

Directors' Report

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 30th September, 2006.

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 APPROPRIATIONS

The results of the Group for the year ended 30th September, 2006 are set out in the consolidated income statement on page 56 of the annual report.

An interim dividend of HK\$0.29 per share was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK\$0.51 per share to the shareholders on the register of members on 1st March, 2007, amounting to approximately HK\$848,451,000.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Group at 30th September, 2006 are set out in notes 50, 51 and 52 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 38 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties situated in the People's Republic of China ("the PRC") at 30th September, 2006 were revalued by an independent firm of professional property valuers on a market value basis. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately US\$74.7 million for construction of new factory buildings, dormitories, staff quarters and accommodation facilities, mainly in the PRC and Vietnam. The Group also invested approximately US\$28.6 million in new buildings and approximately US\$165.3 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 are set out in note 16 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately US\$2.7 million.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 30th September, 2006, the Company's reserves available for distribution to shareholders were US\$451,121,000 (2005: US\$341,007,000), which comprises the aggregate of contributed surplus of US\$38,126,000 (2005: US\$38,126,000) and retained profits of US\$412,995,000 (2005: US\$302,881,000) 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. Ku³

Kuo Tai Yu

Lu Chin Chu

Kung Sung Yen

Chan Lu Min

Li I Nan, Steve

Tsai Pei Chun, Patty

Non-executive Directors:

Choi Kwok Keung (*Vice Chairman*) (retired on 1st March, 2006)

John J. D. Sy^{1,3}

Independent Non-executive Directors:

So Kwan Lok^{1,3,4}

Poon Yiu Kin, Samuel^{1,2,3}

Liu Len Yu^{1,3} (appointed on 1st March, 2006)

Shih Hung^{1,3} (retired on 1st March, 2006)

Notes:

1. Member of Audit Committee

2. Chairman of Audit Committee

3. Member of Remuneration Committee

4. Chairman of Remuneration Committee

In accordance with the Bye-laws 86(2) and 87 of the Company's Bye-laws, Mr. Liu Len Yu, Mr. Edward Y. Ku, Mr. Kuo Tai Yu and Mr. So Kwan Lok will retire as directors and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

Pursuant to the current Company's Bye-laws, Mr. Chan Lu Min is not subject to retirement by rotation. In order to comply with Code provision A.4.2 set out in the Code on Corporate Governance Practices (Appendix 14) to the Listing Rules, which stipulates, *inter alia*, that every director should be subject to retirement by rotation at least once every three years, Mr. Chan Lu Min will retire voluntarily as director and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

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 CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30th September, 2006, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying 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 the register maintained by the Company pursuant to Section 352 of 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	Beneficial owner	Number of ordinary shares			Total	Percentage of the issued share capital of the Company
		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	40,000	-	-	-	40,000	0.0025%
Li I Nan, Steve	-	-	-	-	-	-
Tsai Pei Chun, Patty	-	-	-	-	-	-
John J.D. Sy	-	-	-	-	-	-
So Kwan Lok	-	-	-	-	-	-
Poon Yiu Kin, Samuel	-	-	-	-	-	-
Liu Len Yu	-	-	-	-	-	-

DIRECTORS' AND CHIEF 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	12,654,716	73,673	–	–	12,728,389	0.52%
David N. F. Tsai	8,368,015	–	–	–	8,368,015	0.34%
Edward Y. Ku	29,979	471,677	–	–	501,656	0.02%
Kuo Tai Yu	2,239,606	3,653	–	–	2,243,259	0.09%
Lu Chin Chu	1,731,262	165,451	–	–	1,896,713	0.08%
Kung Sung Yen	1,874,379	474,504	–	–	2,348,883	0.10%
Chan Lu Min	1,386,385	–	–	–	1,386,385	0.06%
Li I Nan, Steve	241,643	–	–	–	241,643	0.01%
Tsai Pei Chun, Patty	1,302,836	–	–	–	1,302,836	0.05%
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–
Liu Len Yu	–	–	–	–	–	–

Save as disclosed above, none of the directors, the chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30th September, 2006.

Share options*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 39 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(Continued)*

Share options *(Continued)*

Share option scheme of PCC *(Continued)*

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\$ <i>(Note 1)</i>	Number of share options		
			Outstanding at 1.10.2005	Exercised during the year <i>(Note 2)</i>	Outstanding at 30.9.2006
David N. F. Tsai	6.8.2002	10.00	1,000,000	–	1,000,000
Kuo Tai Yu	6.8.2002	10.00	660,000	(160,000)	500,000
Lu Chin Chu	6.8.2002	10.00	700,000	–	700,000
Kung Sung Yen	6.8.2002	10.00	800,000	(267,000)	533,000
Chan Lu Min	6.8.2002	10.00	800,000	–	800,000

Notes:

- (1) The exercise price per share was changed from NT\$12.00 to NT\$10.00 as a result of the issue of bonus shares by PCC on 1st September, 2006.
- (2) The closing prices of PCC's ordinary shares immediately before the date on which the 160,000 and 267,000 share options exercised were NT\$22.45 and NT\$21.60 respectively.

Share 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, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO showed that, other than the interests disclosed in "Directors' and Chief Executives' Interests In Securities", the following shareholders had notified the Company of their relevant interests in shares representing 5% or more of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS (Continued)

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)	213,365,500	13.17%
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822	9.23%
World Future Investments Limited ("World Future")	(c)	213,365,500	13.17%
Mr. Tsai Chi Jui	(c)	213,685,500	13.19%

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 98.46% owned subsidiary of PCC.
- (b) Of the 213,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver as listed above, 46,467,440 ordinary shares were held by Red Hot Investments Limited ("Red Hot") 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 213,365,500 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 these 213,365,500 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui holds 320,000 ordinary shares directly.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 30th September, 2006.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the transactions regarded as connected transactions for the year are set out in note 48(l) to the consolidated financial statements.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors of the Company have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in ordinary course of business, 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.

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

Save as disclosed in note 48(I):

- (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 were approximately 51% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 19% 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

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 35 to 54.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30th September, 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 49 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, 2007