

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30th September, 2005.

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, 2005 are set out in the consolidated income statement on page 33 of the annual report.

An interim dividend of HK\$0.27 per share was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK\$0.48 per share to the shareholders on the register of members on 1st March, 2006, amounting to approximately HK\$777,480,000.

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, 2005 are set out in notes 39, 40 and 41 to the financial statements, respectively.

Share capital

Details of 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, 2005 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\$61.5 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\$33.6 million in new land and buildings and approximately US\$110.5 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\$1.2 million.

Distributable reserves of the company

As at 30th September, 2005, the Company's reserves available for distribution to shareholders were US\$360,173,000 (2004: US\$264,382,000), which comprises the aggregate of contributed surplus of US\$38,126,000 (2004: US\$38,126,000) and retained profits of US\$322,047,000 (2004: US\$226,256,000) of the Company.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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

So Kwan Lok*

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. Lu Chin Chu, Kung Sung Yen, Li I Nan, Steve, Choi Kwok Keung and Shih Hung will retire as directors by rotation at the forthcoming annual general meeting and except for Messrs. Choi Kwok Keung and Shih Hung who does not offer themselves for re-election, Messrs. Lu Chin Chu, Kung Sung Yen and Li I Nan, Steve, being eligible, offer themselves for re-election as directors.

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 securities

At 30th September, 2005, the interests of the Company's directors, chief executives and their associates in the 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 Issuers (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				Total	Percentage of the issued share capital of the Company
	Beneficial owner	Held by spouse and/or children under 18	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	—	—	—	—	—	—
Li I Nan, Steve	—	—	—	—	—	—
Tsai Pei Chun, Patty	—	—	—	—	—	—
Choi Kwok Keung	—	—	—	42,041,120 (Note 1)	42,041,120	2.596
Shih Hung	—	—	—	—	—	—
John J.D. Sy	—	—	—	—	—	—
So Kwan Lok	—	—	—	—	—	—
Poon Yiu Kin, Samuel	1,600 (Note 2)	1,600 (Note 2)	—	—	1,600	0.0001

Notes:

- 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.
- 1,600 ordinary shares of HK\$0.25 each were jointly held by Mr. Poon Yiu Kin, Samuel and his spouse, Ms. Yuen Oi Chun, Josephine.

Directors' and executives' interests in securities (Continued)

Long position (Continued)

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

Name of director	Beneficial owner	Number of ordinary shares			Total	Percentage of the issued share capital of PCC
		Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust		
Tsai Chi Neng	12,052,409	70,167	–	–	12,122,576	0.526
David N.F. Tsai	7,969,450	–	–	–	7,969,450	0.346
Edward Y. Ku	28,553	449,228	–	–	477,781	0.021
Kuo Tai Yu	1,607,956	3,480	–	–	1,611,436	0.070
Lu Chin Chu	1,443,810	186,130	–	–	1,629,940	0.071
Kung Sung Yen	1,460,738	451,920	–	–	1,912,658	0.083
Chan Lu Min	1,256,285	–	–	–	1,256,285	0.054
Li I Nan, Steve	165,379	–	–	–	165,379	0.007
Tsai Pei Chun, Patty	1,240,995	–	–	–	1,240,995	0.054
Choi Kwok Keung	–	–	–	–	–	–
Shih Hung	–	–	–	–	–	–
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–

Save as disclosed above and 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 executives and their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30th September, 2005.

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	Exercise price per share NT\$	Number of share options		
			Outstanding at 1.10.2004	Exercised during the year (Note)	Outstanding at 30.9.2005
David N. F. Tsai	6.8.2002	12.00	1,000,000	–	1,000,000
Kuo Tai Yu	6.8.2002	12.00	830,000	(170,000)	660,000
Lu Chin Chu	6.8.2002	12.00	700,000	–	700,000
Kung Sung Yen	6.8.2002	12.00	800,000	–	800,000
Chan Lu Min	6.8.2002	12.00	800,000	–	800,000

Note: The closing price of PCC's ordinary shares immediately before the date on which the share options exercised was NT\$20.75.

Options can be exercised every year up to one-third of the granted options, not 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, 2005, 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 Executives' Interests In Securities", 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)	824,143,835	50.88
Wealthplus Holdings Limited ("Wealthplus")	(a)	767,707,605	47.40
Max Creation Industrial Limited ("Max Creation")	(b)	269,365,500	16.63
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822	9.23
Red Hot Investments Limited ("Red Hot")	(b)	102,467,440	6.33
World Future Investments Limited ("World Future")	(c)	269,365,500	16.63
Mr. Tsai Chi Jui	(c)	269,365,500	16.63

Notes:

- (a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 767,707,605 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 98.07% owned subsidiary of PCC.
- (b) Of the 269,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver, 102,467,440 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 269,365,500 ordinary shares by virtue of its interests 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 269,365,500 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 register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having notifiable interests or short positions in the issued share capital of the Company as at 30th September, 2005.

Connected transactions and directors' interests in contracts

Details of the transactions regarded as connected transactions pursuant to Chapter 14A of the Listing Rules for the year are set out in note 37(l) to the financial statements. The independent non-executive directors confirm that the transactions were conducted on normal commercial terms, or on terms no less favourable than terms available to or from independent third parties 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.

Save as disclosed in note 37(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 Chapter 14A 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 20% 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 an 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

Strengthening corporate governance has remained one of the top priorities in the Group's strategic development. The Group is committed to developing and maintaining high corporate governance standards, in line with changing regulatory frameworks and practices. In accordance with the Code of Corporate Governance Practices, Appendix 14 to the Listing Rules, therefore, the Group will strengthen its corporate guidance and internal procedures.

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.

As part of that commitment, the Group appointed one additional independent non-executive director by the end of 2004 to comply with Rules 3.10 (1) and 3.21 of the Listing Rules. There are now three independent non-executive directors on the Board and the Audit Committee to monitor the Group's development in this area.

In addition, the Group has received from each of the non-executive director an annual confirmation of their independence in pursuant to Rule 3.13 of the Listing Rules. These directors' independence has been verified.

The Group adheres to high standards with respect to the disclosure of its financial statements, with quarterly reports of unaudited results and the monthly revenue announcement for previous month. To foster regular and contribute two-way communication amongst the Company, its shareholders and potential investors, the Group has established an Investor Relations Department to respond to enquiries from shareholders and the public. In addition, the Group is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and strengthen the communication with both the public and shareholders.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the year ended 30th September, 2005.

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, 17th January, 2006