

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30th September, 2002.

## 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, 2002 are set out in the consolidated income statement on page 38 of the annual report.

An interim dividend of HK\$0.40 per share was paid to the shareholders during the year. The directors recommend a final dividend of HK\$0.75 per share. The final dividend will be satisfied by way of cash payment, with an option for those entitled thereto to elect to be issued and allotted subdivided shares (the "Scrip Shares") of HK\$0.25 each as detailed in "Share Capital and Share Options" in lieu of cash payment or a combination of cash payment and Scrip Shares to the shareholders on the register of members on 6th February, 2003. The Scrip Shares will rank *pari passu* with the subdivided shares in all respects except that they will not be entitled to the final dividend for the year ended 30th September, 2002.

## 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 26 and 27 to the financial statements.

The Company will propose to shareholders that each of the existing issued and unissued shares of HK\$0.50 each be subdivided into two shares of HK\$0.25 each and each board lot of shares of the Company will be reduced from 1,000 shares of HK\$0.50 each to 500 subdivided shares of HK\$0.25 each.

The subdivision of shares is subject to the passing of an ordinary resolution by the shareholders in the Annual General Meeting of the Company and details will be set out in a circular to be issued by the Company on or about 7th February, 2003.

## INVESTMENT PROPERTIES

The Group's investment properties at 30th September, 2002 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\$20 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\$15 million in new land and buildings and approximately US\$61 million in machineries and leasehold improvement for the expansion of the Group's business.

In addition, the Group incurred further costs of approximately US\$2 million during the year for the purpose of fitting out its 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.

## **DONATIONS**

During the year, the Group made charitable and other donations totalling approximately US\$3.2 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*)

Edward Y. Ku

Kuo Tai Yu

Lu Chin Chu

Kung Sung Yen

Chan Lu Min

Li I Nan, Steve

*Non-executive directors:*

Choi Kwok Keung (*Vice Chairman*)

Shih Hung\*

John J.D. Sy\*

Nee, Mary Yuet So

(resigned on 25th February, 2002)

\* *Independent non-executive directors*

In accordance with clause 87 of the Company's Bye-laws, Messrs. Li I Nan, Steve, Kung Sung Yen and Lu Chin Chu 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, 2002, the interests of the directors and their associates in the issued share capital 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	—	—	—	—
Edward Y. Ku	—	—	—	—
Kuo Tai Yu	—	—	—	—
Lu Chin Chu	—	—	—	—
Kung Sung Yen	—	—	—	—
Chan Lu Min	100,000	—	—	—
Li I Nan, Steve	—	—	—	—
Choi Kwok Keung	—	—	—	21,020,560 (note)
Shih Hung	—	—	—	—
John J.D. Sy	—	—	—	—

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, 2002 in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SHARE OPTIONS

In accordance with the terms of the Company's Executive Share Option Scheme ("Share Option Scheme") adopted on 9th June, 1992 and effective for a period of ten years from the date of adoption of the scheme, the Company granted to directors and employees of the Company and its subsidiaries share options to subscribe for its ordinary shares for a subscription price for the primary purpose of providing incentives to directors and eligible employees. The subscription price, subject to adjustment, is based on the higher of the nominal value of the shares or 80% of the average of the closing prices per share quoted on The Stock Exchange for the five trading days immediately before preceding the date of grant of the options or such price as from time to time adjusted pursuant to the scheme. Options granted are exercisable not later than ten years after the date the options are granted.

During the year, no options under the scheme was granted to any Directors of the Company. At 30th September, 2002, the number of shares in respect of which options had been granted and are still outstanding under the above schemes was 24,966,666, representing 3.5% of the shares of the Company in issued at that date.

The Share Option Scheme expired on 8th June, 2002 and no new share option scheme has been adopted by the Company.

The following table discloses movements in the Company's share options during the year:

Name	Date of grant	Exercise price per share HK\$	Number of share options		
			Outstanding at 1.10.2001	Exercised during the year	Outstanding at 30.9.2002
Category I: Directors					
David N.F. Tsai	12.12.1996	10.22	6,000,000	–	6,000,000
Kuo Tai Yu	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
Kung Sung Yen	12.12.1996	10.22	2,500,000	–	2,500,000
Li I Nan, Steve	28.4.1993	6.35	1,466,666	–	1,466,666
Total			14,966,666	–	14,966,666
Category II: Employees					
Employees	12.12.1996	10.22	18,500,000	8,500,000	10,000,000



## SHARE OPTIONS (Continued)

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 and neither the directors nor their chief executives, nor any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002, 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", had an interest of 10% or more of the issued share capital of the Company.

Name of shareholder	Notes	Number of ordinary shares beneficially held
Pou Chen Corporation ("PCC")	(a)	292,240,350
Wealthplus Holdings Limited ("Wealthplus")	(a)	266,231,581
Max Creation Industrial Limited ("Max Creation")	(b)	174,682,750
Quicksilver Profits Limited ("Quicksilver")	(b)	89,747,411
Red Hot Investments Limited ("Red Hot")	(b)	76,233,720
World Future Investments Limited ("World Future")	(c)	174,682,750
Mr. Tsai Chi Jui	(c)	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, 2002 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 38[1] 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.

During the year, the Company had given guarantees in respect of several non wholly-owned subsidiaries amounting in aggregate 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. The guarantee amounts provided are in proportion to the Group's interests in these subsidiaries. As at 30th September, 2002, PTNG and KMK Global Sports had utilized these credit facilities amounting to approximately US\$52.7 million and US\$17.3 million, respectively and is in proportion to the Group's interest in these subsidiaries.

As at 30th September, 2002, the Group advanced approximately US\$53.7 million to PTNG for financing its operations. The advance is unsecured, carries interest at commercial rate, has no fixed repayment terms and is in proportion to the Group's interest in PTNG.

As at 30th September, 2002, minority shareholders of subsidiaries advanced approximately US\$6.0 million for the operation of subsidiaries. The advances are unsecured, interest-free, have no fixed repayment terms and are in proportion to their interest in the subsidiaries.

In addition, on 16th September, 2002, the Company entered into an agreement with PCC and its subsidiaries, for the acquisition by the Company of interests in companies owned by PCC (the "Target Group") for a consideration of US\$427 million, subject to adjustments. The consideration of US\$427 million was satisfied as to US\$186.8 million by the allotment and issue of 60 million shares of the Company at HK\$24.29 per share and as to the remaining US\$240.2 million by cash. The Target Group is principally engaged in the manufacture of raw materials, production tools and shoe components for shoe manufacturing. Details of the transaction relating to the Company's acquisition of the Target Group are set out in a circular issued by the Company to shareholders dated 8th October, 2002. The acquisition was approved by the shareholders in a Special General Meeting of the Company held on 29th October, 2002.

## **CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (Continued)**

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 67% 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 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 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, 2002 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.



## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 39 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 as auditors of the Company.

On behalf of the Board

**DAVID N.F. TSAI**

*MANAGING DIRECTOR*

Hong Kong, 17th January, 2003