

Directors' Report

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30th September, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacture and marketing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 30th September, 2001 are set out in the consolidated income statement on page 33 of the annual report.

An interim dividend of 40 Hong Kong cents per share was paid during the year. The directors recommend a final dividend of 60 Hong Kong cents per share.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 79 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the issued share capital and share options of the Company are set out in notes 27 and 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties at 30th September, 2001 were revalued by an independent firm of professional property valuers on an open market value basis. Details of movements in the investment properties of the Group during the year are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately US\$80 million for construction of new factory buildings, dormitories, staff quarters and accommodation facilities, mainly in the People's Republic of China (the "PRC") and Vietnam. The Group also invested approximately US\$16 million in new land and buildings and approximately US\$81 million to fund the acquisition of plant and equipment for the Group's business as well as the improvement of the existing recreational and welfare facilities for employees in the PRC, Indonesia and Vietnam.

In addition, the Group transferred from buildings under construction in the amount of US\$11 million to hotel properties and incurred further costs of approximately US\$5 million during the year for the purpose of fitting out the hotel properties.

These and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's principal subsidiaries, the Group's principal associates and jointly controlled entities at 30th September, 2001 are set out in notes 40, 41 and 42 to the financial statements respectively.

BORROWINGS

Bank borrowings of the Group and the Company which are repayable within one year or on demand are classified as current liabilities as set out in note 22 to the financial statements. A repayment analysis of bank and other borrowings is set out in notes 23 and 24 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately US\$0.2 million.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Tsai Chi Neng (*Chairman*)

David N.F. Tsai (*Managing Director*)

Li I Nan, Steve

Kung Sung Yen

Lu Chin Chu

Kuo Tai Yu

Edward Y. Ku

Chan Lu Min

(appointed on 7th March, 2001)

Lu Shang Ping

(resigned on 7th March, 2001)

Non-executive directors:

Choi Kwok Keung (*Vice Chairman*)

Shih Hung*

John J.D. Sy*

Nee, Mary Yuet So

(appointed on 7th March, 2001)

Yang Xiang-Dong

(resigned on 7th March, 2001)

* *Independent non-executive directors*

In accordance with clause 87 of the Company's Bye-laws, Messrs. Edward Y. Ku, Chan Lu Min and Nee, Mary Yuet So, retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive directors is the period up to his retirement as required by the Company's Bye-laws.

None of the 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' INTERESTS IN SECURITIES

As at 30th September, 2001, the interests of directors in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Tsai Chi Neng	–	–	–	–
David N.F. Tsai	–	–	–	–
Li I Nan, Steve	–	–	–	–
Kung Sung Yen	–	–	–	–
Lu Chin Chu	–	–	–	–
Kuo Tai Yu	–	–	–	–
Edward Y. Ku	–	–	–	–
Chan Lu Min	123,000	–	–	–
Choi Kwok Keung	–	–	–	21,020,560 (note)
Shih Hung	–	–	–	–
John J.D. Sy	–	–	–	–
Nee, Mary Yuet So	10,000	–	–	–

Note: 15,180,000, 2,920,280 and 2,920,280 ordinary shares were held by Hearty Choice Limited, Golden Path Company Limited and Grand Scope Company Limited respectively, all of which were ultimately held by HSBC International Trustee Limited as trustee for a discretionary trust. The discretionary objects of the trust include children of Mr. Choi Kwok Keung.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Choi Kwok Keung in trust for the Group, none of the directors nor any of their associates had any interest as at 30th September, 2001 in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Company's share option scheme, certain directors of the Company have personal interests in share options to subscribe for shares in the Company as follows:

Name of director	Date of grant	Exercise price per share <i>HK\$</i>	Number of share options		
			Outstanding at 1.10.2000	Exercised during the year	Outstanding at 30.9.2001
Tsai Chi Neng	28.4.1993	6.35	7,700,000	7,700,000	–
David N.F. Tsai	12.12.1996	10.22	6,000,000	–	6,000,000
Li I Nan, Steve	28.4.1993	6.35	1,466,666	–	1,466,666
Kung Sung Yen	12.12.1996	10.22	2,500,000	–	2,500,000
Lu Chin Chu	12.12.1996	10.22	2,500,000	–	2,500,000
Kuo Tai Yu	12.12.1996	10.22	2,500,000	–	2,500,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate. Similarly, none of the spouses or children under the age of 18 of the directors had any rights to subscribe for securities of the Company or had exercised any such rights during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons, in addition to the directors as stated under "Directors' interests in securities", are interested in 10% or more of the nominal value of the issued ordinary shares of the Company.

Name of shareholder	Notes	Number of ordinary shares beneficially held
Pou Chen Corporation ("PCC")	<i>(a)</i>	292,240,350
Wealthplus Holdings Limited ("Wealthplus")	<i>(a)</i>	266,231,581
Max Creation Industrial Limited ("Max Creation")	<i>(b)</i>	174,682,750
Quicksilver Profits Limited ("Quicksilver")	<i>(b)</i>	89,747,411
Red Hot Investments Limited ("Red Hot")	<i>(b)</i>	76,233,720
World Future Investments Limited ("World Future")	<i>(c)</i>	174,682,750
Mr. Tsai Chi Jui	<i>(c)</i>	174,682,750

Notes:

- (a) Of the 292,240,350 ordinary shares beneficially owned by PCC, 266,231,581 ordinary shares were held by Wealthplus as listed above, 23,911,169 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune") and 2,097,600 ordinary shares were held by Top Score Investments Limited ("Top Score"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC and Top Score is a 97.63% owned subsidiary of PCC.
- (b) Of the 174,682,750 ordinary shares beneficially owned by Max Creation, 89,747,411 ordinary shares were held by Quicksilver, 76,233,720 ordinary shares were held by Red Hot (both are listed above) and 8,701,619 ordinary shares were held by Moby Dick Enterprises Limited ("Moby Dick"). Quicksilver, Red Hot and Moby Dick are wholly owned subsidiaries of Max Creation.
- (c) World Future is deemed to be interested in 174,682,750 ordinary shares under section 8(3) of the SDI Ordinance by virtue of its interest in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui is also deemed to be interested in 174,682,750 ordinary shares under the same section as he holds 100% of the issued share capital in World Future.

Other than the interests disclosed above, the Company has not been notified of any other interests as at 30th September, 2001 representing 10% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 39(I) to the financial statements. In the opinion of the directors who do not have any interest in the above transactions, the above transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company had given guarantees in respect of several non wholly-owned subsidiaries amounting to approximately US\$108.3 million to various banks in respect of credit facilities granted to P.T. Nikomas Gemilang ("PTNG"), P.T. Pou Chen Indonesia ("PCI"), P.T. KMK Global Sports ("KMK Global Sports") and Prodigy Management Limited ("Prodigy"). The guarantee amounts provided are in proportion to the Group's interests in these subsidiaries. As at 30th September, 2001, PTNG, KMK Global Sports and Prodigy had utilized these credit facilities amounting to approximately US\$34.8 million, US\$14.2 million and US\$4.0 million, respectively.

As at 30th September, 2001, the Group advanced approximately US\$6.6 million to PTNG for financing its operations. The advance is unsecured, carries interest at commercial rate and has no fixed repayment term.

Save as disclosed above:

- (i) no contracts of significance subsisted at any time during the year 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; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 65% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 28% 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 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, the Company repurchased certain of its own ordinary shares through the Stock Exchange.

The directors considered that it was in the interests of the Company's shareholders to make such repurchases as the price of the Company's shares was relatively low at the time of such repurchases. Details of these repurchases are set out in note 27 to the financial statements.

Save as disclosed above, neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions 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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 30th September, 2001 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 44 to the financial statements.

AUDITORS

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

On behalf of the Board

DAVID N.F. TSAI

MANAGING DIRECTOR

Hong Kong, 18th January, 2002