

# Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30th September, 2004.

## 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, 2004 are set out in the consolidated income statement on page 34 of the annual report.

An interim dividend of HK\$0.25 per share was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK\$0.46 per share to the shareholders on the register of members on 7th February, 2005, amounting to approximately HK\$745,085,000.

## SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Company and the Group at 30th September, 2004 are set out in notes 40, 41 and 42 to the financial statements, respectively.

## SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 27 to the financial statements.

## INVESTMENT PROPERTIES

The Group's investment properties at 30th September, 2004 were revalued by an independent firm of professional property valuers on an open market value basis. Details of movements during the year in the investment properties of the Group are set out in note 11 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately US\$26.3 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\$7.3 million in new land and buildings and approximately US\$99.6 million in machinery and leasehold improvements for the expansion of the Group's business.

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\$1.1 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

Tsai Pei Chun, Patty (appointed on 18th January, 2005)

### Non-executive directors:

Choi Kwok Keung (*Vice Chairman*)

Shih Hung\*

John J.D. Sy (re-designated from independent non-executive director to non-executive director on 30th September, 2004)

So Kwan Lok\* (appointed on 30th September, 2004)

Poon Yiu Kin, Samuel\* (appointed on 14th October, 2004)

\* *Independent non-executive directors*

In accordance with clause 87(2) of the Company's Bye-laws, Messrs. Edward Y. Ku, Chan Lu Min and John J.D. Sy retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In addition, in accordance with clause 86(2) of the Company's Bye-law, Messrs. So Kwan Lok, Poon Yiu Kin, Samuel and Tsai Pei Chun, Patty, the newly appointed directors, also retire at the forthcoming annual general meeting 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.

No directors 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 EXECUTIVES' INTERESTS IN SHARES

At 30th September, 2004, the interests of the Company's directors, chief executives and their associates in shares of the Company and its associated corporations, as recorded in register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as 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

#### 1. 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	2.60%
Shih Hung	–	–	–	–	–
John J.D. Sy	–	–	–	–	–
So Kwan Lok	–	–	–	–	–

Note: 30,360,000, 5,840,560 and 5,840,560 ordinary shares of HK\$0.25 each 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.

**DIRECTORS' AND EXECUTIVES' INTERESTS IN SHARES** (Continued)**Long position** (Continued)

## 2. Ordinary shares of NT\$10 each of Pou Chen Corporation ("PCC"), the ultimate holding company

Name of director	Number of ordinary shares held				Total	Percentage of the issued share capital of PCC
	Beneficial owner	Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust		
Tsai Chi Neng	10,957,015	63,790	–	–	11,020,805	0.53%
David N.F. Tsai	7,244,867	–	–	–	7,244,867	0.35%
Edward Y. Ku	25,958	408,400	–	–	434,358	0.02%
Kuo Tai Yu	1,216,082	3,164	–	–	1,219,246	0.06%
Lu Chin Chu	1,361,223	204,214	–	–	1,565,437	0.07%
Kung Sung Yen	1,268,613	410,847	–	–	1,679,460	0.08%
Chan Lu Min	1,050,923	–	–	–	1,050,923	0.05%
Li I Nan, Steve	123,075	–	–	–	123,075	0.005%
Choi Kwok Keung	–	–	–	–	–	–
Shih Hung	–	–	–	–	–	–
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–

Save as disclosed above and other than certain nominee shares in the Company's subsidiaries held by Mr. Choi Kwok Keung in trust for the Group, none of the directors, the chief executive and their associates had any interests or short positions in any shares of the Company or any of its associated corporations at 30th September, 2004.

**SHARE OPTIONS**1. **Share option scheme of the Company**

Particulars of the Company's share option scheme are set out in note 28 to the financial statements.

Movements in the outstanding share options granted under a share option scheme of the Company, which had been expired on 8th June, 2002, are set out in note 28 to the financial statements.

**SHARE OPTIONS** (Continued)**2. Share option scheme of PCC**

Particulars of the share option scheme of PCC, the ultimate holding company, in which the directors of the Company are entitled to participate, are set out in note 28 to the financial statements.

The following table discloses movement of the directors and chief executives in the share options granted under the share option scheme of PCC during the year:

Name of director	Date of grant	Number of share options			Outstanding at 30.9.2004
		Outstanding at 1.10.2003	Exercised during the year (Note) at NT\$16.72 per share	at NT\$14.20 per share	
David N. F. Tsai	6.8.2002	1,000,000	–	–	1,000,000
Kuo Tai Yu	6.8.2002	1,000,000	–	(170,000)	830,000
Lu Chin Chu	6.8.2002	800,000	(100,000)	–	700,000
Kung Sung Yen	6.8.2002	800,000	–	–	800,000
Chan Lu Min	6.8.2002	800,000	–	–	800,000

Note: The closing price of the PCC's ordinary shares immediately before the dates on which the share options were exercised ranged from NT\$26.90 to NT\$29.80.

Options can be exercised every year up to one-third of the granted options, no earlier than two years from the date of grant. After four years from the date of grant, the option holders are eligible to exercise all the options granted.

**ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

Save for the share options disclosed above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries and 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows 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	Percentage of the issued share capital of the Company
PCC	(a)	822,793,835	50.80%
Wealthplus Holdings Limited ("Wealthplus")	(a)	766,357,605	47.31%
Max Creation Industrial Limited ("Max Creation")	(b)	319,365,500	19.72%
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822	9.23%
Red Hot Investments Limited ("Red Hot")	(b)	152,467,440	9.41%
World Future Investments Limited ("World Future")	(c)	319,365,500	19.72%
Mr. Tsai Chi Jui	(c)	319,365,500	19.72%

Notes:

- (a) Of the 822,793,835 ordinary shares beneficially owned by PCC, 766,357,605 ordinary shares were held by Wealthplus as listed above, 49,127,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune") and 7,308,698 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, brother of Mr. Tsai Chi Neng, 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 relevant interests or short positions in the issued share capital of the Company as at 30th September, 2004.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 38(l) to the financial statements. The independent non-executive directors confirm that the transactions were conducted on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed that the transactions have been approved by the board of directors and are entered into in accordance with the agreements governing such transactions and did not exceed the cap stated in the relevant announcements.

Save as disclosed in note 38 (l):

- (i) no contracts of significance to which the Company, or any of its holding companies, fellow subsidiaries and 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; 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 54% 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.

At no time during the year, did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors, owns more than 5% of the Company's issued share capital, have 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.

## EMOLUMENT POLICY

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

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

## 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, 2004 with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules.

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 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 regarding securities transactions by directors adopted by the Company.

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.

Throughout the year ended 30th September, 2004, the Company has only appointed two independent non-executive directors. One of the independent non-executive directors was re-designated to non-executive director on 30th September, 2004. In addition, on 30th September, 2004 and 14th October, 2004, two additional independent non-executive directors were appointed to comply with Rules 3.10(1) and 3.21 of the Listing Rules with regards to the sufficient number of independent non-executive directors and to have three independent non-executive directors in the audit committee.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30th September, 2004.



### 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, 18th January, 2005