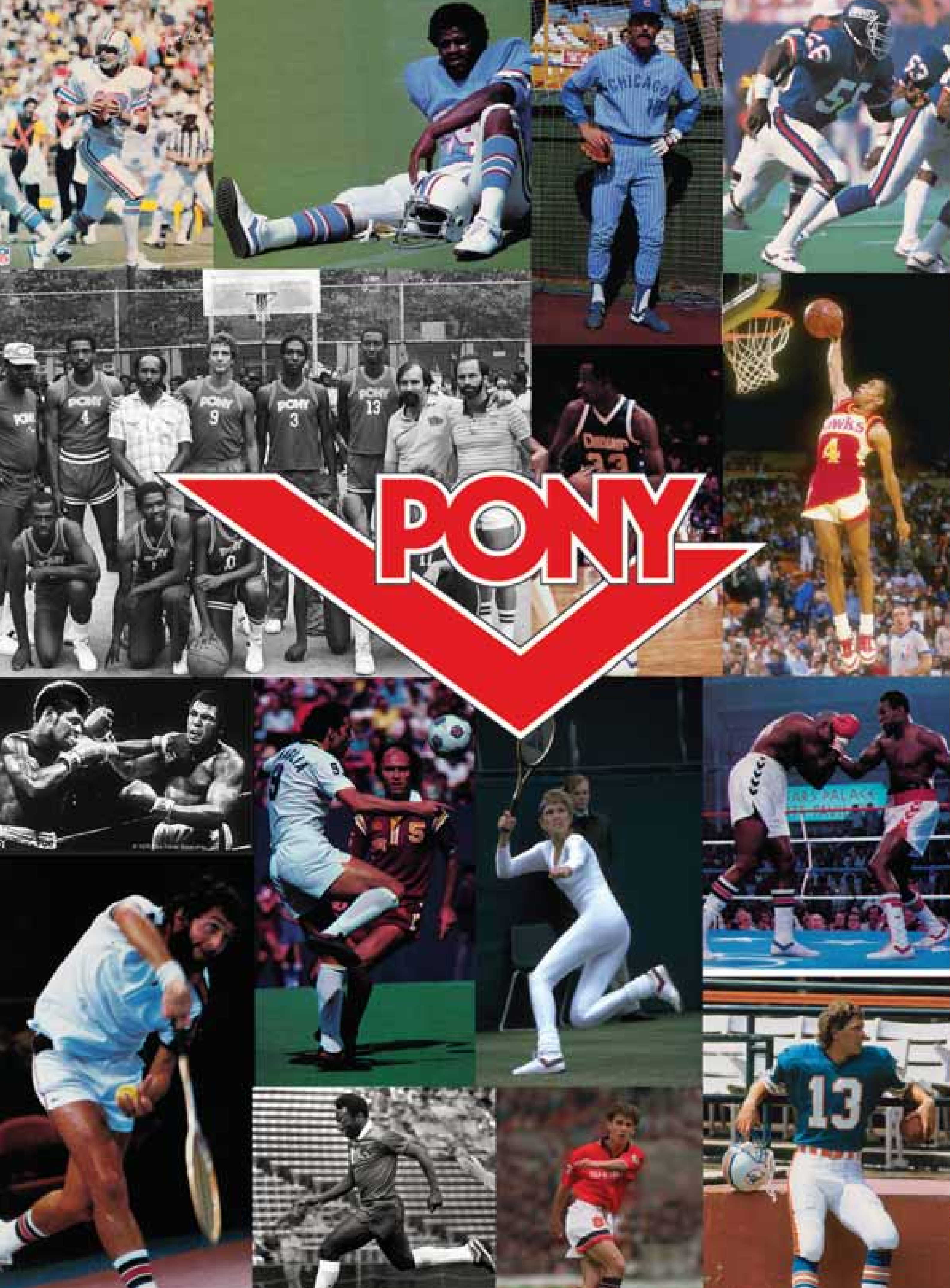
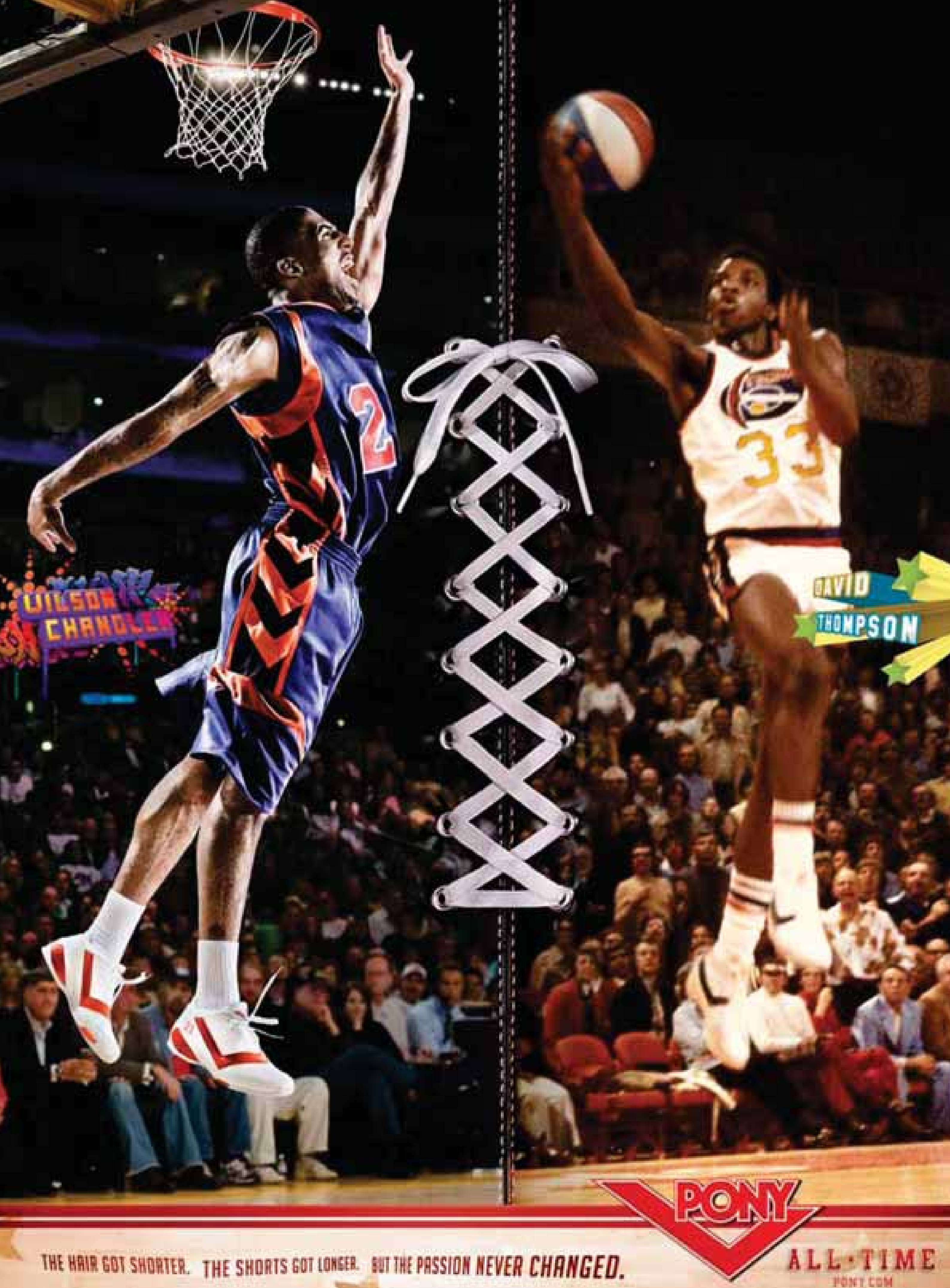
speedo


PONY



WILSON CHANDLER
DAVID THOMPSON
PONY
THE HAIR GOT SHORTER. THE SHORTS GOT LONGER. BUT THE PASSION NEVER CHANGED.
ALL·TIME
PONY.COM


THEY PREACHED IMPOSSIBLE WAS POSSIBLE.
THEY WERE RIGHT.
BACK IN THE GAME.™
PONY
The Trifecta
PONY.COM


THEY INSPIRED US TO DO IT.
SO WE DID.
BACK IN THE GAME.™
PONY
The Starter Mid '08
PONY.COM


Q
QUALITY FOR LIFE ™
haggar.


Aee
爱意

CHAIRMAN'S STATEMENT

2007 and 2008 are years of transition for Symphony. Changes in operational and economic conditions in southern China will mean continual pressure on contract manufacturers. The Symphony Group has taken steps since 2002 to re-position our core business to de-emphasize our core business away from contract manufacturing and to establish our presence in apparel and shoe retail brands, both globally and in China's fast growth consumer markets.

Our first investment in retail brands was a participation in the buy-out of Converse, which went into bankruptcy. It was rapidly turned around and was sold to Nike profitably. Converse remains an important client of our contract manufacturing business. In late 2004, we invested in a company which became the China licensee of Reebok in China. This became so successful that it was sold in 2006 to Adidas/Reebok, again profitably.

Among the retail brands which we have an interest are AEE Italy, Pony International, Haggar and Speedo China. Symphony expects that in the short term, continual capital investment is needed to grow our brands. In the longer term, they will form our core brand portfolio, and generate growing recurrent income. With a global market, income stream will be steady as compared to contract manufacturing. We aim to be among the rare Hong Kong companies to own growing global brands.

AEE Italy is a top ladies fashion footwear brand in China which has already reached breakeven in 2007, and is poised to take strides in providing increasingly fashion minded female consumers with the latest fashion shoes and accessories they desire, with an affordable price tag.

Symphony led the buy-out of Pony International in 2006. Pony is a 40 years old brand based in the US and rich in history. Past celebrity endorsers include sports immortals like Muhammad Ali and Pele. A new management team was installed in 2007. Since then, Pony has launched a totally new product line, focusing on performance. This signified a long overdue new beginning. In recent months, Pony gained wide exposure in the US media, in trade and fashion magazines, something which Pony has not enjoyed for some decades. Meanwhile, Symphony also operates Pony Asia, with growing sales in China, Taiwan, the Philippines and other Asian countries. Although we expect further funding of Pony's growth in 2008, recent indication of market reception of the rejuvenated Pony brand is encouraging. Symphony suffered a loss of HKD30.7 million in 2007. We forecast 2008 to be the last year of further capital investment into Pony from Symphony. By 2009, we expect the Pony brand will have built substantial consumer following to enable it to leverage on the brand strength to start exploration in Europe and other global markets and to support its growth in Asia. Pony China is now in negotiations with various channel partners to launch an aggressive marketing program with the opening of a large number of stores for Pony in key cities in China.

CHAIRMAN'S STATEMENT

In December 2005, Symphony participated in the buy-out of Haggar, a respected brand of men's apparel in the USA. With this acquisition, we aim to participate in the mid-market for menswear in the USA, and to have ownership in a brand which we can introduce to Chinese and Asian consumers. However, as the US economy began to enter into recession in 2007, the most affected apparel segment is menswear. Haggar sales declined by 3.0% to approximately USD428.8 million in 2007. Symphony's share of loss for 2007 was around USD6.0 million, equivalent to around HKD45.0 million. This amount includes the amortisation of goodwill on acquisition. Haggar appointed a new CEO in October 2007 to accelerate the turnaround of the business. Our new CEO at Haggar came from a strong background in the apparel and fashion industry in USA, having served from 1971 to 2005 with VF Corporation, a leading global brand portfolio company, where he was in charge of jeans including the Lee jeans brand. Shareholders as a group infused an additional USD40.0 million into Haggar, of which Symphony's share was USD3.6 million. Under new management, a number of measures have been implemented, including the introduction of fresh products, and the elimination of certain unprofitable business segments. The new management of Haggar forecasts EBITDA breakeven for 2008.

Speedo is the world's premiere swimwear brand, offering cutting edge technology and fashion. Celebrity endorsers of Speedo include some of the world's top competitive swimmers. Speedo China was set up by Symphony as Speedo's long term licensee and distributor. We have great expectation of the swimwear market in China. China is strong in swimming, as can be seen in wins in international competitive events. With economic growth, more swimming pools are being built. As consumers become more affluent, they would want better swimwear. The Chinese government encourages the development of the sport as well.

Symphony is also in advanced negotiations to acquire land in two key cities in China to build mega shopping malls and entertainment complexes to complement its brand retailing business.

Meanwhile, as expected, the contract manufacturing business is under pressure during 2007. It is operating against strong headwind of the US recession, which will continue to hurt factory orders. Government policies in Guangdong in labour law reforms, taxation, pension funding requirements and in environment protection requirements, together with escalating labour cost, higher fuel and material costs, and the rapidly rising exchange rate of Renminbi, all operate against factories. Over 1,000 factories closed their doors in Guangdong during 2007. Even though our factory sales only declined by 3.3% in 2007, higher costs and higher exchange rate affected our gross margin, which fell from 21.4% in 2006 to 17.1% in 2007. We expect 2008 to be another difficult year. To combat these difficult conditions, Symphony has already established four production lines in Vietnam, to secure lower production cost and more pro-factory government policies.

OPERATION REVIEW

For the year ended 31 December 2007, turnover of Symphony Holdings Limited (the "**Company**" or "**Symphony**") was HKD1,849.2 million (2006: HKD1,861.6 million). Profit attributable to equity holders of the Company for 2007 was HKD94.9 million, as compared with HKD207.3 million for 2006.

The gross profit for 2007 was HKD317.7 million (2006: HKD399.3 million). The gross profit margin for the year ended 2007 was 17.2% (2006: 21.4%). The profit before tax for 2007 was HKD116.3 million (2006: HKD222.2 million), the decrease was mainly attributable to margin erosion and share of loss of jointly-controlled entities that are our investments in Haggar and Pony.

The largest markets for the Company and its subsidiaries (the "**Group**") in 2007 were North America and Europe. Sales to North America comprised 55.9% (2006: 63.3%) and orders to Europe comprised 23.6% (2006: 18.9%) of the total sales and the remaining 20.5% (2006: 17.8%) was shared between Asia, Africa, Australia, Latin America and the Middle East.

PRODUCTION FACILITIES

The Group has an aggregate number of 34 production lines, of which 8 are in Panyu, 10 are in Zhongshan, 8 are in Dongguan, 4 are in Fuzhou, and a further 4 are in Vietnam.

CUSTOMER RELATIONSHIP MAINTENANCE AND RESEARCH AND DEVELOPMENT

Our extensive experience and working knowledge on the manufacturing process, production materials and procurement allows us to work closely with our customers to achieve quality and efficiency and produce cost-effective products. Our close relationship with customers has built an in-depth understanding of their needs so that we are capable of anticipating and resolving their problems expeditiously and effectively. Our research and development team improves products design to maximise their comfort, endurance and functionality, and where necessary, introduces new technology to enhance their market appeal. Our value-added contributions enable us to maintain our long-term partnership with our customers.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2007, the Group had bank balances and cash of HKD519.5 million (2006: HKD627.7 million). The Group was offered banking facilities amounting to HKD155.6 million (2006: HKD116.7 million), none of which had been utilised, indicating a zero gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were secured by corporate guarantees from the Company and its certain subsidiaries. There is currently no charge on the Group's assets.

HUMAN RESOURCES

As at 31 December 2007, the total number of employees of the Group was approximately 20,000. Employee cost (excluding directors' emoluments) amounted to approximately HKD387.6 million (2006: HKD353.2 million).

In addition to competitive remuneration packages, discretionary bonuses and employee options are awarded to eligible staff of the Group based on their performance and individual merits.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Kwok Lung Alfred Ronald, aged 55, joined the Group in 1997 and has been the Chairman of the Company since June 2002. He is also the chairman of SPS Group, a Hong Kong based financial services group and an Exchange Participant of The Stock Exchange of Hong Kong Limited ("**The Exchange**") and Hong Kong Futures Exchange Limited. Mr. Li is a consultant to the Hong Kong law firm, Messrs Iu, Lai & Li. Mr. Li is also a director of each of Well Success Investment Limited ("**Well Success**") and First Dynamic International Limited ("**First Dynamic**"), which are deemed or direct substantial shareholders of the Company under the Securities and Futures Ordinance ("**SFO**").

Mr. Sze Sun Sun Tony, aged 56, joined the Group in 1997 and is currently the Deputy Chairman and Managing Director of the Company. Mr. Sze has over 27 years of experience in investment and property development in Hong Kong, mainland China and overseas markets. He is a director of each of Alexon International Limited ("**Alexon**"), First Dynamic and Well Success. All of the three companies are deemed or direct substantial shareholders of the Company under the SFO.

Mr. Chang Tsung Yuan, aged 60, is the Deputy Chairman and executive Director of the Company. Mr. Chang joined the Group at its inception in 1990 and is the founder of the manufacturing business of the Group. Mr. Chang is a substantial shareholder of Well Success, which is a substantial shareholder of the Company. He holds 20.00% equity interests in Well Success, which holds 48.83% interests in the Company as at 31 December 2007. He is the President of the manufacturing division of the Group. Mr. Chang has over 30 years of experience and knowledge in the footwear manufacturing industry.

Mr. Ku Edward Y., aged 65, joined the Group in 2002 as an executive Director. He was previously the senior partner of the law firm, Ku & Fong, in Los Angeles and is licensed to practise law in California and Taiwan. Mr. Ku previously served as an executive director of First Public Bank in Los Angeles. He is also an executive director of Yue Yuen Industrial (Holdings) Limited, a company engaged in shoe manufacturing that is listed on The Exchange (HKSE code: 00551) ("**Yue Yuen**"). Yue Yuen is deemed as a substantial shareholder of the Company under the SFO. Mr. Ku holds a Bachelor-in-Law degree from National Taiwan University and received his Juris Doctor degree from Washington University in St. Louis, United States.

Mr. Chan Lu Min, aged 54, joined the Group in 2002 as an executive Director. He is also an executive director of Yue Yuen. Yue Yuen is deemed as a substantial shareholder of the Company under the SFO. Mr. Chan graduated from the Chung Hsing University in Taiwan and possesses 29 years of finance and accounting experience.

Dr. Ho Ting Seng, aged 60, has been an executive Director of the Company since 2006. Dr. Ho graduated from the University of Malaya and holds both his Master and Doctor of Philosophy degrees from the University of Pennsylvania, United States of America. He previously worked as the first Chief Economist of Worldwide Operations at the Federal Express Corporation. Afterwards, he ran his own consultancy business specialising in multi-model logistics network design to support direct sourcing and distribution activities of manufacturer clients in China and Asia.

Mr. Chan Ting Chuen, aged 60, joined the Group in 1997. He is currently an executive Director of the Company. Mr. Chan graduated with a Bachelor degree in civil engineering from the University of Hong Kong. He is an independent non-executive director of Wing Shan International Limited, a company listed on The Exchange (HKSE code: 00570). Mr. Chan is also a director of each of Royal Pacific Limited ("**Royal Pacific**"), First Dynamic and Well Success. All of the three companies are deemed or direct substantial shareholders of the Company under the SFO.

NON-EXECUTIVE DIRECTORS

Mr. Li I Nan, aged 66, joined the Group in 2002 as a non-executive Director. He has many years of experience in the footwear business including sourcing and wholesale operations. He is an executive director of Yue Yuen. Yue Yuen is deemed as a substantial shareholder of the Company under the SFO. Mr. Li holds a Bachelor and a Master of Arts degree from National Chengchi University in Taiwan and the University of Southern California respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Kar Shing, aged 55, was appointed as an independent non-executive Director of the Company in 1997. He holds a Master degree in engineering from the University of California in Los Angeles, United States. Mr. Cheng has been a director of New World Hotels (Holdings) Limited (formerly known as NWD (Hotels Investments) Limited) since 1984 and a director of New World Development Company Limited ("**New World Development**") since 1994. New World Development is a company listed on The Exchange (HKSE code: 00017). He is also an executive director of New World China Land Limited, a company listed on The Exchange (HKSE code: 00917) and a director of Chow Tai Fook Enterprises Limited.

Mr. Feng Lei Ming, aged 50, was appointed as an independent non-executive Director of the Company in 2003. He graduated with a MBA in finance from the University of Memphis, Tennessee, United States of America. Mr. Feng has over 10 years of experience in the Hong Kong securities industry and is a registered responsible officer of various regulated activities with the Securities and Futures Commission of Hong Kong. He is currently the President of Taiwan Securities (HK) Co., Hong Kong and TSC Capital Limited. He was responsible for sales planning at National Electric Appliance Corp. and A.C. Nielsen in Taiwan before he started to work in Hong Kong in 1994.

Mr. Ho Shing Chak, aged 48, a certified public accountant in Hong Kong, was appointed as an independent non-executive Director in 2004. He graduated from the Chinese University of Hong Kong with a Bachelor degree in business administration and holds a Bachelor of Laws degree from the Peking University. He previously worked for a reputable international accounting firm and is currently running his own business. Mr. Ho is a fellow member of the Association of Chartered Certified Accountants and is also an associate of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' REPORT

The directors of the Company (the "**Directors**") have pleasure in presenting the annual report of the Company ("**Annual Report**") and its audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

Symphony 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 principal subsidiaries and jointly controlled entities are set out in notes 36 and 20 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 23 of the annual report.

An interim dividend of HKD0.0328 per share amounting to approximately HKD57,205,000 was paid during the year. The Directors recommended the payment of a final dividend of HKD0.0220 per share to the shareholders whose names appear on the register of members of the Company on Wednesday, 4 June 2008 ("**Shareholders**"). The total amount of final dividend payable is approximately HKD38,369,000, and the remaining profit of HKD56,560,000 will be retained for the year.

PROPERTY, PLANT AND EQUIPMENT

The Group's buildings were revalued at 31 December 2007. The revaluation resulted in a surplus of HKD12,631,000 which was credited directly to the properties revaluation reserve.

At the beginning of the year, the Group transferred various building units and the related prepaid lease payments with carrying amounts of HKD2,684,000 and HKD10,376,000 respectively to investment properties.

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 2007 were fair valued by an independent firm of professional property valuers on an open market value basis. The net increase in fair value amounted to HKD38,255,000, which was 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 29 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 31 December 2007 were as follows:

	2007	2006
	HKD'000	HKD'000
Share premium	**364,638**	288,308
Contributed surplus	**63,561**	63,561
Share options reserve	**15,343**	29,900
Retained profits	**58,791**	137,703
	502,333	519,472

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' REPORT

DIRECTORS

The Directors during the year and up to the date of this Annual Report were:

Executive Directors

Mr. Li Kwok Lung Alfred Ronald *(Chairman)*
Mr. Sze Sun Sun Tony *(Deputy Chairman & Managing Director)*
Mr. Chang Tsung Yuan *(Deputy Chairman)*
Mr. Ku Edward Y.
Mr. Chan Lu Min
Dr. Ho Ting Seng
Mr. Chan Ting Chuen *(Redesignated from non-executive Director to Executive director on 1 September 2007)*

Non-executive Director

Mr. Li I Nan

Independent Non-executive Directors

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

In accordance with the existing Bye-laws of the Company (the "**Bye-law**"), Mr. Chan Lu Min, Mr. Chan Ting Chuen, Dr. Ho Ting Seng and Mr. Li I Nan will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 ("**2001 Scheme**") are set out in note 30 to the consolidated financial statements.

On 2 August 2006, the Company granted 166,050,000 share options to eligible participants at an exercise price of HKD1.032 pursuant to the 2001 Scheme.

During the year ended 31 December 2007, a total of 79,340,000 share options were exercised and 1,500,000 share options lapsed. As at 31 December 2007, the aggregate number of share options outstanding was 85,210,000.

	Date of grant	Exercise price per share	Number of share options outstanding as at 31.12.2007
Category I: Directors			
Chan Lu Min	2 August 2006	HKD1.032	5,000,000
Cheng Kar Shing	2 August 2006	HKD1.032	500,000
Feng Lei Ming	2 August 2006	HKD1.032	600,000
Ho Shing Chak	2 August 2006	HKD1.032	500,000
Ho Ting Seng	2 August 2006	HKD1.032	4,000,000
Ku Edward Y.	2 August 2006	HKD1.032	16,500,000
Li I Nan	2 August 2006	HKD1.032	16,500,000
			43,600,000
Category II: Employees			
Employees	2 August 2006	HKD1.032	40,610,000
Category III: Consultants			
Consultant	2 August 2006	HKD1.032	1,000,000

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

As at 31 December 2007, the interests and short positions of the Directors and the chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of SFO, or as otherwise notified to the Company and The Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**"), were as follows:

Long Positions

Ordinary shares of HKD0.25 each of the Company

Name	*Note*	Number of issued ordinary shares held by beneficial owner	spouse and/or children under 18	controlled corporation	discretionary trust	Total	Percentage of the issued share capital of the Company
Chan Ting Chuen	*1*	5,000,000	–	–	885,287,172	890,287,172	51.05%
Chang Tsung Yuan	*1*	6,000,000	–	–	–	6,000,000	0.34%
Li Kwok Lung Alfred Ronald	*2*	12,260,000	400,000	11,799,886	–	24,459,886	1.40%
Sze Sun Sun Tony	*1*	–	–	851,687,400	–	851,687,400	48.83%

Notes:

1. Well Success had a direct interest in 851,687,400 shares of the Company. First Dynamic held more than one-third 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 of the issued share capital of First Dynamic. Royal Pacific was wholly-owned by TC Chan Family Holdings Limited ("**TCCFHL**"), which in turn was wholly-owned by TC Chan Management Limited ("**TCCML**"), which was a trustee of a discretionary trust. Ultimately, Royal Pacific was held by a discretionary trust, of which Mr. Chan Ting Chuen ("**Mr. Chan**") was the founder, and Mr Chan and his family members were the discretionary beneficiaries.

   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 therefore deemed to be interested in 851,687,400 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.

2. Ever Growing had a direct interest in 11,799,886 shares of the Company. Mr. Li Kwok Lung Alfred Ronald held the entire issued share capital of Ever Growing and was therefore deemed to be interested in 11,799,886 shares of the Company.

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 2007.

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 contract 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, 2007, 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 HKD0.25 each of the Company

			Number of issued ordinary shares held by			Percentage of the issued share
Name of shareholder	*Notes*	Capacity	direct interests	deemed interests	total interests	capital of the Company
Well Success	*1*	Beneficial owner	851,687,400	–	851,687,400	48.83%
First Dynamic	*1*	Interest of controlled corporation	–	851,687,400	851,687,400	48.83%
Alexon	*1*	Interest of controlled corporation	–	851,687,400	851,687,400	48.83%
Sze Sun Sun Tony ("**Mr. Sze**")	*3*	Beneficial owner	–	851,687,400	851,687,400	48.83%
Lau Yuk Wah (**"Madam Lau**")	*3*	Spouse	–	851,687,400	851,687,400	48.83%
Royal Pacific	*1*	Beneficial owner and interest of controlled corporation	33,599,772	851,687,400	885,287,172	50.76%
TCCFHL	*4*	Interest of controlled corporation	–	885,287,172	885,287,172	50.76%

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

(1) Long positions (continued)

Name of shareholder	*Notes*	Capacity	Number of issued ordinary shares held by direct interests	deemed interests	total interests	Percentage of the issued share capital of the Company
TCCML	*4*	Trustee	–	885,287,172	885,287,172	50.76%
Chan Ting Chuen ("**Mr. Chan**")	*4*	Beneficial owner, founder and beneficiary of trust	5,000,000	885,287,172	890,287,172	51.05%
Ng Shuk Fong ("**Madam Ng**")	*4*	Spouse and beneficiary of trust	–	890,287,172	890,287,172	51.05%
Frensham Investments Limited ("**Frensham**")	*2*	Beneficial owner and interest of controlled corporation	83,999,430	851,687,400	935,686,830	53.65%
Pou Yuen Industrial (Holdings) Limited ("**Pou Yuen**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%
Yue Yuen Industrial Limited ("**Yue Yuen Industrial**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%
Pou Hing Industrial Company Limited ("**Pou Hing**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%
Yue Yuen Industrial (Holdings) Limited ("**Yue Yuen**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%
Wealthplus Holdings Limited ("**Wealthplus**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%
Pou Chen Corporation ("**Pou Chen**")	*2*	Interest of controlled corporation	–	935,686,830	935,686,830	53.65%

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

(1) Long positions (continued)

Notes:

1. As at 31 December 2007, Well Success was directly interested in 851,687,400 shares of the Company. First Dynamic held more than one-third of the issued share capital of Well Success. Each of Royal Pacific and Alexon held more than one-third of the issued share capital of First Dynamic. Accordingly, First Dynamic, Royal Pacific and Alexon were deemed to be interested in 851,687,400 shares of the Company.

2. As at 31 December 2007, 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 which in turn was a wholly-owned subsidiary of Yue Yuen Industrial. Yue Yuen Industrial was a wholly-owned subsidiary of Pou Hing 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 and therefore all of them were deemed to be interested in 851,687,400 shares of the Company. Accordingly, Frensham, Pou Yuen, Yue Yuen Industrial, Pou Hing, Yue Yuen, Wealthplus and Pou Chen were or deemed to be interested in 935,686,830 shares of the Company.

3. Madam Lau is the wife of Mr. Sze, a director of the Company. As at 31 December 2007, Mr. Sze was interested in the entire issued share capital of Alexon (see Note 1), therefore he was deemed to be interested in 851,687,400 shares of the Company. Accordingly, Madam Lau was deemed to be interested in a total of 851,687,400 shares of the Company.

4. Madam Ng is the wife of Mr. Chan, a director of the Company. Royal Pacific is wholly-owned by TCCFHL, which in turn is wholly-owned by TCCML, which is a trustee of a discretionary trust. Ultimately, Royal Pacific was held by a discretionary trust, of which Mr. Chan and his family members were the discretionary beneficiaries and Mr. Chan was the founder. As at 31 December 2007, Royal Pacific was directly interested in 33,599,772 shares and was deemed to be interested in 851,687,400 shares of the Company (see Note 1), therefore both Mr. Chan and Madam Ng were deemed to be interested in 885,287,172 shares of the Company. Furthermore, Mr. Chan was directly interested in 5,000,000 shares of the Company. Accordingly, Madam Ng was deemed to be interested in a total of 890,287,172 shares of the Company.

(2) Short positions

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 2007.

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors of the Company ("**Independent non-executive Director**"), an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Exchange (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 74% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 34% 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 5 largest customers of the Group.

DONATIONS

During the year, the Group made charitable and other donations totaling approximately HKD88,000 (2006: HKD58,000).

EMOLUMENT POLICY

The Group's employee emolument policy is set up by the board of directors of the Company (the "**Board**") on the basis of the merit, qualification and competence of the Group's employees.

The emoluments of the Directors 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 30 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 2007.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report on pages 16 to 20 of this Annual Report.

AUDITORS

A resolution will be submitted to the forthcoming 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, 8 April 2008

CORPORATE GOVERNANCE REPORT

The Group recognises the value and importance of achieving high standards of corporate governance, aiming at providing sufficient transparency, quality of disclosure as well as effective risk control.

The Company has adopted and complied with the Code on Corporate Governance Practices ("**CGP Code**") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2007, only with deviations from code provision A.4.1 of the CG Code.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and are subject to re-election. Directors (including non-executive Directors) were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings in accordance with Bye-law 87 of the Bye-law of the Company. Each Director is effectively appointed under an average term of 3 years.

The terms of reference of the audit committee and remuneration committee of the Company (respectively the "**Audit Committee**" and "**Remuneration Committee**"), explaining their roles and the authorities delegated to them by the Board, are available on request and included in the website of the Company.

BOARD OF DIRECTORS

The primary role of the Board is to protect and enhance long-term shareholder value. It focuses on the Group's overall strategic policy, monitors performance and offers proper supervision for effective management. The Board consists of 11 Directors (including the Chairman of the Board), amongst which 7 are executive Directors and 4 are non-executive Directors of whom 3 are independent.

The posts of Chairman and Managing Director (being defined as Chief Executive Officer in the CGP Code) are held separately by Mr. Li Kwok Lung Alfred Ronald and Mr. Sze Sun Sun Tony. The Chairman of the Board provides leadership and management to the Board. On the other hand, the Managing Director focuses on managing the day-to-day operation of the business of the Group. This segregation of roles ensures the reinforcement of their independence, accountability and responsibility.

The Board has delegated the authority and responsibility for implementing business strategy and managing the day-to-day administration and operations of the Group's business to the Managing Director and senior management. While allowing management substantial autonomy to run and develop the business. The delegated functions and work tasks are periodically reviewed.

The non-executive Directors of the Company ("**Non-executive Directors**") came from diverse business and professional backgrounds, bringing in valuable expertise and experience that promotes the best interests of the Group and its shareholders. 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.

All Directors have full, timely and direct access to the services and advice from the Company Secretary of the Company (the "**Secretary**").

Members of the Board

Executive Directors

Mr. Li Kwok Lung Alfred Ronald *(Chairman)*
Mr. Sze Sun Sun Tony *(Deputy Chairman & Managing Director)*
Mr. Chang Tsung Yuan *(Deputy Chairman)*
Mr. Ku Edward Y.
Mr. Chan Lu Ming
Dr. Ho Ting Seng
Mr. Chan Ting Chuen

Non-executive Director

Mr. Li I Nan

Independent Non-executive Directors

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

REMUNERATION COMMITTEE

The Remuneration Committee was set up for the purpose of advising the Board on and reviewing the remuneration policy and its structure for Directors and senior management. The Remuneration Committee also assesses performance and approves the terms of the service contracts (if any) of executive Directors during the year.

Members of the Remuneration Committee

Mr. Ho Shing Chak *(Chairman)*
Mr. Cheng Kar Shing
Mr. Feng Lei Ming

Remuneration package is performance-based and the recommended remuneration package comprises salaries, bonuses and share incentive scheme. During the year under review, the Remuneration Committee considered that the packages of the executive Directors were fair and reasonable, taking into account of business performance, market practices and competitive market conditions. Non-executive Directors are compensated with the aim to fairly represent their efforts and time dedicated to the Board.

AUDIT COMMITTEE

The Audit Committee was established with specific written terms of reference that have included the duties no less than those set out in the Code Provision C.3.3 of the CG Code. The Audit Committee oversees the audit process and provides an independent review of the effectiveness of the financial reporting process and the internal control.

Members of the Audit Committee

Mr. Feng Lei Ming *(Chairman)*
Mr. Cheng Kar Shing
Mr. Ho Shing Chak
Mr. Li I Nan

The Audit Committee is provided with sufficient resources to discharge its responsibilities. During the year, the Audit Committee reviewed with the external auditors, internal auditors and senior management the interim and annual results of the Group as well as the accounting principles and practices being adopted, internal controls and financial reporting matters. Our head of the Finance and Accounting Department, senior management, internal auditors and the external auditors attended the meetings to answer any questions raised by the Audit Committee.

BOARD/COMMITTEES MEETINGS AND MINUTES

During the year under reviewed, the Board conducted 10 meetings, irrespective of meetings concerning the allotment of shares upon exercise of share options. Management provided appropriate and sufficient information to Directors and Committees' members in a timely manner to keep them abreast of the latest developments of the Company to discharge their responsibilities. The attendance of individual members of the Board and Committees' meetings during the financial year ended 31 December 2007 is set out in the table below:

Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Li Kwok Lung Alfred Ronald	7/10	–	–
Sze Sun Sun Tony	10/10	–	–
Chang Tsung Yuan	3/10	–	–
Ku Edward Y.	9/10	–	–
Chan Lu Min	3/10	–	–
Ho Ting Seng	8/10	–	–
Chan Ting Chuen	6/10	–	–
Non-executive Director			
Li I Nan	6/10	2/2	–
Independent Non-executive Directors			
Cheng Kar Shing	3/10	1/2	1/1
Feng Lei Ming	3/10	1/2	1/1
Ho Shing Chak	5/10	2/2	1/1

Minutes of the Board meetings and Board Committees meetings have been recorded in sufficient detail. Draft and final versions of minutes of the Board or Committees are sent to all Directors or Committees members for comments and records within a reasonable time after the meeting.

NOMINATION OF DIRECTORS

The Company has not established a nomination committee but shall regularly review and consider whether such committee is required. All appointments, resignations and removals of Directors and its succession plan are subject to the approval of the Board.

Under the Bye-laws, one-third of the Directors (including Independent Non-executive Directors) must retire and can offer themselves for re-election at each annual general meeting if they are eligible. This year, Mr. Chan Lu Min, Mr. Chan Ting Chuen, Dr. Ho Ting Seng and Mr. Li I Nan shall retire at the forthcoming annual general meeting and all being eligible, offer themselves for re-election. Details of their biographies are set out in the circular to shareholders. As at 31 December 2007, none of the Directors has a service contract with the Company or any members of the Group that will not expire or is not terminable by the employer within 1 year without payment of compensation (other than statutory compensation).

AUDITORS' REMUNERATION

A summary of remuneration paid to the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, for audit services and non-audit services for the financial years ended 31 December 2006 and 2007 is as follows:

	2007	2006
	HKD'000	HKD'000
Nature of services		
Audit services	**2,023**	1,684
Other services	**498**	460

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, each of them confirmed his compliance with the required standard set out in the Model Code for the financial year ended 31 December 2007.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of the financial statements of the Company for the year ended 31 December 2007 which give a true and fair view of the state of financial affairs of the Company.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have reviewed the soundness, adequacy and application of accounting, financial and other controls and promoting effective control in the Group.

SHAREHOLDERS' COMMUNICATION

The Board recognises the importance of maintaining an effective mutual communication with its stakeholders. Designated management staff meet with research analysts and institutional investors on an on-going basis and provides them with the latest and comprehensive information about the corporate developments of the Group. In addition, the Company utilises its website (www.symphonyholdings.com) as a channel to provide updated information in a timely manner in order to strengthen the communication with its stakeholders.

SHAREHOLDERS' RIGHTS

Shareholders may convene a special general meeting in the following manner:

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

PUBLIC FLOAT

The Company has maintained a sufficient public float at over 40% throughout the year ended 31 December 2007.

Deloitte.
德勤

TO THE MEMBERS OF SYMPHONY HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Symphony Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 23 to 78 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 8 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HKD'000	2006 HKD'000
Revenue	7	**1,849,207**	1,861,604
Cost of sales		**(1,531,487)**	(1,462,333)
Gross profit		**317,720**	399,271
Other income		**79,942**	45,928
Distribution and selling expenses		**(76,852)**	(91,928)
Administrative expenses		**(184,707)**	(166,618)
Other expenses		**(3,387)**	(48,643)
Increase in fair value of investment properties		**38,255**	5,000
Loss on disposal of property, plant and equipment		**(5)**	(2,412)
Gain on fair value changes of held-for-trading investments		**7,177**	–
Gain on disposal of available-for-sale investments		**368**	–
Share of results of jointly controlled entities		**(62,259)**	111,690
Share-based payment expenses		**–**	(29,900)
Deficit arising on revaluation of buildings		**–**	(190)
Share of loss of an associate		**–**	(26)
Profit before tax		**116,252**	222,172
Income tax expense	8	**(18,216)**	(7,444)
Profit for the year	9	**98,036**	214,728
Attributable to:			
Equity holders of the parent		**94,929**	207,287
Minority interests		**3,107**	7,441
		98,036	214,728
Dividends recognised as distribution during the year	11	**164,072**	171,464
Earnings per share	12		
Basic		**5.58 cents**	12.5 cents
Diluted		**5.57 cents**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 HKD'000	2006 HKD'000
Non-current assets			
Property, plant and equipment	*13*	**260,660**	256,231
Investment properties	*14*	**144,500**	80,000
Prepaid lease payments	*15*	**48,155**	58,504
Deposit paid for acquisition of properties	*16*	**9,200**	489
Goodwill	*17*	**57,477**	57,477
Interests in jointly controlled entities	*20*	**249,195**	299,800
Available-for-sale investments	*21*	**23,085**	11,218
Structured deposits	*22*	**62,240**	62,160
Deferred tax assets	*28*	**11,326**	14,106
Club debentures		**2,003**	–
		867,841	839,985
Current assets			
Inventories	*23*	**277,719**	246,560
Amounts due from jointly controlled entities	*20*	**32,710**	2,079
Trade and other receivables	*24*	**358,317**	305,948
Prepaid lease payments	*15*	**1,206**	1,472
Held-for-trading investments	*25*	**428**	–
Bank balances and cash	*26*	**519,494**	627,706
		1,189,874	1,183,765
Current liabilities			
Trade and other payables	*27*	**421,041**	445,767
Amounts due to jointly controlled entities	*20*	**8,792**	501
Tax payable		**53,419**	50,179
		483,252	496,447
Net current assets		**706,622**	687,318
Total assets less current liabilities		**1,574,463**	1,527,303
Non-current liabilities			
Deferred tax liabilities	*28*	**18,425**	8,724
		1,556,038	1,518,579
Capital and reserves			
Share capital	*29*	**436,011**	416,176
Reserves		**1,084,657**	1,064,692
Equity attributable to equity holders of the parent		**1,520,668**	1,480,868
Minority interests		**35,370**	37,711
		1,556,038	1,518,579

The financial statements on pages 23 to 78 were approved and authorised for issue by the Board on 8 April 2008 and are signed on its behalf by:

Sze Sun Sun Tony
Director

Ku Edward Y.
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital HKD'000	Share premium HKD'000	Properties revaluation reserve HKD'000	Investments revaluation reserve HKD'000	Translation reserve HKD'000	Share options reserve HKD'000	Other reserve HKD'000	Accumulated profits HKD'000	Total HKD'000	Minority interests HKD'000	Total HKD'000
THE GROUP											
At 1 January 2006	416,176	288,308	6,080	–	9,752	–	296	684,279	1,404,891	30,270	1,435,161
Transfer	–	–	–	–	–	–	(296)	296	–	–	–
Deficit arising on revaluation of buildings	–	–	(2,370)	–	–	–	–	–	(2,370)	–	(2,370)
Reversal of deferred tax liability arising on revaluation of buildings	–	–	508	–	–	–	–	–	508	–	508
Exchange differences arising on translation of foreign operations	–	–	333	–	11,312	–	–	–	11,645	–	11,645
Share of reserves of jointly controlled entities	–	–	–	–	471	–	–	–	471	–	471
Net income recognised directly in equity	–	–	(1,529)	–	11,783	–	(296)	296	10,254	–	10,254
Profit for the year	–	–	–	–	–	–	–	207,287	207,287	7,441	214,728
Total recognised income and expense for the year	–	–	(1,529)	–	11,783	–	(296)	207,583	217,541	7,441	224,982
Recognition of equity-settled share-based payments	–	–	–	–	–	29,900	–	–	29,900	–	29,900
Dividends paid *(note 11)*	–	–	–	–	–	–	–	(171,464)	(171,464)	–	(171,464)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital HKD'000	Share premium HKD'000	Properties revaluation reserve HKD'000	Investments revaluation reserve HKD'000	Translation reserve HKD'000	Share options reserve HKD'000	Other reserve HKD'000	Accumulated profits HKD'000	Total HKD'000	Minority interests HKD'000	Total HKD'000
At 31 December 2006	416,176	288,308	4,551	–	21,535	29,900	–	720,398	1,480,868	37,711	1,518,579
Surplus arising on revaluation of buildings	–	–	12,631	–	–	–	–	–	12,631	–	12,631
Gain on fair value changes of available-for-sale investments	–	–	–	943	–	–	–	–	943	–	943
Deferred tax liability arising on revaluation of buildings	–	–	(1,857)	–	–	–	–	–	(1,857)	–	(1,857)
Exchange differences arising on translation of foreign operations	–	–	152	–	13,124	–	–	–	13,276	534	13,810
Share of reserves of jointly controlled entities	–	–	–	–	2,047	25	–	–	2,072	–	2,072
Net income recognised directly in equity	–	–	10,926	943	15,171	25	–	–	27,065	534	27,599
Profit for the year	–	–	–	–	–	–	–	94,929	94,929	3,107	98,036
Total recognised income and expense for the year	–	–	10,926	943	15,171	25	–	94,929	121,994	3,641	125,635
Acquisition of additional interest from minority interest	–	–	–	–	–	–	–	–	–	(5,982)	(5,982)
Exercise of share options	19,835	76,330	–	–	–	(14,287)	–	–	81,878	–	81,878
Lapse of share options	–	–	–	–	–	(270)	–	270	–	–	–
Dividends paid *(note 11)*	–	–	–	–	–	–	–	(164,072)	(164,072)	–	(164,072)
At 31 December 2007	436,011	364,638	15,477	943	36,706	15,368	–	651,525	1,520,668	35,370	1,556,038

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HKD'000	2006 HKD'000
OPERATING ACTIVITIES		
Profit before tax	**116,252**	222,172
Adjustments for:		
Interest income	**(27,344)**	(30,240)
Dividends from equity investments	**(1,189)**	(34)
Share of loss of an associate	**–**	26
Share of results of jointly controlled entities	**62,259**	(111,690)
Depreciation and amortisation of property, plant and equipment	**39,305**	37,067
Amortisation of prepaid lease payments	**1,206**	1,345
Loss on disposal of property, plant and equipment	**5**	2,412
Gain on disposal of available-for-sale investments	**(368)**	–
Fair value gain on changes of held-for-trading investments	**(7,177)**	–
Increase in fair value of investment properties	**(38,255)**	(5,000)
Deficit arising on revaluation of buildings	**–**	190
Share-based payment expenses	**–**	29,900
(Recovery of) allowance for bad and doubtful debts	**(15,930)**	3,300
Bad debt written off	**–**	18,180
Allowance for inventories	**4,714**	2,956
Promissory note receivables written off	**–**	24,295
Unclaimed payables written off	**(14,237)**	–
Operating cash flow before movements in working capital	**119,241**	194,879
(Increase) decrease in inventories	**(35,873)**	1,570
Decrease in promissory notes receivables	**–**	714
Increase in trade and other receivables	**(36,439)**	(101,326)
Decrease in held-for-trading investments	**6,749**	–
(Decrease) increase in trade and other payables	**(10,489)**	30,187
Cash generated from operations	**43,189**	126,024
Hong Kong Profits Tax paid	**(2,459)**	(2,091)
Overseas tax paid	**(1,981)**	(2,203)
NET CASH FROM OPERATING ACTIVITIES	**38,749**	121,730

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HKD'000	2006 HKD'000
INVESTING ACTIVITIES		
(Advance to) repayment from jointly controlled entities	**(30,631)**	78,003
Loan to a jointly controlled entity	**(28,062)**	–
Purchases of property, plant and equipment	**(23,986)**	(50,310)
Purchase of investment properties	**(13,185)**	–
Increase in deposit paid for acquisition of investment properties	**(8,711)**	(489)
Acquisition of additional interest from minority interest	**(5,982)**	–
Purchase of club debentures	**(2,003)**	–
Interest received	**27,344**	30,240
Proceeds from disposal of available-for-sale investments	**8,232**	–
Dividends received from equity investments	**1,189**	34
Proceeds from disposal of property, plant and equipment	**30**	991
Dividends received from a jointly controlled entity	**–**	15,512
Purchase of an associate	**–**	(26)
Purchase of interests in jointly controlled entities	**–**	(81,288)
Proceeds from disposal of property classified as held for sale	**–**	13,962
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(75,765)**	6,629
FINANCING ACTIVITIES		
Dividends paid	**(164,072)**	(171,464)
Proceeds from issue of shares	**81,878**	–
Advance from (repayment to) a jointly controlled entity	**8,291**	(10,751)
NET CASH USED IN FINANCING ACTIVITIES	**(73,903)**	(182,215)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(110,919)**	(53,856)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	**627,706**	678,442
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,707**	3,120
CASH AND CASH EQUIVALENTS CARRIED FORWARD	**519,494**	627,706

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Exchange. The parent and the ultimate holding company is Well Success, a company incorporated in the British Virgin Islands. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is on the 10th Floor of Island Place Tower, 510 King's Road, North Point, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("**HKD**"), which is also the functional currency of the Company.

The principal activities of the Group are the manufacturing and trading of footwear, property investment and investment holding. The principal activities of its principal subsidiaries are set out in note 36.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("**new HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under Hong Kong Accounting Standards ("**HKAS**") 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill. Any excess of the net assets acquired over the consideration is recognised immediately in profit or loss.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of Group's share of the net fair value of the identified assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of Group's share of the net fair value of the identifiable assets, liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Freehold land is stated at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in properties revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible Assets – Club debentures

Club debentures are stated at cost less any subsequent accumulated impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment losses of tangible and intangible assets (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses of tangible and intangible assets (other than goodwill) (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which are the reversal of the impairment loss is treated as a revaluation increase under that standard.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("**FVTPL**"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is excluded from net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from jointly controlled entities, trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not classified as financial assets at FVTPL and loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and amount due to jointly controlled entities are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2007, the carrying amount of goodwill was HKD57,477,000 (2006: HKD57,477,000). Details of the recoverable amount calculation are disclosed in note 18.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. During the year ended 31 December 2007 and 2006, the Group has been generating operating profit to sustain its operation and development, as such, the Group has not raised external debt. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 **HKD'000**	2006 HKD'000
Financial assets		
Fair value through profit or loss		
– held-for-trading investment	**428**	–
– structured deposits	**62,240**	62,160
Loans and receivables (including bank balances and cash)	**872,771**	907,121
Available-for-sale financial assets	**23,085**	11,218
Financial liabilities		
Amortised cost	**318,796**	298,036

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and polices

The Group's major financial instruments include available-for-sale investments, structured deposits, amounts due from/to jointly controlled entities, trade and other receivables, held for trading investments, bank balances and cash, trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HKD'000	HKD'000	**HKD'000**	HKD'000
US Dollars ("**USD**")	**95,969**	83,729	**727,641**	834,691

Sensitivity analysis

The Group is mainly exposed to the fluctuation in USD. The foreign currency risk is not significant as HKD is pegged to USD.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and loan to a jointly controlled entity. The directors consider the Group's exposure to fair value interest rate risk is not significant as interest bearing bank deposits and loan to a jointly controlled entity are within short maturity periods.

The Group is exposed to cash flow interest rate risk in relation to variable-rate structured deposits and bank deposits. It is the Group's policy to keep its deposits at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's HKD denominated bank deposits and USD denominated structured deposits respectively.

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and polices (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. The analysis is prepared assuming these financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by approximately HKD729,000 (2006: increase/decrease by HKD629,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate structured deposits and bank deposits.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in footwear manufacturing industry sector quoted in The Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective listed equity instruments had been 5% higher/lower:

- profit for the year ended 31 December 2007 increase/decrease by approximately HKD18,000 (2006: HKD0) as a result of the changes in fair value of held-for-trading investments; and
- investment valuation reserve would increase/decrease approximately by HKD230,000 (2006: increase/decrease by HKD561,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and polices (continued)

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 82% (2006: 87%) of balances are placed with 5 banks (2006: 6 banks).

The Group has concentration of credit risk as 26% (2006: 18%) and 74% (2006: 61%) of total trade receivables due from the Group's largest customer and the five largest customers respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. Based on the undiscounted cash flows of financial liabilities according to the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and polices (continued)

Liquidity risk (continued)

Liquidity tables

	Less than 1 month HKD'000	**1-3 months HKD'000**	**3 months to 1 year HKD'000**	**Total undiscounted cash flows HKD'000**	**Carrying amount at 31.12.2007 HKD'000**
2007					
Non-derivative financial liabilities					
Trade and other payables	**171,958**	**111,514**	**26,532**	**310,004**	**310,004**
Amounts due to jointly controlled entities	**8,792**	**–**	**–**	**8,792**	**8,792**
	180,750	**111,514**	**26,532**	**318,796**	**318,796**

	Less than 1 month HKD'000	1-3 months HKD'000	3 months to 1 year HKD'000	Total undiscounted cash flows HKD'000	Carrying amount at 31.12.2006 HKD'000
2006					
Non-derivative financial liabilities					
Trade and other payables	164,552	100,451	32,532	297,535	297,535
Amounts due to jointly controlled entities	501	–	–	501	501
	165,053	100,451	32,532	298,036	298,036

6. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets (including derivative instruments) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in consolidated financial statements approximate their fair values.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and sales of footwear products.

Geographical segments

An analysis of the Group's turnover and contribution to segment results, assets and liabilities by geographical markets, based on location of customers, irrespective of the origin of the goods, is presented below:

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments (continued)

2007

	United States of America HKD'000	Canada HKD'000	Europe HKD'000	Asia HKD'000	Australia HKD'000	Others HKD'000	Consoli-dated HKD'000
REVENUE							
External sales	939,056	95,357	436,629	225,894	27,216	125,055	1,849,207
RESULTS							
Segment results	123,101	12,500	57,238	31,060	3,568	16,392	243,859
Unallocated income							87,249
Unallocated expenses							(152,597)
Share of results of jointly controlled entities							(62,259)
Profit before tax							116,252
Income tax expense							(18,216)
Profit for the year							98,036
ASSETS							
Segment assets	322,988	32,798	150,179	77,696	9,361	43,014	636,036
Interests in jointly controlled entities							249,195
Deferred tax assets							11,326
Unallocated corporate assets							1,161,158
Consolidated total assets							2,057,715
LIABILITIES							
Segment liabilities	213,811	21,712	99,415	51,433	6,197	28,473	421,041
Tax payable							53,419
Deferred tax liabilities							18,425
Unallocated corporate liabilities							8,792
Consolidated total liabilities							501,677
OTHER INFORMATION							
Allowance for inventories	2,394	243	1,113	576	70	318	4,714
Reversal of allowance for bad and doubtful debts	(8,089)	(821)	(3,761)	(1,946)	(234)	(1,079)	(15,930)
Unclaimed payables written off	–	–	–	(14,237)	–	–	(14,237)

Segment assets consist of inventories, trade receivables and other operating assets. Segment liabilities comprise certain trade payables. Property, plant and equipment and prepaid lease payments are not directly attributable to each customer and cannot be allocated to the segments on a reasonable basis.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments (continued)

2006

	United States of America HKD'000	Canada HKD'000	Europe HKD'000	Asia HKD'000	Australia HKD'000	Others HKD'000	Consoli-dated HKD'000
REVENUE							
External sales	1,065,789	112,268	351,258	201,764	33,343	97,182	1,861,604
RESULTS							
Segment results	130,178	15,184	44,295	29,365	4,282	11,369	234,673
Unallocated income							41,262
Unallocated expenses							(165,427)
Share of loss of an associate							(26)
Share of results of jointly controlled entities							111,690
Profit before tax							222,172
Income tax expense							(7,444)
Profit for the year							214,728
ASSETS							
Segment assets	316,316	33,320	104,250	59,882	9,896	28,844	552,508
Interests in jointly controlled entities							299,800
Deferred tax assets							14,106
Unallocated corporate assets							1,157,336
Consolidated total assets							2,023,750
LIABILITIES							
Segment liabilities	252,822	26,632	83,324	47,861	7,910	23,053	441,602
Tax payable							50,179
Deferred tax liabilities							8,724
Unallocated corporate liabilities							4,666
Consolidated total liabilities							505,171
OTHER INFORMATION							
Written off promissory notes receivables	13,909	1,465	4,584	2,633	435	1,269	24,295
Allowance for/written off of bad and doubtful debts	12,298	1,295	4,053	2,328	385	1,121	21,480
Allowance for inventories	1,692	178	558	53	320	155	2,956

An analysis of the Group's other information related to property, plant and equipment and prepaid lease payments attributable to geographical markets by location of customers for both years is not presented as the amounts involved cannot be allocated by location of its customers.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments (continued)

The following table is an analysis of the carrying amount of assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of assets		Capital additions	
	2007	2006	**2007**	2006
	HKD'000	HKD'000	**HKD'000**	HKD'000
Hong Kong	**1,181,929**	1,101,906	**15,989**	5,645
The People's Republic of China ("**PRC**")	**537,670**	522,192	**15,910**	31,898
Others	**77,595**	85,746	**5,272**	12,767
	1,797,194	1,709,844	**37,171**	50,310

8. INCOME TAX EXPENSE

	2007	2006
	HKD'000	HKD'000
CURRENT TAX:		
Hong Kong		
Current year	**911**	2,938
Overprovision in prior years	**(2)**	(95)
Other Jurisdictions		
Current year	**6,655**	11,295
Underprovision in prior years	**28**	274
	7,592	14,412
DEFERRED TAX: *(note 28)*		
Current year	**10,624**	(6,968)
Taxation attributable to the Company and its subsidiaries	**18,216**	7,444

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

8. INCOME TAX EXPENSE (CONTINUED)

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in PRC, certain subsidiaries of the Group including Zhongshan Jingmei Footwear Industry & Commerce Co Limited 中山精美鞋業有限公司 (“**Zhongshan Jingmei**”), Fuqing Grand Galatica Footwear Co. Ltd. 福清宏太鞋業有限公司 (“**Fuqing Grand Galatica**”), Guangzhou Panyu Xingtaiy Footwear Industry & Commerce Co. Ltd. 廣州番禺興泰鞋業有限公司 (“**Panyu Xingtaiy**”) and Zhongshan Huali Footwear Industry & Commerce Co Ltd. 中山華利企業有限公司 (“**Zhongshan Huali**”) are entitled to exemption from the PRC enterprise income tax for two years commencing from their first profit-making year of operation and thereafter, followed by a 50% reduction in the applicable tax rate for the next three years (“**Tax Relief**”).

The tax status of each of the above companies are stated as follows:

- Zhongshan Jingmei and Zhongshan Huali enjoyed the second year of tax exemption for 2007 and were exempted from the PRC income tax for the year;
- Tax Relief for Fuqing Grand Galatica had expired in 2006 and the concessionary tax rate for the current year is 7.5%;
- Tax Relief for Panyu Xingtaiy had expired in 2005 and the concessionary tax rate for the current year is 12.0%, being an Export-Orient Enterprise (“**EOE**”).

On 16 March 2007, PRC promulgated the Law of PRC on Enterprise Income Tax (the “**New Law**”) by Order No. 63 of the President of PRC. On 6 December 2007, the State Council of PRC issued Implementation Regulations of the New Law (“**Implementation Regulations**”). The tax status of each of the above companies under the New Law and Implementation Regulations will be as follows:

- Zhongshan Jingmei and Zhongshan Huali continue to enjoy the preferential tax treatment (12.5% tax rate, i.e. 50.0% of the applicable tax rate 25.0%) for the years from 2008 to 2010;
- Fuqing Grand Galatica could continue to enjoy the preferential tax treatment, i.e. 9.0% (50.0% of the applicable tax rate 18.0%) for the year 2008 and 10.0% (50.0% of the applicable tax rate 20.0%) for the year 2009. Thereafter, the tax rate will ratchet up to 22.0%, 24.0%, 25.0% from 2009 to 2011 respectively;
- The preferential tax treatment for EOE had been cancelled starting from 2008, the tax rate for Panyu Xingtaiy with effect from 2008 is 25.0%.

8. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 HKD'000	2006 HKD'000
Profit before tax	**116,252**	222,172
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**20,344**	38,880
Tax effect of expenses not deductible for tax purpose	**5,588**	7,806
Tax effect of income not taxable for tax purpose	**(9,547)**	(8,715)
Tax effect of share of loss of an associate	**–**	5
Tax effect of share of results of jointly controlled entities	**10,895**	(19,546)
Underprovision in respect of prior year	**26**	179
Tax effect of deferred tax assets not recognised	**2,145**	899
Effect of tax exemptions granted to certain subsidiaries	**(11,605)**	(14,728)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**370**	3,841
Utilisation of deferred tax/tax losses previously not recognised	**–**	(1,239)
Others	**–**	62
Tax expense for the year	**18,216**	7,444

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties was charged directly to equity (see note 28).

In March 2008, the Inland Revenue Department ("**IRD**") issued protective profits tax assessments, for an aggregate additional tax of approximately HKD15.4 million, relating to the years of assessment 2001/2002, that is, for the financial years ended 31 December 2001, against certain wholly-owned subsidiaries of the Company.

The directors of the Company believe that no profits tax is payable by the Group in respect of the concerned subsidiaries and no provision for Hong Kong profits tax in respect of the protective assessments is considered necessary. The Group intends to lodge objections with the IRD against the protective assessments.

9. PROFIT FOR THE YEAR

	2007 HKD'000	2006 HKD'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 10)	7,361	24,283
Other staff costs	387,568	353,196
Retirement benefits schemes contributions, excluding Directors	775	707
	395,704	378,186
Auditors' remuneration	2,399	1,798
Allowance for bad and doubtful debts	–	3,300
Allowance for inventories	4,714	2,956
Amortisation of prepaid lease payments	1,206	1,345
Bad debts written off	–	18,180
Cost of inventories recognised as expense	1,531,487	1,462,333
Depreciation	39,305	37,067
Exchange losses	6,479	8,055
Promissory notes receivables written off	–	24,295
and after crediting as other income:		
Reversal of allowance for bad and doubtful debts	15,930	–
Dividends from equity investments	1,189	34
Exchange gains	4,210	6,348
Gross rental income from investment properties	2,206	1,833
Less: direct operating expenses from investment properties that generated rental income during the year	(591)	(386)
	1,615	1,447
Interest income from:		
Bank deposits	26,143	26,897
Structured deposits	345	654
Available-for-sale investments	168	255
Trade debtors (note)	150	25
Loans to a jointly controlled entity	538	2,409
Unclaimed payables written off	14,237	–

Note: Interest was charged to trade debtors with extended credit terms.

10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

A. Directors' emoluments

The emoluments paid or payable to each of the 11 (2006: 11) Directors were as follows:

	Li Kwok Lung Alfred Ronald HKD'000	Sze Sun Sun Tony HKD'000	Chang Tsung Yuan HKD'000	Ku Edward Y. HKD'000	Chan Lu Min HKD'000	Ho Ting Seng HKD'000	Chan Ting Chuen HKD'000	Li I Nan HKD'000	Cheng Kar Shing HKD'000	Feng Lei Ming HKD'000	Ho Shing Chak HKD'000	Total HKD'000
2007												
Fees	**720**	**–**	**–**	**–**	**–**	**–**	**–**	**96**	**96**	**96**	**96**	**1,104**
Other emoluments												
Salaries and other benefits	**–**	**2,016**	**1,432**	**120**	**120**	**720**	**464**	**–**	**–**	**–**	**–**	**4,872**
Bonus (Note)	**–**	**672**	**400**	**–**	**–**	**160**	**–**	**–**	**–**	**–**	**–**	**1,232**
Contributions to retirement benefits schemes	**–**	**101**	**–**	**–**	**–**	**32**	**20**	**–**	**–**	**–**	**–**	**153**
Total emoluments	**720**	**2,789**	**1,832**	**120**	**120**	**912**	**484**	**96**	**96**	**96**	**96**	**7,361**
2006												
Fees	720	–	–	–	–	–	96	96	96	96	96	1,200
Other emoluments												
Salaries and other benefits	–	2,016	1,416	120	120	540	–	–	–	–	–	4,212
Bonus (Note)	–	672	400	–	–	120	–	–	–	–	–	1,192
Contributions to retirement benefits schemes	–	101	–	–	–	4	–	–	–	–	–	105
Share-based payments	1,801	2,971	2,971	2,971	900	1,801	900	2,971	90	108	90	17,574
Total emoluments	2,521	5,760	4,787	3,091	1,020	2,465	996	3,067	186	204	186	24,283

Note: The bonus is based on the performance of individuals and the entity.

No director waived any emoluments for the year ended 31 December, 2007.

10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

B. Employees' emoluments

During the year ended 31 December 2007, the 5 highest paid individuals included 3 Directors whose emoluments are disclosed in (A) above. The emoluments of the remaining 2 individuals are as follows:

	2007
	HKD'000
Salaries and other benefits	**1,655**
Retirement benefits schemes contributions	**53**
	1,708

Their emoluments were within the following bands:

	2007
	No. of employees
HKD0 to HKD1,000,000	**2**

During the year ended 31 December 2006, the 5 highest paid individuals were all Directors.

11. DIVIDENDS

	2007	2006
	HKD'000	HKD'000
2006 final dividend of HKD0.0613 per share (2006: 2005 final dividend of HKD0.0730 per share) paid	**106,867**	121,523
2007 interim dividend of HKD0.0328 per share (2006: HKD0.0300 per share) paid	**57,205**	49,941
	164,072	171,464

The 2007 final dividend of HKD0.0220 per share (2006: HKD0.0613 per share) has been proposed by the Directors and is subject to the approval by the shareholders of the Company in a general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to ordinary equity holders of the Company is based on the following data:

	2007	2006
EARNINGS		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	**HKD94,929,000**	HKD207,287,000
NUMBER OF SHARES		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,700,558,971**	1,664,704,773
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	**3,874,676**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,704,433,647**	1,664,704,773

No diluted earnings per share was presented for the year ended 31 December 2006 because the exercise price of the Company's options was higher than the average market price.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HKD'000	Buildings HKD'000	Leasehold improve-ments HKD'000	Plant and machinery HKD'000	Furniture, fixtures and equipment HKD'000	Motor vehicles HKD'000	Total HKD'000
COST OR VALUATION							
At 1 January 2006	5,619	107,818	50,152	171,185	17,590	12,675	365,039
Additions	–	49	5,507	36,821	5,829	2,104	50,310
Deficit arising on revaluation	–	(6,734)	–	–	–	–	(6,734)
Disposals	–	–	–	(8,874)	(48)	(623)	(9,545)
Write-off	–	–	–	(1,501)	–	–	(1,501)
Exchange realignment	241	3,534	1,283	5,391	414	326	11,189
At 31 December 2006	5,860	104,667	56,942	203,022	23,785	14,482	408,758
Additions	–	–	3,598	16,495	3,397	496	23,986
Surplus arising on revaluation	–	7,634	–	–	–	–	7,634
Disposals	–	–	–	(59)	(156)	(136)	(351)
Transfer to investment properties	–	(2,684)	–	–	–	–	(2,684)
Exchange realignment	14	4,324	1,981	8,031	518	525	15,393
At 31 December 2007	5,874	113,941	62,521	227,489	27,544	15,367	452,736
Comprising: At cost	–	–	62,521	227,489	27,544	15,367	332,921
At valuation – 2007	5,874	113,941	–	–	–	–	119,815
	5,874	113,941	62,521	227,489	27,544	15,367	452,736

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land HKD'000	Buildings HKD'000	Leasehold improve-ments HKD'000	Plant and machinery HKD'000	Furniture, fixtures and equipment HKD'000	Motor vehicles HKD'000	Total HKD'000
DEPRECIATION AND AMORTISATION							
At 1 January 2006	–	469	33,504	72,531	9,301	7,818	123,623
Provided for the year	–	4,272	8,306	20,167	2,583	1,739	37,067
Write back on revaluation	–	(4,174)	–	–	–	–	(4,174)
Eliminated on disposals	–	–	–	(7,022)	(28)	(343)	(7,393)
Eliminated on write-off	–	–	–	(250)	–	–	(250)
Exchange realignment	–	20	929	2,226	259	220	3,654
At 31 December 2006	–	587	42,739	87,652	12,115	9,434	152,527
Provided for the year	–	8,410	2,751	22,901	3,579	1,664	39,305
Write back on revaluation	–	(4,997)	–	–	–	–	(4,997)
Eliminated on disposals	–	–	–	(38)	(155)	(123)	(316)
Exchange realignment	–	1	1,570	3,262	359	365	5,557
At 31 December 2007	–	4,001	47,060	113,777	15,898	11,340	192,076
CARRYING VALUE							
At 31 December 2007	5,874	109,940	15,461	113,712	11,646	4,027	260,660
At 31 December 2006	5,860	104,080	14,203	115,370	11,670	5,048	256,231

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual value, on a straight-line basis at the following rates per annum:

Freehold land	0%
Buildings	2%-5%
Leasehold improvements	9%-45%
Plant and machinery	9%-45%
Furniture, fixtures and equipment	9%-20%
Motor vehicles	16%-20%

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The buildings of the Group located in PRC and Hong Kong were fair valued on 31 December 2007 and 2006 by Prudential Surveyors International Limited ("**Prudential**"), an independent firm of professional property valuers, Chartered Surveyors. Prudential is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The freehold land and building of the Group located in Taiwan was fair valued on 31 December 2007 and 2006 by Chia-Tai Real Estate Appraises Office ("**Chia-Tai**"), an independent firm of professional property valuers, Chartered Surveyors. Prudential and Chia-Tai are not connected with the Group. The revaluation of freehold land and buildings resulted in a surplus of HKD12,631,000 which was charged directly to the properties revaluation reserve.

The valuations above adopted a direct comparison approach with reference to market comparable sales evidences available in the market and where appropriate on the basis of capitalisation of the net income provided by management to valuer.

If the freehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical costs less accumulated depreciation of approximately HKD99,744,000 (2006: HKD105,456,000).

14. INVESTMENT PROPERTIES

	HKD'000
FAIR VALUE	
At 1 January 2006	75,000
Increase in fair value recognised in the consolidated income statement	5,000
At 31 December 2006	80,000
Additions	13,185
Transfer from property, plant and equipment	2,684
Transfer from prepaid lease payments	10,376
Increase in fair value recognised in the consolidated income statement	38,255
At 31 December 2007	144,500

The fair value of the Group's investment properties at 31 December 2007 and 2006 were arrived at on the basis of a valuation carried out on that date by Prudential. The valuation was arrived with reference to market comparable sales evidences available in the market and where appropriate on the basis of capitalisation of the net income provided by management to valuer.

14. INVESTMENT PROPERTIES (CONTINUED)

All of the Group's leasehold interests in land and building held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2007 and 2006, a large portion of the investment properties were rented out under operating leases.

Details of operating lease arrangements are set out in note 31.

The carrying value of investment properties shown above comprises:

	2007 HKD'000	2006 HKD'000
Land in Hong Kong:		
Long-term lease	5,600	–
Medium-term lease	138,900	80,000
	144,500	80,000

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007 HKD'000	2006 HKD'000
Leasehold land in Hong Kong:		
Medium-term lease	30,504	40,290
Long-term lease	–	1,333
Leasehold land outside Hong Kong:		
Held under medium-term lease	18,857	18,353
	49,361	59,976
Analysed for reporting purposes as:		
Non-current asset	48,155	58,504
Current asset	1,206	1,472
	49,361	59,976

16. DEPOSIT PAID FOR ACQUISITION OF PROPERTIES

At 31 December 2007 and 2006, a deposit was paid by the Group in connection with the acquisition of properties in Hong Kong.

17. GOODWILL

	HKD'000
COST	
At 1 January 2006, 31 December 2006 and 2007	57,477

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and sales of footwear products. For the purposes of impairment testing, goodwill set out in note 17 is attributed to 2 cash generating units ("**CGUs**"). The carrying amounts of goodwill as at 31 December 2007 and 2006 allocated to these units are as follows:

	2007 & 2006 HKD'000
Misto Worldwide Limited	55,109
Nice Well Holdings Limited	2,368
	57,477

Management of the Group has determined that there was no impairment of any of its CGUs containing goodwill as at 31 December 2007.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are the same and are summarised below:

The recoverable amounts of the CGUs have been determined based on value in use calculations. That value in use calculations use cash flow projections based on financial budgets approved by management covering a two-year period, and a discount rate of 12% (2006: 12%). Both subsidiaries' cash flows are extrapolated without application of any growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the units' past performance and management's expectations for the market development.

19. INVESTMENT IN AN ASSOCIATE

	2007 & 2006 HKD'000
Cost of investment in an associate – unlisted	26
Share of post-acquisition losses	(26)
	–

As at 31 December 2007 and 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Principal activity
Global Hero Group Limited	Incorporated	British Virgin Islands ("**BVI**")	Ordinary	33.46%	Dormant

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 HKD'000	2006 HKD'000
Cost of unlisted investments in jointly controlled entities *(note 1)*	178,923	223,868
Shareholders' loan to jointly controlled entities *(note 2)*	28,062	–
Share of post-acquisition net profits	39,445	75,239
Share of other post-acquisition reserves	2,765	693
	249,195	299,800

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

At 31 December 2007 and 2006, the Group had interests in the following jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation and operation	Class of share held	Proportion of of nominal value of issued capital indirectly held by the Group 2007	2006	Principal activities
Smart Shine Industries Limited ("**Smart Shine**")	Incorporated	BVI	Ordinary	50%	50%	Investment holding and footwear and ladies shoes trading
Grand Wealth Group Limited	Incorporated	BVI	Ordinary	50% *(note 3)*	50%	Investment holding and men's apparel marketing and trading
			Preferred	18% *(note 3)*	18%	
China Ocean Resources Limited ("**China Ocean**")	Incorporated	BVI	Ordinary	50%	50%	Investment holding, brand owner and footwear and apparel marketing and trading

Notes:

1. During the year, one of the jointly controlled entities, China Ocean, was transferred to Smart Shine in exchange for the equity interest of 18.8% of Full Pearl International Limited ("**Full Pearl**"), which was formerly under Smart Shine. It was subsequently classified as available-for-sales investments.

2. The shareholders' loan was unsecured and interest-bearing at 6% per annum and was denominated in USD. being foreign currency of the group entity.

3. The preferred shares shall have the same right and privileges to income as the ordinary shares in the proportion of 99:1.

The amounts due from/to jointly controlled entities are unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's foreign currency denominated amount due from/to jointly controlled entities at the reporting date are as follows:

	Amounts due from 2007 HKD'000	Amounts due from 2006 HKD'000	Amounts due to 2007 HKD'000	Amounts due to 2006 HKD'000
USD	**32,173**	1,510	**2,569**	501

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

The summarised financial information in respect of the Group's attributable interest in its jointly controlled entities which are accounted for using the equity method is set out below:

	2007 HKD'000	2006 HKD'000
Current assets	**189,212**	150,512
Non-current assets	**210,866**	195,678
Current liabilities	**(122,222)**	(42,118)
Non-current liabilities	**(28,661)**	(4,272)
Income	**72,758**	366,508
Expenses	**(135,017)**	(254,818)

21. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HKD'000	2006 HKD'000
Listed investments:		
– Equity securities listed in Hong Kong	**19**	20
– Equity securities listed outside Hong Kong	**2,493**	1,014
– Debentures listed outside Hong Kong with fixed interest ranging from 0% to 7.2% and maturity dates on 30 September 2013 and 15 December 2049	**2,093**	9,734
	4,605	10,768
Unlisted securities:		
– Equity securities *(note 20)*	**18,480**	–
– Debt securities	**–**	450
	18,480	450
Total	**23,085**	11,218

As at 31 December 2007, other than the unlisted equity securities, all available-for-sale investments were stated at fair value. Fair values were determined by reference to market bid prices quoted in relevant stock exchanges.

21. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The unlisted equity securities are securities issued by a private entity incorporated in BVI, which is engaged in retailing business in PRC. The equity securities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

Included in unlisted equity securities above is the Group's investment in Full Pearl, a company incorporated in BVI, which is engaged in retailing business in PRC with a carrying amount of approximately HKD18,480,000 (2006: HKD0). The investment represents a 18.8% holding of the ordinary shares of Full Pearl.

22. STRUCTURED DEPOSITS

As at 31 December 2007 and 2006, the Group held 2 bank structured deposits denominated in USD (foreign currency of the group entity), the major terms of the structured deposits are as follows:

Principal amount	Maturity date	Applicable Interest rate
USD 5,000,000	17 May 2009	7.56% per annum for the first year and thereafter, the preceding interest rate plus 2% to 5% per annum minus 6 months LIBOR
USD 3,000,000	15 December 2009	8.38% per annum for the first half year and thereafter, the maximum of 1.5% and the preceding interest rate plus 2% to 6% per annum minus 6 months LIBOR

The issuer has the right to call these structured deposits at principal amount plus accrued interest at any time before the maturity dates.

The structured deposits are a hybrid instrument containing a debt host contract and embedded derivative instruments in which the interest income is determined based on the changes in LIBOR. The structured deposits also contain an early redemption option by the issues. As such, the hybrid instrument is designated at fair value through profit or loss.

The fair value of the USD5,000,000 structured deposit is determined based on a professional valuation carried out by an independent valuer using discounted cash flow method based on applicable interest rate obtained from the market at the balance sheet date.

The USD3,000,000 structured deposit is measured at fair value based on the valuation provided by the banks.

23. INVENTORIES

	2007 HKD'000	2006 HKD'000
Raw materials	82,253	97,452
Work in progress	59,308	52,661
Finished goods	136,158	96,447
	277,719	246,560

24. TRADE AND OTHER RECEIVABLES

	2007 HKD'000	2006 HKD'000
Trade receivables	278,209	271,495
Less: allowance for doubtful debts	(9,070)	(25,000)
	269,139	246,495
Other receivables, deposits and prepayment	89,178	59,453
Total trade and other receivable	358,317	305,948

The Group allows an average credit period ranging from 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2007 HKD'000	2006 HKD'000
0 to 30 days	154,927	163,254
31 to 60 days	71,142	32,224
61 to 90 days	22,393	16,807
Over 90 days	20,677	34,210
	269,139	246,495

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 80% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HKD20,677,000 (2006: HKD34,210,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 120 days (2006: 120 days).

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of trade receivables which are past due but not impaired

	2007 HKD'000	2006 HKD'000
Over 90 days	**20,677**	34,210

Movement in the allowance for doubtful debts

	2007 HKD'000	2006 HKD'000
Balance at beginning of the year	**25,000**	21,700
Impairment losses recognised on receivables	**50**	3,300
Impairment losses reversed	**(15,980)**	–
Balance at end of the year	**9,070**	25,000

The carrying amounts of the Group's foreign currency denominated trade receivables and other receivables at the reporting date are as follows:

	2007 HKD'000	2006 HKD'000
USD	**256,228**	249,473

25. HELD FOR TRADING INVESTMENTS

	2007 HKD'000	2006 HKD'000
Held for trading investments include:		
Listed equity securities in Hong Kong	**428**	–

26. BANK BALANCES AND CASH

The bank balances carried interest at prevailing market rates which ranged from 0.72% to 2.25% (2006: 0.72% to 2.82%) during the year. The time deposits carry fixed interest rates ranging from 3.07% to 5.16% (2006: 3.25% to 5.27%).

The carrying amounts of the Group's foreign currency denominated bank balances and cash at the reporting date are as follows:

	2007	2006
	HKD'000	HKD'000
USD	**348,938**	521,548

27. TRADE AND OTHER PAYABLES

	2007	2006
	HKD'000	HKD'000
Trade payables	**255,618**	242,677
Other payables, temporary receipt and accruals	**165,423**	203,090
	421,041	445,767

The following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	HKD'000	HKD'000
0 to 30 days	**113,830**	102,313
31 to 60 days	**85,577**	76,592
61 to 90 days	**25,029**	20,083
Over 90 days	**31,182**	43,689
	255,618	242,677

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

The carrying amounts of the Group's foreign currency denominated trade and other payables at the reporting date are as follows:

	2007	2006
	HKD'000	HKD'000
USD	**93,400**	83,228

28. DEFERRED TAX

The following table shows the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Revaluation of buildings HKD'000	Accelerated tax depreciation HKD'000	Allowance for bad and doubtful debts HKD'000	Unrealised profit on inventories HKD'000	Tax losses HKD'000	Total HKD'000
At 1 January 2006	2,073	5,555	(2,985)	(778)	(1,771)	2,094
Charge (credit) to income	–	1,604	(576)	632	(8,628)	(6,968)
Charge to equity for the year	(508)	–	–	–	–	(508)
At 31 December 2006	1,565	7,159	(3,561)	(146)	(10,399)	(5,382)
Charge (credit) to income	–	7,844	2,422	(162)	520	10,624
Credit to equity for the year	1,857	–	–	–	–	1,857
At 31 December 2007	**3,422**	**15,003**	**(1,139)**	**(308)**	**(9,879)**	**7,099**

At 31 December 2007, the Group had unused tax losses of HKD92,481,000 (2006: HKD77,186,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HKD56,448,000 (2006: HKD59,424,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of HKD36,033,000 (2006: HKD17,762,000) due to the unpredictability of future profit streams. All the tax losses may be carried forward indefinitely.

The Group also had no deductible temporary differences (2006: HKD6,015,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it was not probable that taxable profit will be available against which these deductible temporary differences can be utilised for the year ended 31 December 2006.

The following table is the analysis of the deferred tax balances for financial reporting purposes:

	2007 HKD'000	2006 HKD'000
Deferred tax assets	(11,326)	(14,106)
Deferred tax liabilities	18,425	8,724
	7,099	(5,382)

29. SHARE CAPITAL OF THE COMPANY

	Number of shares 2007	Amount 2007 HKD'000
Authorised:		
At 1 January 2006 and 31 December 2007, at HKD0.25 each	8,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2006 and 2007, at HKD0.25 each	1,664,704,773	416,176
Exercise of share options	79,340,000	19,835
At 31 December 2007, at HKD0.25 each	**1,744,044,773**	**436,011**

30. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 22 October 2001, the Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All Directors, full-time employees and any other persons who, at the sole discretion of the Board, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option schemes adopted by the Company in any twelve-month period must not exceed 1% of the shares of the Company in issue.

30. SHARE OPTION SCHEME (CONTINUED)

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HKD1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by The Exchange for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the Board at the time the option is offered to the participants.

No options may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

On 2 August 2006, the Company granted 166,050,000 share options to eligible participants at an exercise price of HKD1.032 pursuant to the 2001 Scheme. The following table discloses details of the options held by Directors, employees and a consultant and movements in such holding during the year ended 31 December 2007:

				Number of share options			
Name	Date of grant	Exercisable period	Exercise price per share	outstanding at 1.1.2007	exercised during the year	lapsed during the year	outstanding at 31.12.2007
Category I:							
Directors	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	97,600,000	(54,000,000)	–	43,600,000
Category II:							
Employees	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	67,450,000	(25,340,000)	(1,500,000)	40,610,000
Category III:							
Consultant	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	1,000,000	–	–	1,000,000
				166,050,000	(79,340,000)	(1,500,000)	85,210,000

30. SHARE OPTION SCHEME (CONTINUED)

The consultant rendered consultancy service with regard to the setting up and management of the PRC operations of the Group. The Group granted share options to him for recognising his service similar to those rendered by other employees.

The following table discloses details of the 2001 Scheme held by Directors, employees and a consultant and movements in such holdings during the year ended 31 December 2006:

				Number of share options			
Name	**Date of grant**	**Exercisable period**	**Exercise price per share**	**outstanding at 1.1.2006**	**granted during the year**	**expired during the year**	**outstanding at 31.12.2006**
Category I:							
Directors	9.1.2004	7.2.2004 – 6 .2.2006	HKD1.91	32,889,672	–	(32,889,672)	–
	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	–	97,600,000	–	97,600,000
Category II:							
Employees	9.1.2004	7.2.2004 – 6.2.2006	HKD1.91	42,380,376	–	(42,380,376)	–
Employees	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	–	67,450,000	–	67,450,000
Category III:							
Consultant	2.8.2006	1.9.2006 – 31.8.2009	HKD1.032	–	1,000,000	–	1,000,000
				75,270,048	166,050,000	(75,270,048)	166,050,000

For the year ended 31 December 2006, the fair value of the option granted on 2 August 2006 was valued at HKD29,900,000 using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	HKD1.03
Exercise price	HKD1.03
Expected volatility	43%
Expected life	3.08 years
Risk-free rate	4.34%
Expected dividend yield	7%

30. SHARE OPTION SCHEME (CONTINUED)

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

No expense (2006: HKD29,900,000) was recognised by the Group for the year ended 31 December 2007 in relation to share options granted by the Company.

31. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases for plants during the year was HKD28,682,000 (2006: HKD24,409,000).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of plants under non-cancellable operating leases which fall due as follows:

	2007 HKD'000	2006 HKD'000
Within one year	18,207	25,161
In the second to fifth year inclusive	17,880	33,114
	36,087	58,275

Operating lease payments represent rentals payable by the Group for certain of its plants. Leases are negotiated and rentals are fixed for original terms ranging from two to five years.

The Group as lessor

Property rental income earned during the year was approximately HKD2,206,000 (2006: HKD1,833,000). All of the Group's properties are held for rental purposes. The properties held for rental purposes have committed tenants for the next year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007 HKD'000	2006 HKD'000
Within one year	1,701	2,189
In the second to fifth year inclusive	–	2,001
	1,701	4,190

32. CAPITAL COMMITMENT

As at 31 December 2007, capital expenditure in respect of the acquisition of property, plant and equipment and investment properties contracted for but not provided in the consolidated financial statements amounted to HKD82,830,000 (2006: HKD4,755,000).

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "**MPF Scheme**") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

34. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the year, the Group entered into the following transactions with its jointly controlled entities:

Nature of transactions	**2007 HKD'000**	2006 HKD'000
Sales	**51,163**	–
Advertising charge	**(1,964)**	–
Purchase of fixed asset	**(67)**	–
Interest income	**538**	2,409
Management fee income	**772**	1,634
Royalty fee charge	**(1,609)**	–

34. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2007 HKD'000	2006 HKD'000
Short-term benefits	11,951	12,030
Post-employment benefits	325	277
Share-based payments	–	23,157
	12,276	35,464

The remuneration of Directors and key executives is determined by the Directors having regard to the performance of individuals and market trends.

35. SUMMARISED BALANCE SHEET OF THE COMPANY

The following is the summarised balance sheet of the Company as at 31 December 2007:

	2007 HKD'000	2006 HKD'000
Investments in subsidiaries	988	988
Other receivables	2,147	1,259
Amounts due from subsidiaries	583,294	444,541
Bank balances and cash	374,859	490,106
	961,288	936,894
Other payables	409	1,246
Amount due to a subsidiary	22,535	–
	22,944	1,246
	938,344	935,648
Capital and reserves		
Share capital	436,011	416,176
Reserves *(Note)*	502,333	519,472
	938,344	935,648

35. SUMMARISED BALANCE SHEET OF THE COMPANY (CONTINUED)

Note:

(a) Reserves

	Share premium HKD'000	Contributed surplus HKD'000	Share options reserve HKD'000	Retained profits/ (Accumulated losses) HKD'000	Total HKD'000
At 1 January 2006	288,308	63,561	–	168,648	520,517
Profit for the year	–	–	–	140,519	140,519
Dividends paid	–	–	–	(171,464)	(171,464)
Recognition of equity-settled share-based payments	–	–	29,900	–	29,900
At 31 December 2006	288,308	63,561	29,900	137,703	519,472
Profit for the year	–	–	–	84,890	84,890
Dividends paid	–	–	–	(164,072)	(164,072)
Exercises of share options	76,330	–	(14,557)	270	62,043
At 31 December 2007	**364,638**	**63,561**	**15,343**	**58,791**	**502,333**

The contributed surplus of the Company represents the excess of the fair value of the shares of the acquired subsidiaries and the nominal amount of the Company's shares issued for the acquisition at the time of the Group reorganisation on 9 February 1995.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Paid up/ issue/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			directly	indirectly	
Canray Int'l Limited	BVI	Ordinary USD1	–	100%	Footwear trading
Cashmaster Profits Limited	BVI	Ordinary USD1	–	100%	Footwear trading
Chi Yuen Developments Limited	BVI/PRC	Ordinary USD1	–	100%	Footwear manufacturing
Cosmo Group Holdings Limited	BVI	Ordinary USD10,000	100%	–	Investment holding
Continuance Enterprises Limited	BVI	Ordinary USD1	–	100%	Investment holding
廣州番禺興泰鞋業有限公司	PRC (Co-operative joint venture)	Registered capital RMB68,260,876	–	92.78%	Footwear manufacturing
Fuqing Grand Galatica	PRC (Wholly foreign owned enterprise)	Registered capital USD700,000	–	100%	Footwear manufacturing
Holey Trading Limited	Hong Kong	Ordinary HKD2	–	100%	Footwear trading
Liang Shing Industries Limited	Hong Kong	Ordinary HKD72,000 Non-voting deferred (note) HK1,428,000	–	100%	Provision of management services
Liang Shing Industries (HK) Limited	Hong Kong	Ordinary HKD10,000	–	100%	Footwear marketing and trading
Lucky Port Trading Limited	Hong Kong	Ordinary USD2	–	100%	Footwear marketing and trading
Misto Worldwide Limited	BVI	Ordinary USD1	–	100%	Investment holding

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Paid up/ issued/ registered share capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			directly	indirectly	
Nice Well Holdings Limited	BVI	Ordinary USD50,000	–	80%	Investment holding
Power Plus Limited	BVI	Ordinary USD1	–	100%	Investment holding
Stateway Enterprises Limited	BVI	Ordinary USD1	–	100%	Footwear Trading
Sunrise Footwear Limited	Macau	MOP1,000,000	–	100%	Footwear manufacturing
Takson Asia Limited	Hong Kong	Ordinary HKD10,000	–	100%	Footwear purchasing
Uprise Group Limited	BVI	Ordinary USD50,000	–	80%	Footwear manufacturing
Zenith Billion Trading Limited	Hong Kong	Ordinary HKD2	–	100%	Footwear trading
中山精美鞋業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital USD21,500,000	–	100%	Footwear manufacturing
中山華利企業有限公司	PRC (Wholly foreign owned enterprise)	Registered capital USD2,500,000	–	100%	Footwear manufacturing
邦威(越南)企業有限公司	Vietnam (Wholly foreign owned enterprise)	Paid up capital VND32,969,341,000	–	100%	Footwear manufacturing

Note: The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividend and are, on a winding-up, only entitled out of the surplus assets of the Company, to a return of the capital after a total sum of HKD100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company.

None of the subsidiaries had issued any debt security at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particular of excessive length.

FINANCIAL SUMMARY

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HKD'000	HKD'000	HKD'000	HKD'000	**HKD'000**
Results					
Turnover	1,183,648	1,447,851	1,852,511	1,861,604	**1,849,207**
Profit before tax	275,244	187,582	257,635	222,172	**116,252**
Income tax expense	(16,100)	(16,807)	(21,888)	(7,444)	**(18,216)**
Profit for the year	259,144	170,775	235,747	214,728	**98,036**
Attributable to:					
Equity holders of the Company	256,763	163,760	215,950	207,287	**94,929**
Minority interests	2,381	7,015	19,797	7,441	**3,107**
	259,144	170,775	235,747	214,728	**98,036**

	As at 31 December				
	2003	2004	2005	2006	**2007**
	HKD'000	HKD'000	HKD'000	HKD'000	**HKD'000**
Assets and Liabilities					
Total assets	1,170,909	1,411,275	1,915,451	2,023,750	**2,057,715**
Total liabilities	(331,494)	(470,073)	(480,290)	(505,171)	**(501,677)**
	839,415	941,202	1,435,161	1,518,579	**1,556,038**
Equity attributable to equity holders of parent	820,103	914,729	1,404,891	1,480,868	**1,520,668**
Minority interests	19,312	26,473	30,270	37,711	**35,370**
	839,415	941,202	1,435,161	1,518,579	**1,556,038**

PARTICULARS OF MAJOR PROPERTIES

(A) PROPERTIES HELD AS PROPERTY, PLANT AND EQUIPMENT

Name/location	Lease term	Gross floor area (sq.ft.)	Use	Effective % held
Unit Nos. 1 to 10 on the 10/F of Island Place Tower, No. 510 King's Road, North Point, Hong Kong	Medium	20,090	Commercial	100
Unit 16-3, Lane 73, Rau Ping Road, Tsyh Torng, Yun Lin Hsien, Taiwan, R.O.C.	Long	43,446	Industrial land	100
Land and factory complex at Zhangjiabian Village, Huoju Development Zone, Zhangshan City, Guangdong Province, the People's Republic of China	Medium	2,019,511	Factory and staff quarters	100

(B) PROPERTIES HELD AS INVESTMENT PROPERTIES

Name/location	Lease term	Gross floor area (sq.ft.)	Use	Effective % held
Unit Nos. 1 to 10 on the 3/F of Island Place Tower, No. 510 King's Road, North Point, Hong Kong	Medium	20,090	Commercial	100
Flat E on 8/F, One Island Place, No. 51 Tanner Road, North Point, Hong Kong	Medium	975	Residential	100

(B) PROPERTIES HELD AS INVESTMENT PROPERTIES (CONTINUED)

Name/location	Lease term	Gross floor area (sq.ft.)	Use	Effective % held
Flat G on 18/F, One Island Place, No. 51 Tanner Road, North Point, Hong Kong	Medium	1,013	Residential	100
Flat E on 11/F, Two Island Place, No. 55 Tanner Road, North Point, Hong Kong	Medium	975	Residential	100
Flat D, 8/F, Three Island Place, No. 61 Tanner Road, North Point, Hong Kong	Medium	597	Residential	100
Flat No. 702, 7/F, Block B, Healthy Gardens, No. 560 King's Road, North Point, Hong Kong	Medium	514	Residential	100
Portion B on 5/F, No. 32 Hung To Road, Kwun Tong, Kowloon	Medium	4,462	Industrial	100
Unit C, 2/F, Hop Ming Factory Building, No. 8 On Yip Street, Chai Wan, Hong Kong	Long	4,864	Industrial	100

INFORMATION TO STAKEHOLDERS
利益相關者資訊

SHAREHOLDERS' MEETING

Details of the Annual General Meeting including shareholders' right to demand a poll are set out in the Notice of Annual General Meeting to be sent to Shareholders together with a proxy form on or before 30 April 2008.

Date: Thursday, 12 June 2008
Time: 9.30a.m.
Venue: 10/F, Island Place Tower, 510 King's Road
North Point, Hong Kong

DIVIDEND

Final dividend: HKD0.022 per ordinary share
Book close period: Thursday, 5 June 2008 to Friday, 6 June 2008
Payment date for final dividend: on or about Friday, 4 July 2008

CLOSURE OF REGISTER OF MEMBERS

In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 June 2008.

ANNUAL REPORT

The Annual Report containing financial statements and notes to the financial statements for the year ended 31 December 2007 is published on both the websites of the Company (www.symphonyholdings.com) and the Exchange (www.hkex.com.hk).

REGISTERED OFFICE

Address: Clarendon House, 2 Church Street, Hamilton
HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Address: 10/F, Island Place Tower, 510 King's Road
North Point, Hong Kong
Email: info@symphonyholdings.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Name: The Bank of Bermuda Limited
Address: 6 Front Street, Hamilton HM11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Name: Tricor Tengis Limited
Address: 26/F, Tesbury Centre, 28 Queen's Road East
Wanchai, Hong Kong
Telephone: (852) 2980 1333
Fascmile: (852) 2810 8185

STOCK CODE

Exchange: 01223

股東周年大會

股東周年大會有關詳情(包括股東可要求按股數投票方式表決之權利)連同股東代表委任表格載於2008年4月30日或以前寄予股東的股東周年大會通告內。

日期：2008年6月12日星期四
時間：上午9時30分
地點：香港北角英皇道510號港運大廈10樓

股息

期末股息：每普通股 0.22港元
暫停過戶期限:2008年6月5日星期四至2008年6月6日星期五
期末股息派付日期：約於2008年7月4日星期五

暫停辦理股份過戶登記

股東如欲獲派付期末股息，最遲須於2008年6月4日星期三下午4時30分以前，將所有過戶文件及相關股票一拼交回本公司的香港股份過戶登記處卓佳登捷時有限公司，地址為香港灣仔皇后大道東28號金鐘匯中心26樓。

年報

載有截至2007年12月31日止年度的本公司財務報表及財務報表附註的年報，分別以英文及中文編製，已於本公司網頁(www.symphonyholdings.com)及聯交所網頁(www.hkex.com.hk)刊載。

註冊辦事處

地址： Clarendon House, 2 Church Street, Hamilton
HM11, Bermuda

總辦事處及香港主要營業地點

地址：香港北角英皇道510號港運大廈10樓

電郵：info@symphonyholdings.com

主要股份過戶登記處

名稱：The Bank of Bermuda Limited
地址：6 Front Street, Hamilton HM11, Bermuda

股份過戶登記處香港分處

名稱：卓佳登捷時有限公司
地址：香港灣仔皇后大道東28號金鐘匯中心26樓

電話：(852) 2980 1333
傳真：(852) 2810 8185

股份代號

聯交所：01223