

Directors' Report

SYMPHONY HOLDINGS LIMITED



SYMPHONY

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 27 of the annual report.

An interim dividend of HK\$0.028 per share amounting to HK\$31,074,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK\$0.072 per share to the shareholders on the register of members on 10th May, 2005, amounting to approximately HK\$79,906,000.

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at 31st December, 2004. The revaluation resulted in a surplus amounting to HK\$23,821,000 of which HK\$7,907,000 has been credited directly to the consolidated income statement and HK\$15,914,000 has been credited directly to the revaluation reserve.

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

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2004 were revalued by an independent firm of professional property valuers on an open market value basis. The revaluation resulted in a surplus over book value amounting to HK\$24,390,000, which has been credited directly to the consolidated income statement.

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

SHARE CAPITAL

Details of movements during the year in the Company's share capital are set out in note 21 to the financial statements.

Directors' Report

DIRECTORS

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

Executive directors:

Mr. Li Kwok Lung, Alfred Ronald
(Chairman)

Mr. Sze Sun Sun, Tony
(Deputy Chairman and
Managing Director)

Mr. Chang Tsung Yuan
(Deputy Chairman)

Mr. Ku Edward Y.

Mr. Chan Lu Min

Mr. Chan Ting Chuen

(appointed as Managing Director
on 1st February, 2005)

(appointed on 1st February, 2005)

(resigned as Managing Director
on 1st January, 2005)

Non-executive directors:

Mr. Li I Nan

Mr. Chan Ting Chuen

(redesignated from executive director
to non-executive director on 1st January, 2005)

Independent non-executive directors:

Mr. Cheng Kar Shing

Mr. Feng Lei Ming

Mr. Ho Shing Chak

(appointed on 30th December, 2004)

In accordance with the bye-laws of the Company, Messrs. Chan Lu Min, Chan Ting Chuen and Li I Nan will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

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

As at 31st December, 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

(1) Long positions

Ordinary shares of HK\$0.25 each of the Company

Name of director	Note	Number of ordinary shares held			Percentage of the issued share capital of the Company
		Beneficial owner	Held by controlled corporation	Total	
Chan Ting Chuen	1	6,600,000	699,629,240	706,229,240	63.64%
Sze Sun Sun, Tony	1	9,899,934	699,629,240	709,529,174	63.93%
Li Kwok Lung, Alfred Ronald		12,159,945	–	12,159,945	1.10%

(2) Short positions

Other than as disclosed above, none of the directors nor chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2004.

Note:

- Well Success Investment Limited ("Well Success") had a direct interest in 559,703,240 shares of the Company and was deemed to be interested in the 139,926,000 shares of the Company held by Ko Shing Limited by virtue of section 317 of the SFO with regards to the subscription agreement entered into between the Company, Ko Shing Limited and Mr. Chang Tsung Yuan ("Mr. Chang") on 27th May, 2003.

First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") held more than one-third of the issued share capital of First Dynamic. Mr. Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific and was deemed to be interested in 699,629,240 shares of the Company.

Alexon International Limited ("Alexon International") held more than one-third of the issued share capital of First Dynamic. Mr. Sze Sun Sun, Tony was interested in the entire issued share capital of Alexon International and was deemed to be interested in 699,629,240 shares of the Company.

Directors' Report

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

(2) Short positions (Continued)

Save as disclosed above, as at 31st December, 2004, to the knowledge of the Company, none of the directors, the chief executives of the Company had or was deemed to have any interests or short position in any shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors and the chief executives are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SHARE OPTIONS

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

The following table discloses movements of the Company's share options under the 2001 Scheme during the year:

Category I: Director	Date of grant	Number of share options				
		Granted during the year	Exercised during the year	Cancelled during the year	Adjustment during the year	Outstanding at 31.12.2004
Mr. Chan Ting Chuen	9.1.2004	6,000,000	(6,000,000)	–	–	–
Mr. Chan Lu Min	9.1.2004	9,500,000	–	–	949,896	10,449,896
Mr. Cheng Kar Shing	9.1.2004	300,000	–	–	29,997	329,997
Mr. Feng Lei Ming	9.1.2004	300,000	–	–	29,997	329,997
Mr. Li Kwok Lung, Alfred Ronald	9.1.2004	5,000,000	–	–	499,945	5,499,945
Mr. Sze Sun Sun, Tony	9.1.2004	9,000,000	(3,000,000)	–	599,934	6,599,934
		30,100,000	(9,000,000)	–	2,109,769	23,209,769
Category II: Employees						
Other employees	9.1.2004	51,060,000	(3,232,000)	(549,995)	4,782,274	52,060,279

The closing price of the Company's shares immediately before 9th January, 2004, the date of grant of the share options under the 2001 Scheme, was HK\$2.03. The exercise price of the share options exercised during the year was HK\$2.10 per share.

Directors' Report

SHARE OPTIONS (Continued)

On 12th May, 2004, the Company made a bonus issue on the basis of one new ordinary share of HK\$0.25 each in the capital of Company, credited as fully paid, for every ten shares then held as set out in note 21(c) to the financial statements. Accordingly, the exercise price and the number of share options were adjusted.

The directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "Share Options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31st December, 2004, the persons or companies (not being a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

(1) Long positions

Ordinary shares of HK\$0.25 each of the Company

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	
Well Success	1	Beneficial owner	559,703,240	139,926,000	63.04%
First Dynamic	1	Held by controlled corporation	–	699,629,240	63.04%
Alexon International	1	Held by controlled corporation	–	699,629,240	63.04%
Royal Pacific	1	Held by controlled corporation	–	699,629,240	63.04%
Frensham Investments Limited ("Frensham")	2	Held by controlled corporation	–	699,629,240	63.04%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)")	2	Held by controlled corporation	–	699,629,240	63.04%
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	–	699,629,240	63.04%
Pou Hing Industrial Company Limited ("Pou Hing Company")	2	Held by controlled corporation	–	699,629,240	63.04%

Directors' Report

SUBSTANTIAL SHAREHOLDERS (Continued)

(1) Long positions (Continued)

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	2	Held by controlled corporation	–	699,629,240	63.04%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	–	699,629,240	63.04%
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	–	699,629,240	63.04%
Madam Lau Yuk Wah	3	Held by controlled corporation	–	709,529,174	63.93%
Madam Ng Shuk Fong	3	Held by controlled corporation	–	706,229,240	63.64%
Ko Shing Limited	4	Beneficial owner	139,926,000	–	12.61%
Mr. Chang Tsung Yuan ("Mr. Chang")	4	Held by controlled corporation	–	139,926,000	12.61%
Madam Chou Mei Yueh	4	Held by controlled corporation	–	139,926,000	12.61%
Government of Singapore Investment Corporation Pte. Ltd.		Investment Manager	56,306,000	–	5.07%

Directors' Report

SUBSTANTIAL SHAREHOLDERS (Continued)

(2) Short positions

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2004.

Notes:

1. Well Success was directly interested in 559,703,240 shares of the Company and deemed to be interested in 139,926,000 shares of the Company held by Ko Shing Limited pursuant to section 317 of the SFO with regards to the subscription agreement entered into among Symphony Holdings Limited, Ko Shing Limited and Mr. Chang on 27th May, 2003.

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

Accordingly, Well Success, First Dynamic, Royal Pacific and Alexon were deemed to be interested in 699,629,240 shares of the Company.

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

Accordingly, Frensham, Pou Yuen (Holdings), Yue Yuen Industrial, Pou Hing Company, Yue Yuen, Wealthplus and Pou Chen were deemed to be interested in 669,629,240 shares of the Company.

3. Madam Lau Yuk Wah is the wife of Mr. Sze Sun Sun, Tony and was deemed to be interested in 709,529,174 shares of the Company. Madam Ng Shuk Fong is the wife of Mr. Chan Ting Chuen and was deemed to be interested in 706,229,240 shares of the Company.
4. Ko Shing Limited had a direct interest in 139,926,000 shares. Mr. Chang was interested in the entire issued share capital of Ko Shing Limited and was deemed to be interested in the 139,926,000 shares of the Company. Madam Chou Mei Yueh is the wife of Mr. Chang and was deemed to be interested in 139,926,000 shares of the Company.

Save as disclosed above, the directors are not aware of any other person or companies (not being a director or chief executive of the Company) who, at 31st December, 2004, had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 89% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 35% of the Group's total sales.

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

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

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

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the Company's independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the provisions of the Company's bye-laws.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding securities transactions by directors.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

On 30th December, 2004, the Company appointed one additional independent non-executive director to comply with Rule 3.10(1) and (2) and 3.21 of the Listing Rules so that there are sufficient number of independent non-executive directors in the board and in the audit committee.

Directors' Report

AUDIT COMMITTEE

The Company has appointed three independent non-executive directors and one non-executive director of the Company as members of the audit committee to assist the board of directors in fulfilling its duties by providing review and supervision of the Company's financial reporting process and internal controls. The audit committee has reviewed the Group's annual results.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately HK\$130,000 (2003: HK\$110,000).

EMOLUMENT POLICY

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

The emoluments of the Company's directors are decided by the board of directors, as authorised by shareholders at the annual general meeting, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

DISCLOSEABLE TRANSACTION

On 12th July, 2004, the Group entered into a sales and purchase agreement to acquire the entire interest in Misto Worldwide Limited ("MWL"). After the acquisition, MWL becomes an indirect wholly owned subsidiary of the Company. MWL is an investment holding company holding interests in four wholly-owned operating subsidiaries which are engaged in the business of trading, marketing and manufacture of footwear in the People's Republic of China. The acquisition included the acquisition of these four wholly-owned operating subsidiaries.

The total consideration for the acquisition was US\$9,109,358, equivalent to approximately HK\$70,961,000, which was satisfied by payment in cash. The transaction was completed on 23rd July, 2004.

Directors' Report

AUDITORS

Messrs. Ernst & Young acted as auditors of the Company for the year ended 31st December, 2002 while Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company thereafter. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors.

On behalf of the Board

LI KWOK LUNG, ALFRED RONALD

Chairman

Hong Kong, 7th April, 2005