



LOGISTICS CAPABILITIES

Much as the intricate networks of veins on a leaf provide life to the growing tree, our logistics expertise is the basis for a comprehensive and effective network that ensures goods reach market in a timely and efficient manner.



- Facilitated inbound raw material shipment.
- Enhanced efficiencies in outbound product delivery.
- Explored logistics opportunities in the China market.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30th September, 2003.

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, 2003 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend of HK\$0.23 per share and a special dividend of HK\$0.37 per share were paid to the shareholders during the year. The directors recommend a final dividend of HK\$0.46 per share to the shareholders on the register of members on 24th February, 2004, amounting to approximately HK\$745,085,000.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

During the year, the agreement entered into on 16th September, 2002 with Pou Chen Corporation ("PCC") and its subsidiaries to acquire the interests in certain companies indirectly owned by PCC (the "Upstream Businesses") and the related shareholders' loans was completed, for a consideration of US\$436.6 million, (after taking purchase price adjustments into account). The consideration was satisfied by the issue of 60 million shares of HK\$0.50 each in the Company, which were valued at US\$186.8 million pursuant to the acquisition agreement dated 16th September, 2002, and the payment of US\$249.8 million in cash. The Upstream Businesses are principally engaged in the manufacturing of raw materials, production tools and shoe components for shoe manufacturing.

Details of the above transaction were set out in a circular issued by the Company to the 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.

Details of the principal subsidiaries, associates and jointly controlled entities of the Company and the Group at 30th September, 2003 are set out in notes 39, 40 and 41 to the financial statements, respectively.

SHARE CAPITAL

Pursuant to the acquisition of the Upstream Businesses, 60,000,000 ordinary shares of HK\$0.50 each in the Company were issued and allotted.

Pursuant to an ordinary resolution passed at the annual general meeting held on 24th February, 2003, each issued and unissued share of HK\$0.50 each in the share capital of the Company was subdivided into two shares of HK\$0.25 each ("Share Subdivision").

Details of these and other movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties at 30th September, 2003 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\$44.5 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\$7.9 million in new land and buildings and approximately US\$104.4 million in machineries and leasehold improvements for the expansion of the Group's business.

In addition, property, plant and equipment with an aggregate net book value of approximately US\$66.7 million were acquired as a result of the acquisition of subsidiaries.

Details of 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\$2.1 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*

* *Independent non-executive directors*

In accordance with clause 87 of the Company's Bye-laws, Messrs. Kuo Tai Yu, Choi Kwok Keung and Shih Hung retire and, being eligible, offer themselves for re-election.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

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' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th September, 2003, the interests of the directors and chief executives of the Company in shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position

Ordinary shares of HK\$0.25 each of the Company

Name of director	Number of ordinary shares held			Total	Percentage of the issued share capital of the Company
	Beneficial owner	Held by controlled corporation	Held by a discretionary trust		
Tsai Chi Neng	—	—	—	—	—
David N.F. Tsai	—	—	—	—	—
Edward Y. Ku	—	—	—	—	—
Kuo Tai Yu	—	—	—	—	—
Lu Chin Chu	—	—	—	—	—
Kung Sung Yen	—	—	—	—	—
Chan Lu Min	110,458	—	—	110,458	0.007%
Li I Nan, Steve	—	—	—	—	—
Choi Kwok Keung	—	—	42,041,120 (Note)	42,041,120	2.62%
Shih Hung	—	—	—	—	—
John J.D. Sy	—	—	—	—	—

Note: 30,360,000, 5,840,560 and 5,840,560 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 at 30th September, 2003, none of the directors, chief executive and their associates, had any interests or short positions in any shares of the Company or any of its associated corporations.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

The following table discloses details of share options outstanding under the Company's share option scheme and movements during the year:

Name	Date of grant	Exercise price per share prior to the Share Subdivision HK\$	Exercise price adjusted for the effect of the Share Subdivision HK\$ (Note)	Exercisable period	Number of share options		
					Outstanding at 1.10.2002 (Note)	Exercised during the year	Outstanding at 30.9.2003
Category I: Directors							
David N.F. Tsai	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	12,000,000	(12,000,000)	–
Kuo Tai Yu	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	(5,000,000)	–
Lu Chin Chu	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	(5,000,000)	–
Kung Sung Yen	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	(5,000,000)	–
Li I Nan, Steve	28.4.1993	6.35	3.175	28.04.1993 to 27.04.2003	2,933,332	(2,933,332)	–
Total					29,933,332	(29,933,332)	–
Category II: Employees							
Employees	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	20,000,000	(4,000,000)	16,000,000

Note: The exercise price per share and the number of share options brought forward from last year have been adjusted to reflect the effect of the Share Subdivision during the year.

No options were granted, cancelled or lapsed during the year.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised ranges from HK\$11.69 to HK\$23.27, adjusted for the effect of the Share Subdivision.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save for the options 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.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2003, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interests disclosed in "Directors' and Chief Executives' Interests In Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position

Ordinary shares of HK\$0.25 each of the Company

Name of shareholder	Notes	Number of ordinary shares beneficially held
PCC	(a)	794,673,835
Wealthplus Holdings Limited ("Wealthplus")	(a)	741,236,605
Max Creation Industrial Limited ("Max Creation")	(b)	319,365,500
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822
Red Hot Investments Limited ("Red Hot")	(b)	152,467,440
World Future Investments Limited ("World Future")	(c)	319,365,500
Mr. Tsai Chi Jui	(c)	319,365,500

Notes:

- (a) Of the 794,673,835 ordinary shares beneficially owned by PCC, 741,236,605 ordinary shares were held by Wealthplus as listed above, 49,127,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune") and 4,309,698 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 319,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver, 152,467,440 ordinary shares were held by Red Hot (both are listed above) and 17,403,238 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 319,365,500 ordinary shares 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 319,365,500 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 or short position in the issued share capital of the Company as at 30th September, 2003.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 37(I) to the financial statements. In the opinion of the directors who do not have any interest in those transactions, the 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\$132.8 million to various banks in respect of credit facilities granted to P.T. Nikomas Gemilang ("PTNG"), P.T. Pou Chen Indonesia, P.T. KMK Global Sports ("KMK Global Sports"), Prodigy Management Limited and Pro Kingtex Industrial Holdings Limited and its subsidiaries ("Pro Kingtex Group"). The amounts of guarantees provided are in proportion to the Group's interests in these subsidiaries. As at 30th September, 2003, PTNG, KMK Global Sports and Pro Kingtex Group had utilized these credit facilities amounting to approximately US\$56.2 million, US\$20.3 million and US\$9.0 million respectively.

As at 30th September, 2003, the Group advanced approximately US\$56.8 million to PTNG for financing its operations. The advance is unsecured, carries interest at commercial rate and has no fixed repayment term.

As at 30th September, 2003, minority shareholders of certain subsidiaries advanced approximately US\$10.5 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.

Save as disclosed above:

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers comprised approximately 57% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 21% of the Group's total sales for the year.

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.

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, 2003 with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 38 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, 15th January, 2004