

# Notes to the Financial Statements

For the year ended 30th September, 2004

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's ultimate holding company is Pou Chen Corporation ("PCC"), a company which is incorporated in Republic of China, with its shares listed on the Taiwan Stock Exchange Corporation.

The Group's books and records are maintained in United States Dollars, the currency in which the majority of the Group's transactions are denominated.

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 40.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes", which is one of the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The terms of HKFRS is inclusive of SSAPs and Interpretations approved by HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th September, each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1st October, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st October, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st October, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Negative goodwill (Continued)

Negative goodwill arising on acquisitions on or after 1st October, 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, plus goodwill/less negative goodwill in so far as it has not been written off/amortised/released to income, less any identified impairment loss.

#### Joint ventures

##### *Jointly controlled entities*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, plus goodwill/less negative goodwill in so far as it has not been written off/amortised/released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

#### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, any balance on the investment properties revaluation reserve attributable to those properties is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Hotel property

Hotel property is stated at cost and no depreciation is provided on hotel property which is held on leases of more than 20 years. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of the hotel property and the high residual values, any depreciation would be insignificant. The related repair and maintenance expenditure is dealt with in the income statement in the year in which they are incurred. The costs of significant improvements are capitalised.

#### Property, plant and equipment

Property, plant and equipment, other than hotel property and property under construction, are stated at cost or valuation less depreciation, amortisation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, Plant and Equipment" issued by HKICPA from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Buildings under construction are stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, attributable to the buildings under construction. They are not depreciated or amortised until completion of construction. Costs of completed buildings under construction are transferred to the appropriate categories of property, plant and equipment.

The cost of leasehold land is amortised over the period of the lease using the straight line method.

The cost or valuation of land use rights is amortised over the period of the right using the straight line method.

The cost or valuation of buildings is depreciated over 20 years or 50 years, where appropriate, using the straight line method.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment (Continued)

The cost of leasehold improvements is depreciated at 10% per annum using the reducing balance method or, if the remaining period of the relevant lease is shorter than 10 years, on a straight line basis over the remaining period of the lease.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, at the following rates per annum:

Furniture, fixtures and equipment	20% – 30%	(reducing balance method)
Motor vehicles	20% – 30%	(reducing balance method)
Plant and machinery	5% – 15%	(straight line method)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the income statement.

#### Convertible bonds

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The discount on redemption of the convertible bonds is recognised in the income statement so as to produce a constant periodic rate of credit on the remaining balances of the convertible bonds for each accounting period. The costs incurred in connection with the issue of convertible bond are deferred and amortised on a straight line basis over the lives of the convertible bond from the date of issue of the bond to their final redemption date. If any of the bond are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.



For the year ended 30th September, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies (Continued)

On consolidation, the assets and liabilities of the Group's operations which are denominated in foreign currencies are translated into United States Dollars at the exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

#### Research and development expenditure

Expenditure on research and development activities is recognised as an expense in the year in which it is incurred.

#### Retirement benefits scheme

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

For the year ended 30th September, 2004

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### Business segment

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacturing and marketing of footwear products.

##### Geographical segments

An analysis of the Group's revenue and contribution to operating results and segmental assets and liabilities by geographical segments, irrespective of the origin of the goods, is presented below:

For the year ended 30th September, 2004

	United States of America US\$'000	Europe US\$'000	Asia US\$'000	Others US\$'000	Total US\$'000
TURNOVER	1,121,265	734,357	701,132	163,273	2,720,027
RESULTS					
Segment results	90,004	59,083	33,841	13,114	196,042
Other operating income					128,815
Unallocated expenses					(32,659)
Profit from operations					292,198
Finance costs					(11,040)
Share of results of associates					6,728
Share of results of jointly controlled entities					23,111
Profit before taxation					310,997
Income tax expense					(3,352)
Profit before minority interests					307,645
Minority interests					(4,308)
Net profit for the year					303,337

For the year ended 30th September, 2004

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** (Continued)**Geographical segments** (Continued)

At 30th September, 2004

	United States of America US\$'000	Europe US\$'000	Asia US\$'000	Others US\$'000	Total US\$'000
<b>ASSETS</b>					
Segment assets	747,146	487,870	708,359	108,710	2,052,085
Interests in associates					152,711
Interests in jointly controlled entities					117,556
Unallocated corporate assets					<u>601,928</u>
Consolidated total assets					<u>2,924,280</u>
<b>LIABILITIES</b>					
Segment liabilities	132,406	86,701	85,554	19,279	323,940
Unallocated corporate liabilities					<u>817,770</u>
Consolidated total liabilities					<u>1,141,710</u>
<b>OTHER INFORMATION</b>					
Capital additions	58,558	38,140	45,945	8,536	151,179
Depreciation and amortisation	46,436	30,401	31,059	6,761	114,657
Amortisation of goodwill	294	141	10,586	37	11,058
Loss on disposal of property, plant and equipment	4,020	2,636	1,959	585	9,200

For the year ended 30th September, 2004

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** (Continued)**Geographical segments** (Continued)

For the year ended 30th September, 2003

	United States of America	Europe	Asia	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
TURNOVER	1,041,487	753,938	570,697	143,355	2,509,477
RESULTS					
Segment results	103,034	74,735	44,651	14,218	236,638
Other operating income					103,176
Unallocated expenses					(37,023)
Profit from operations					302,791
Finance costs					(15,496)
Gain on disposal of a subsidiary					879
Gain on disposal of an associate					2,757
Share of results of associates					4,596
Share of results of jointly controlled entities					16,316
Profit before taxation					311,843
Income tax expense					(1,904)
Profit before minority interests					309,939
Minority interests					(1,692)
Net profit for the year					308,247

For the year ended 30th September, 2004

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** (Continued)**Geographical segments** (Continued)

At 30th September, 2003

	United States of America US\$'000	Europe US\$'000	Asia US\$'000	Others US\$'000	Total US\$'000
<b>ASSETS</b>					
Segment assets	710,770	511,581	625,116	97,111	1,944,578
Interests in associates					33,181
Interests in jointly controlled entities					87,221
Unallocated corporate assets					<u>510,117</u>
Consolidated total assets					<u>2,575,097</u>
<b>LIABILITIES</b>					
Segment liabilities	116,098	83,979	68,774	15,965	284,816
Unallocated corporate liabilities					<u>677,261</u>
Consolidated total liabilities					<u>962,077</u>
<b>OTHER INFORMATION</b>					
Capital additions	75,518	53,008	251,330	9,962	389,818
Depreciation and amortisation	41,830	30,253	25,092	5,751	102,926
Amortisation of goodwill	302	137	10,571	20	11,030
Loss on disposal of property, plant and equipment	274	178	421	40	<u>913</u>

For the year ended 30th September, 2004

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

##### Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

At 30th September, 2004

	Carrying amount of segment assets		Capital additions	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
People's Republic of China (the "PRC")	1,364,842	1,344,374	93,695	307,235
Indonesia	184,888	201,423	9,626	15,566
Vietnam	438,243	354,850	45,970	58,398
Others	64,112	43,931	1,888	8,619
	<b>2,052,085</b>	<b>1,944,578</b>	<b>151,179</b>	<b>389,818</b>

For the year ended 30th September, 2004

**5. PROFIT FROM OPERATIONS**

	2004 US\$'000	2003 US\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
– basic salaries and allowances	456,120	427,520
– retirement benefits scheme contributions	12,657	4,800
	<u>468,777</u>	<u>432,320</u>
Auditors' remuneration	1,132	742
Depreciation and amortisation	114,657	102,926
Amortisation of goodwill, included in other operating expenses	11,058	11,030
Loss on disposal of property, plant and equipment	9,200	913
Research and development expenditure	89,303	84,193
Unrealised loss on other investments	–	911
and after crediting:		
Interest income from bank deposits	3,620	4,278
Gain on disposal of investments in securities	26,210	2,724
Dividend income from investments in securities	22	677
Exchange gain	13,080	9,093
Unrealised gain on other investments	79	–
Gross rental income on investment properties, before deduction of outgoings of US\$32,000 (2003: US\$38,000)	<u>4,376</u>	<u>3,622</u>

For the year ended 30th September, 2004

**6. FINANCE COSTS**

	2004 US\$'000	2003 US\$'000
Interest on:		
– bank borrowings wholly repayable within five years	11,167	15,439
– other borrowings wholly repayable within five years	–	57
Release of discount on redemption of convertible bonds (Note 23)	(655)	–
Amortisation of arrangement fees of convertible bonds (Note 23)	528	–
	11,040	15,496

**7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS**

	2004 US\$'000	2003 US\$'000
Directors' fees:		
Executive	–	–
Non-executive	158	112
Independent non-executive	77	77
Other emoluments of executive directors:		
Salaries and other benefits	1,403	1,398
Bonus	6,214	6,214
Retirement benefit schemes	3	3
Other emoluments of non-executive directors:		
Bonus	128	128
Total directors' emoluments	7,983	7,932

The directors' emoluments disclosed above include the rateable value of a property which is owned by the Group and occupied by an executive director of the Company. The rateable value of the residential accommodation provided to the director is approximately US\$9,000 (2003: US\$9,000).



For the year ended 30th September, 2004

**7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS** (Continued)

The emoluments of the directors were within the following bands:

	2004 Number of directors	2003 Number of directors
Up to HK\$1,000,000	3	2
HK\$1,500,001 to HK\$2,000,000	2	3
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	2
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	1	1

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

All of the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments are included above.

For the year ended 30th September, 2004

**8. INCOME TAX EXPENSE**

	2004 US\$'000	2003 US\$'000
Hong Kong Profits Tax at 17.5% (2003: 17.5%)		
– current year	26	102
– underprovision in prior years	–	23
Overseas taxation	1,611	719
Deferred taxation ( <i>Note 26</i> )	294	–
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	1,931	844
Share of taxation of associates	309	19
Share of taxation of jointly controlled entities	1,112	1,041
	<hr/>	<hr/>
	3,352	1,904

The Group's profit is subject to taxation from the place of its operations where its profit is generated. Taxation is calculated at the rates prevailing in the relevant jurisdictions.

The taxation charge for the year can be reconciled to the profit before taxation per the income statements as follows:

	2004 US\$'000	2003 US\$'000
Profit before taxation	310,997	311,843
	<hr/>	<hr/>
Tax at the average income tax rate of 24.4% (2003: 25.1%)	75,808	78,419
Tax effect of expenses not deductible for tax purpose	3,287	4,265
Tax effect of income not taxable for tax purpose	(74,988)	(80,748)
Tax effect of tax losses not recognised	169	254
Utilisation of tax losses previously not recognised	(57)	(17)
Effect of tax holiday granted to subsidiaries	(867)	(292)
Underprovision in prior years	–	23
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Taxation charge for the year	3,352	1,904

*Note:* The average income tax rate for the year ended 30th September, 2003 and 2004, represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relevant amounts of profit before taxation and the relevant statutory rates or other reasonable basis.

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**8. INCOME TAX EXPENSE** (Continued)

During the year, Hong Kong Inland Revenue Department ("IRD") issued protective profits tax assessments of approximately HK\$183,000,000 (equivalent to approximately US\$23,462,000) relating to the year of assessment 1997/98, that is, for the financial year ended 30th September, 1997, against certain wholly-owned subsidiaries of the Company. The Group lodged objections on 30th April, 2004 with the IRD against the protective assessments. The IRD agreed to hold over the tax claimed completely subject to tax reserve certificates (the "TRC") in the amount of HK\$48,000,000 (equivalent to approximately US\$6,154,000) being purchased by the Group. The TRC have been purchased by the Group.

In the opinion of the directors, the subsidiaries in question did not carry on any business and derived no profit in or from Hong Kong, or they only provided limited administrative services and have already paid Hong Kong Profits Tax. Together with the advice from the Company's tax and legal advisers, the directors believe the IRD should conclude that no profits tax is in fact payable by the Group for that year of assessment and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

**9. DIVIDENDS**

	2004 US\$'000	2003 US\$'000
2004 Interim dividend of HK\$0.25 per share (2003: 2003 Interim dividend of HK\$0.23 per share) paid	51,943	47,092
2003 Special dividend of HK\$0.37 per share paid	–	75,756
2003 Final dividend of HK\$0.46 per share (2003: 2002 Final dividend of HK\$0.375 per share) paid (Note)	95,863	74,972
	<b>147,806</b>	<b>197,820</b>

Note: Of the final dividend paid for the year ended 30th September, 2002, US\$30,129,000 was satisfied by way of cash payment and US\$44,843,000 was satisfied by scrip shares of HK\$0.25 each.

The directors have resolved to recommend the payment of a final dividend of HK\$0.46 per share for the year ended 30th September, 2004. The proposed dividend for 2004 is payable to those shareholders on the register of members on 7th February, 2005.

This proposed dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these financial statements.

For the year ended 30th September, 2004

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004	2003
Earnings for the purposes of basic and diluted earnings per share	<u>US\$303,337,000</u>	<u>US\$308,247,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,616,907,456	1,563,987,455
Effect of dilutive potential ordinary shares in respect of:		
Share options	2,157,801	21,637,715
Convertible bonds ( <i>Note</i> )	–	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,619,065,257</u>	<u>1,585,625,170</u>

*Note:* The computation of diluted earnings per share does not assume the conversion of convertible bonds since the exercise price of the Company's convertible bonds was higher than the average market price of the shares of the Company throughout the year ended 30th September, 2004.

## 11. INVESTMENT PROPERTIES

	THE GROUP US\$'000
VALUATION	
At 1st October, 2003	33,528
Net transfer to property, plant and equipment ( <i>Note 12</i> )	(1,439)
Revaluation decrease	<u>(366)</u>
<b>At 30th September, 2004</b>	<u><b>31,723</b></u>

The Group's investment properties are leased out under operating leases and were revalued at 30th September, 2004 by Knight Frank (Services) Limited ("Knight Frank"), an independent firm of professional property valuers, on an open market value basis. The revaluation decrease has been charged to the investment properties revaluation reserve.

For the year ended 30th September, 2004

**11. INVESTMENT PROPERTIES** (Continued)

The carrying amount of the Group's investment properties situated in the PRC are held under:

- long-term land use rights
- medium-term land use rights

THE GROUP	
2004	2003
US\$'000	US\$'000
1,257	2,090
30,466	31,438
31,723	33,528

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## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US\$'000	Hotel properties US\$'000	Buildings under construction US\$'000	Plant and machinery US\$'000	Leasehold improvements US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>THE GROUP</b>								
COST OR VALUATION								
At 1st October, 2003	634,184	17,705	36,618	706,003	118,141	81,776	20,256	1,614,683
Acquired on acquisition of subsidiaries	-	-	-	196	84	32	13	325
Additions	7,265	89	26,332	80,521	19,076	14,531	2,630	150,444
Reclassifications	36,125	-	(36,461)	-	336	-	-	-
Transfer from investment properties (Note 11)	1,439	-	-	-	-	-	-	1,439
Disposals	(6,886)	-	-	(47,825)	(4,317)	(4,250)	(1,366)	(64,644)
<b>At 30th September, 2004</b>	<b>672,127</b>	<b>17,794</b>	<b>26,489</b>	<b>738,895</b>	<b>133,320</b>	<b>92,089</b>	<b>21,533</b>	<b>1,702,247</b>
Comprising:								
At cost	636,614	17,794	26,489	738,895	133,320	92,089	21,533	1,666,734
At valuation – 1995	35,513	-	-	-	-	-	-	35,513
	672,127	17,794	26,489	738,895	133,320	92,089	21,533	1,702,247
DEPRECIATION AND AMORTISATION								
At 1st October, 2003	85,802	-	-	329,918	48,332	49,564	13,941	527,557
Acquired on acquisition of subsidiaries	-	-	-	89	79	26	7	201
Provided for the year	20,418	-	-	69,376	11,439	11,418	2,006	114,657
Eliminated on disposals	(672)	-	-	(19,713)	(1,903)	(3,401)	(1,038)	(26,727)
<b>At 30th September, 2004</b>	<b>105,548</b>	<b>-</b>	<b>-</b>	<b>379,670</b>	<b>57,947</b>	<b>57,607</b>	<b>14,916</b>	<b>615,688</b>
NET BOOK VALUE								
<b>At 30th September, 2004</b>	<b>566,579</b>	<b>17,794</b>	<b>26,489</b>	<b>359,225</b>	<b>75,373</b>	<b>34,482</b>	<b>6,617</b>	<b>1,086,559</b>
At 30th September, 2003	548,382	17,705	36,618	376,085	69,809	32,212	6,315	1,087,126

For the year ended 30th September, 2004

**12. PROPERTY, PLANT AND EQUIPMENT** (Continued)

	Land and buildings US\$'000	Leasehold improvements US\$'000	Total US\$'000
<b>THE COMPANY</b>			
COST			
At 1st October, 2003 and 30th September, 2004	242	20	262
DEPRECIATION AND AMORTISATION			
At 1st October, 2003	43	14	57
Provided for the year	4	1	5
<b>At 30th September, 2004</b>	<b>47</b>	<b>15</b>	<b>62</b>
NET BOOK VALUE			
At 30th September, 2004	195	5	200
At 30th September, 2003	199	6	205

The land and buildings stated at 1995 valuation were valued at 30th September, 1995 by Knight Frank, an independent firm of professional property valuers, on an open market value basis before being transferred from investment properties. No further valuation will be carried out on these land and buildings.

At 30th September, 2004, if the land and buildings had not been revalued, they would have been included in these financial statements at historical costs less accumulated depreciation at approximately US\$560,274,000 (2003: US\$541,926,000).

The Group has acquired rights to the use of land (the "land rights") in the PRC and Indonesia and has erected buildings thereon. While the Group has paid substantially the full consideration of the purchase consideration, the relevant government authorities have not granted formal title to certain of these land rights to the Group. As at 30th September, 2004, the net book value of the land rights for which the Group had not been granted formal title amounted to approximately US\$46.2 million (2003: approximately US\$51.9 million). In the opinion of the directors, the absence of formal title to these land rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land rights will be granted to the Group in due course.

For the year ended 30th September, 2004

**12. PROPERTY, PLANT AND EQUIPMENT** (Continued)

	THE GROUP		THE COMPANY	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
The net book value of the property interests comprises:				
Properties held under long-term leases or long-term land use rights in				
– the PRC	6,088	38,101	–	–
– Indonesia	67,251	69,410	–	–
Properties held under medium-term leases or medium-term land use rights in				
– Hong Kong	3,501	3,598	195	199
– the PRC	332,466	288,243	–	–
– Indonesia	4,308	4,405	–	–
– Vietnam	148,469	140,129	–	–
Freehold properties in Mexico	4,496	4,496	–	–
Hotel properties held under long-term land use rights in the PRC	17,794	17,705	–	–
Buildings under construction situated in				
– the PRC	17,584	24,404	–	–
– Vietnam	8,774	12,061	–	–
– Indonesia	131	153	–	–
	<b>610,862</b>	<b>602,705</b>	<b>195</b>	<b>199</b>

**13. DEPOSIT MADE FOR ACQUISITION OF PROPERTIES**

The deposit was made by the Group in connection with the acquisition of properties in Vietnam. The amount committed at 30th September, 2004 is shown as a capital commitment in note 35 (2003: Nil).



For the year ended 30th September, 2004

**14. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES**

	THE COMPANY	
	2004	2003
	US\$'000	US\$'000
Unlisted shares, at cost	60,832	60,832
Amounts due from subsidiaries	1,466,986	1,357,544
	<b>1,527,818</b>	<b>1,418,376</b>
Amounts due to subsidiaries	31,224	160,274

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

Details of the Company's principal subsidiaries at 30th September, 2004 are set out in note 40.

For the year ended 30th September, 2004

**15. GOODWILL**

	THE GROUP US\$'000
COST	
At 1st October, 2003	220,559
Arising on acquisition of subsidiaries	<u>735</u>
<b>At 30th September, 2004</b>	<b><u>221,294</u></b>
AMORTISATION	
At 1st October, 2003	11,065
Provided for the year	<u>11,058</u>
<b>At 30th September, 2004</b>	<b><u>22,123</u></b>
NET BOOK VALUE	
<b>At 30th September, 2004</b>	<b><u>199,171</u></b>
At 30th September, 2003	<u>209,494</u>

Goodwill is amortised over its estimated useful life, on a straight line basis, and the amortisation period for goodwill is 20 years.

**16. INTERESTS IN ASSOCIATES**

	THE GROUP	
	2004 US\$'000	2003 US\$'000
Share of net assets of associates	74,862	27,431
Goodwill on acquisition ( <i>Note (i)</i> )	45,537	–
Amounts due from associates	5,734	5,750
Convertible note issued by an associate ( <i>Note (ii)</i> )	<u>26,578</u>	–
	<b><u>152,711</u></b>	<b><u>33,181</u></b>
Market value of listed shares	<u>107,145</u>	–

For the year ended 30th September, 2004

## 16. INTERESTS IN ASSOCIATES (Continued)

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current assets.

Details of the Group's principal associates at 30th September, 2004 are set out in note 41.

Notes:

- (i) Movements during the year in goodwill on acquisition of associates are as follows:

	US\$'000
<b>COST</b>	
Arising on acquisition and at 30th September, 2004	46,609
<b>AMORTISATION</b>	
Charge for the year and at 30th September, 2004	<u>(1,072)</u>
<b>CARRYING AMOUNT</b>	
At 30th September, 2004	<u>45,537</u>

The goodwill is amortised on a straight line basis over 20 years.

- (ii) During the year, the Group entered into two subscription agreements with Eagle Nice (International) Limited ("Eagle Nice"), a company with its shares listed on the Stock Exchange and engages in the manufacture and trading of sportswear and garments, for the subscription of 105,000,000 ordinary shares of HK\$0.01 each in the share capital of Eagle Nice ("Eagle Nice Shares") at HK\$1.06 per Eagle Nice Share and the subscription of a convertible note at a subscription price of HK\$207 million (equivalent to approximately US\$26,578,000) (the "Convertible Note"). The Convertible Note is convertible at a conversion price of HK\$2.38 per Eagle Nice Share, in whole or in parts, on or before its maturity date, 15th April, 2007, and is interest-free.

At 30th September, 2004, the Group has 30.88% effective interest in Eagle Nice and Eagle Nice is accounted for as an associate of the Group.

On 28th December, 2004, the Group entered into an amendment agreement with, among other parties, Eagle Nice to amend the conversion period of the Convertible Note.

For the year ended 30th September, 2004

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004	2003
	US\$'000	US\$'000
Share of net assets of jointly controlled entities	94,722	67,186
Goodwill on acquisition ( <i>Note</i> )	5,150	1,919
Amounts due from jointly controlled entities	17,684	18,116
	<u>117,556</u>	<u>87,221</u>

The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current assets.

Details of the Group's principal jointly controlled entities at 30th September, 2004 are set out in note 42.

*Note:*

Movements during the year in goodwill on acquisition of jointly controlled entities are as follows:

	US\$'000
<b>COST</b>	
At 1st October, 2003	2,020
Arising on acquisition	<u>3,507</u>
<b>At 30th September, 2004</b>	<u>5,527</u>
<b>AMORTISATION</b>	
At 1st October, 2003	101
Charge for the year	<u>276</u>
<b>At 30th September, 2004</b>	<u>377</u>
<b>CARRYING AMOUNT</b>	
<b>At 30th September, 2004</b>	<u>5,150</u>
At 30th September, 2003	<u>1,919</u>

The goodwill is amortised on a straight line basis over 20 years.

For the year ended 30th September, 2004

**18. INVESTMENTS IN SECURITIES**

	THE GROUP	
	2004 US\$'000	2003 US\$'000
Non-current investments		
Investment securities		
Listed securities		
– Hong Kong	34,177	–
– overseas	4,143	29,686
Unlisted overseas securities	–	18,019
	<b>38,320</b>	<b>47,705</b>
Current investments		
Other investments		
Listed overseas securities	111	–
Unlisted overseas securities	465	1,634
	<b>576</b>	<b>1,634</b>
Market value of listed securities	<b>47,151</b>	<b>48,926</b>

**19. INVENTORIES**

	THE GROUP	
	2004 US\$'000	2003 US\$'000
Raw materials	192,284	174,861
Work in progress	59,322	57,651
Finished goods	106,553	87,985
	<b>358,159</b>	<b>320,497</b>

All inventories were carried at cost at the balance sheet date.

For the year ended 30th September, 2004

## 20. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US\$332,753,000 (2003: US\$261,196,000) and an aged analysis is as follows:

	THE GROUP	
	2004 US\$'000	2003 US\$'000
0 to 30 days	243,610	184,256
31 to 90 days	69,918	69,997
Over 90 days	19,225	6,943
	<u>332,753</u>	<u>261,196</u>

## 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$181,876,000 (2003: US\$143,895,000) and an aged analysis is as follows:

	THE GROUP	
	2004 US\$'000	2003 US\$'000
0 to 30 days	132,719	114,384
31 to 90 days	41,853	25,052
Over 90 days	7,304	4,459
	<u>181,876</u>	<u>143,895</u>

For the year ended 30th September, 2004

**22. SHORT-TERM BANK AND OTHER BORROWINGS**

	THE GROUP		THE COMPANY	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
Current portion of long-term bank borrowings (Note 24)	67,498	16,667	52,290	–
Other borrowings	–	161	–	–
Trust receipt and import loans	22,015	49,421	–	–
Short-term bank borrowings	99,033	79,726	–	–
Bank overdrafts	6	70	–	–
	<b>188,552</b>	<b>146,045</b>	<b>52,290</b>	<b>–</b>

**23. CONVERTIBLE BONDS**

	THE GROUP AND THE COMPANY	
	2004 US\$'000	2003 US\$'000
Convertible bonds due 2008	317,000	–
Less: Release of discount on redemption to income statement	(655)	–
Unamortised arrangement fees	(2,642)	–
	<b>(3,297)</b>	<b>–</b>
	<b>313,703</b>	<b>–</b>

On 23rd December, 2003, the Company issued US\$300 million zero coupon convertible bonds due 2008 ("CB 2008"). On 12th January, 2004, notice was given to the Company by the arranger of the CB 2008 to exercise in part of the over-allotment option in the aggregate principal amount of US\$17 million (out of the possible maximum of US\$50 million). The CB 2008 are listed on the Luxembourg Stock Exchange. They are convertible, at the option of their holders, into ordinary shares of HK\$0.25 each of the Company at an initial conversion price of HK\$27.33 per share at any time on or after 22nd January, 2004 up to and including, the close of business on the business day seven days prior to 23rd December, 2008, with a fixed rate of exchange applicable on conversion of the CB 2008 of HK\$7.7622 to US\$1.00.

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### 23. CONVERTIBLE BONDS (Continued)

The CB 2008 do not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2008 will be redeemed by the Company at 98.76 per cent of their principal amount on 23rd December, 2008. All or some of these bonds may be redeemed at the option of the Company, in whole or in part, from time to time, (i) on or after 23rd December, 2005 when the closing price of the Company shares on the Stock Exchange shall have been at least 120 per cent of the conversion price for each of any 20 trading days during a 30 consecutive trading day period or (ii) at any time providing at least 90% in principal amount of the CB 2008 has been converted, redeemed or purchased and cancelled and (in either case) prior to 16th December, 2008 at an early redemption amount as stated in the CB 2008. The bondholders may, at their option, require the Company to redeem all or some of the bonds on 23rd December, 2005 at the early redemption amount.

As at 30th September, 2004, none of the CB 2008 had been converted into ordinary shares of the Company.

### 24. LONG-TERM BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
The bank borrowings are repayable within the periods as follows:				
Within one year	67,498	16,667	52,290	–
After one but within two years	139,518	61,873	122,710	52,290
After two but within five years	134,808	432,030	98,000	402,710
	341,824	510,570	273,000	455,000
Less: Amount due within one year included under current liabilities (Note 22)	(67,498)	(16,667)	(52,290)	–
Amount due after one year	274,326	493,903	220,710	455,000



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#### **24. LONG-TERM BANK BORROWINGS** (Continued)

Included in the long-term bank borrowings is an amount of US\$168 million (2003: US\$350 million) drawn under a syndicated loan facility of US\$350 million. Under such syndicated loan agreement, the loan is effectively a US dollar loan with commercial interest rates linked to the US dollar. Pursuant to the relevant loan agreement, certain substantial shareholders of the Company, the Tsai family together with PCC, are obliged to maintain an aggregate shareholding of not less than 51% of the issued share capital of the Company and Pou Yuen Industrial (Holdings) Limited, a wholly-owned subsidiary of the Company, shall remain a subsidiary of the Company.

#### **25. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES**

The loans from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The minority shareholders agreed not to demand repayment within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current liabilities.

#### **26. DEFERRED TAXATION**

At the balance sheet date, the Group has recognised deferred tax liability in relation to accelerated tax depreciation of approximately US\$3,888,000 (2003: US\$3,594,000).

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

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**27. SHARE CAPITAL**

	Number of shares	Amounts HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.50 each at 1st October, 2002	1,000,000,000	500,000
Ordinary shares of HK\$0.25 each Subdivision of each share of HK\$0.50 into 2 shares of HK\$0.25 each and ordinary shares of HK\$0.25 each at 30th September, 2003 and 30th September, 2004	2,000,000,000	500,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.50 each At 1st October, 2002	712,180,953	356,090
Issue of shares in consideration for the acquisition of subsidiaries	60,000,000	30,000
Exercise of share options	7,466,666	3,734
Balance prior to subdivision of shares	779,647,619	389,824
Ordinary shares of HK\$0.25 each Subdivision of each share of HK\$0.50 into 2 shares of HK\$0.25 each	1,559,295,238	389,824
Issue of script dividend	25,453,748	6,363
Exercise of share options	19,000,000	4,750
At 30th September, 2003	1,603,748,986	400,937
Exercise of share options	16,000,000	4,000
<b>At 30th September, 2004</b>	<b>1,619,748,986</b>	<b>404,937</b>
		US\$'000
Shown in the financial statements as at		
30th September, 2004		52,274
30th September, 2003		51,758

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## 27. SHARE CAPITAL (Continued)

During the year ended 30th September, 2004, 16,000,000 share options were exercised at a subscription price of HK\$5.11 per share, resulting in the issue of 16,000,000 ordinary shares of HK\$0.25 each in the Company.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

## 28. SHARE OPTION SCHEME THE COMPANY

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 each lot of share option granted 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 preceding the date of grant of the options or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10 per cent of the shares of Company in issue at the time of granting of the option. The number of shares in respect of which options may be granted to any individuals, which in aggregate would not exceed 25 per cent of the total number of shares for which options may be granted under the Share Option Scheme.

Options granted must be taken up within 21 days from the date of grant. No consideration is payable on the grant of an option. Options granted are exercisable not later than ten years after the date the options are granted.

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

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## 28. SHARE OPTION SCHEME (Continued)

### THE COMPANY (Continued)

The following table discloses movements in the share options under the Company's Share Option Scheme:

Date of grant	Exercise price per share HK\$	Number of share options				
		Outstanding at 1.10.2002 HK\$	Exercised during the year	Outstanding at 30.9.2003	Exercised during the year	Outstanding at 30.9.2004
<b>Category I: Directors</b>						
28th April, 1993	3.175	2,933,332	(2,933,332)	–	–	–
12th December, 1996	5.110	27,000,000	(27,000,000)	–	–	–
		29,933,332	(29,933,332)	–	–	–
<b>Category II: Employees</b>						
12th December, 1996	5.110	20,000,000	(4,000,000)	16,000,000	(16,000,000)	–
		49,933,332	(33,933,332)	16,000,000	(16,000,000)	–

The closing price of the Company's ordinary shares immediately before the dates on which the share options were exercised during the year ended 30th September, 2004 ranged between HK\$21.60 and HK\$21.80.

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**28. SHARE OPTION SCHEME** (Continued)**PCC**

In accordance with the terms of the PCC's Share Option Scheme ("PCC Scheme") adopted on 30th July, 2002 and effective for a period of 10 years from the date of adoption of the PCC Scheme, PCC can grant to directors and employees of PCC and its subsidiaries share options to subscribe for its ordinary shares for the primary purpose of providing incentives to directors and eligible employees. The exercise price is the closing price of PCC's shares at the date of grant. Options can be exercised every year up to one-third of the granted option, 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.

No consideration is payable on the grant of an option. Options granted are exercisable not later than ten years after the date the options are granted.

On 6th August, 2002 and 24th July, 2003, PCC has issued 66,600,000 and 1,000,000 share options, respectively, to the employees with an exercise price of NT\$23.30 and NT\$41.20 per share, respectively. The exercise price of such options was retroactively restated as NT\$16.72 and NT\$35.84 per share, respectively, from 9th August, 2003, due to the stock dividends issued in 2003. Further, the exercise price of such options was retroactively restated as NT\$14.20 and NT\$31.40 per share, respectively, from 18th September, 2004, due to the stock dividends issued in 2004.

The following table discloses entitlements of the directors and employees of the Company under the PCC Scheme since the date when PCC became the ultimate holding company:

Date of grant	Outstanding at 16.6.2004	Number of share options Exercised during the period		Outstanding at 30.9.2004
		at NT\$16.72 per share	at NT\$14.20 per share	
<b>Category I: Directors</b>				
6th August, 2003	4,400,000	(100,000)	(170,000)	4,130,000
<b>Category II: Employees</b>				
6th August, 2003	2,090,000	(587,000)	(69,000)	1,434,000
	6,490,000	(687,000)	(239,000)	5,564,000

For the year ended 30th September, 2004

## 29. RESERVES

	Share premium US\$'000	Contributed surplus US\$'000	Accumulated profits US\$'000	Total US\$'000
<b>THE COMPANY</b>				
At 1st October, 2002	359,452	38,126	126,519	524,097
Premium arising on issue of shares	229,071	–	–	229,071
Net profit for the year	–	–	209,746	209,746
Dividends (Note 9)	–	–	(197,820)	(197,820)
At 30th September, 2003	588,523	38,126	138,445	765,094
Premium arising on issue of shares	10,034	–	–	10,034
Net profit for the year	–	–	235,617	235,617
Dividends (Note 9)	–	–	(147,806)	(147,806)
<b>At 30th September, 2004</b>	<b>598,557</b>	<b>38,126</b>	<b>226,256</b>	<b>862,939</b>

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company under the corporate reorganisation in 1992 and the nominal amount of the Company's shares issued for the acquisition.

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

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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.

In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders as at 30th September, 2004 were US\$264,382,000 (2003: US\$176,571,000), which comprises the aggregate of contributed surplus and accumulated profits of the Company.

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**30. ACQUISITION OF SUBSIDIARIES**

During the year, the Group acquired an additional 50% equity interest in Cap Design Studio Industrial Limited, which was a 50% jointly controlled entity of the Group before this acquisition, for a cash consideration of approximately US\$1.75 million. The transaction has been accounted for using the purchase method of accounting.

	2004 US\$'000	2003 US\$'000
Net assets acquired:		
Goodwill	–	225
Interests in associates	–	26,394
Interests in jointly controlled entities	–	19,666
Property, plant and equipment	124	66,706
Investments securities	–	992
Inventories	768	66,620
Trade and other receivables	920	66,516
Other investments	–	1,322
Bank balances and cash	936	42,271
Trade and other payables	(1,149)	(47,334)
Taxation payables	–	(580)
Loans from minority shareholders of subsidiaries	–	(2,945)
Bank and other borrowings	–	(16,409)
Minority interests	–	(7,826)
	1,599	215,618
Less: Interests previously acquired and classified as an associate	–	(617)
Interest previously acquired and classified as jointly controlled entities	(584)	(897)
	1,015	214,104
Goodwill arising on acquisition	735	219,584
	1,750	433,688

For the year ended 30th September, 2004

### 30. ACQUISITION OF SUBSIDIARIES (Continued)

	2004 US\$'000	2003 US\$'000
Satisfied by:		
Shares issued by the Company (Note)	–	168,474
Cash consideration	1,750	262,599
Related expense paid on acquisition	–	2,615
	<u>1,750</u>	<u>433,688</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(1,750)	(265,214)
Bank balances and cash acquired	936	42,271
	<u>(814)</u>	<u>(222,943)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(814)</u>	<u>(222,943)</u>

Note: The shares issued during the year ended 30th September, 2003 were stated in the financial statements of the Company at the fair value of HK\$21.90 per ordinary share of HK\$0.50 each as quoted on the Stock Exchange on 5th November, 2002, being the completion date of the transaction.

The subsidiary acquired during the year contributed approximately US\$3,732,000 (2003: US\$253,737,000) to the Group's turnover, and profit of approximately US\$443,000 (2003: US\$34,580,000) to the Group's profit from operations.



For the year ended 30th September, 2004

**31. DISPOSAL OF A SUBSIDIARY**

	2004 US\$'000	2003 US\$'000
Net assets disposed		
Interest in a jointly controlled entity	–	5,600
Bank balances and cash	–	21
		<hr/>
Net assets	–	5,621
Gain on disposal of a subsidiary	–	879
		<hr/>
	–	6,500
		<hr/>
Satisfied by:		
Cash	–	6,500
		<hr/>
Net cash inflow arising on disposal:		
Cash consideration	–	6,500
Bank balances and cash disposed	–	(21)
		<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	6,479
		<hr/>

The subsidiary disposed of during the year ended 30th September, 2003 had no significant impact on the turnover and results of the Group.

For the year ended 30th September, 2004

### 32. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2004 US\$'000	2003 US\$'000
Bank balances and cash	465,856	382,751
Bank overdrafts	(6)	(70)
	465,850	382,681

### 33. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th September, 2004, the major non-cash transactions were as follows:

- (a) Interest previously acquired and classified as a jointly controlled entity of approximately US\$584,000 was part of the consideration for the acquisition of subsidiaries.
- (b) Investment securities with a carrying value of US\$54,792,000 were transferred to interests in associates.

During the year ended 30th September, 2003, the major non-cash transactions were as follows:

- (a) Part of the consideration of approximately US\$168,474,000, being the fair value of the consideration shares at the completion date, for the acquisition of subsidiaries was satisfied by the allotment and issue of shares.
- (b) Interest previously acquired and classified as jointly controlled entities of approximately US\$897,000 was part of the consideration for the acquisition of subsidiaries.
- (c) Interest previously acquired and classified as an associate of approximately US\$617,000, was part of the consideration for the acquisition of subsidiaries.
- (d) US\$44,843,000 of the final dividend for the year ended 30th September, 2002 was satisfied by scrip shares of HK\$0.25 each, issued and allotted at HK\$13.74 per share.

For the year ended 30th September, 2004

**34. OPERATING LEASE COMMITMENTS****The Group as lessee**

	THE GROUP	
	2004 US\$'000	2003 US\$'000
Minimum leases payments paid under operating leases during the year:		
Land and buildings	14,463	11,120
Plant and machinery	2,599	1,876
	<u>17,062</u>	<u>12,996</u>

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases, which fall due as follows:

	THE GROUP	
	2004 US\$'000	2003 US\$'000
Within one year	11,379	11,153
In the second to fifth year inclusive	18,563	28,143
After five years	6,629	5,605
	<u>36,571</u>	<u>44,901</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and staff quarters.

Included in the above are commitments under non-cancellable operating leases of approximately US\$20.1 million (2003: US\$31.9 million) which expire in 2007 payable to related companies, Godalming Industries Limited and its subsidiaries ("Godalming"), in which certain directors of the Company, Messrs. Tsai Chi Neng and Choi Kwok Keung have beneficial interests.

The Company had no operating lease commitments at the balance sheet date.

For the year ended 30th September, 2004

### 34. OPERATING LEASE COMMITMENTS (Continued)

#### The Group as lessor

All of the properties held have committed tenants for the next one to over five years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004	2003
	US\$'000	US\$'000
Within one year	1,050	1,056
In the second to fifth year inclusive	2,313	2,343
After five years	9,336	7,098
	<b>12,699</b>	<b>10,497</b>

### 35. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	US\$'000	US\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– amount committed for construction of buildings	9,453	16,747
– acquisition of property, plant and equipment	11,721	3,153
	<b>21,174</b>	<b>19,900</b>

The Company had no capital commitments at the balance sheet date.

For the year ended 30th September, 2004

**36. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
Guarantees given to banks in respect of banking facilities utilised by:				
– subsidiaries	–	–	167,515	169,378
– associates	1,284	–	1,284	–
– jointly controlled entities	20,866	2,976	20,866	2,976
	<b>22,150</b>	<b>2,976</b>	<b>189,665</b>	<b>172,354</b>

**37. RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees in the PRC are members of the state-managed retirement benefits scheme operated by the local government. The subsidiaries are required to contribute a specified percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

For the year ended 30th September, 2004

### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

Name of company	Nature of transactions/balances	THE GROUP	
		2004 US\$'000	2003 US\$'000
(I) CONNECTED PARTIES			
<i>Substantial shareholders of the Company:</i>			
PCC and its subsidiaries, associates and jointly controlled entities other than members of the Group (collectively the "PCC Group")	Purchase of raw materials and shoe-related products ( <i>note a</i> )	2,769	3,718
	Costs reimbursed to PCC under the Services Agreement ( <i>note b</i> )	207,498	202,498
	Expenses reimbursed to PCC under the Services Agreement ( <i>note b</i> )	83,028	99,317
	Service fees paid ( <i>note b</i> )	9,366	8,469
	Tanning facilities and processing services fee paid ( <i>note c</i> )	13,341	11,127
	Rental expenses under the Rental Agreement ( <i>note d</i> )	893	706
	Sales of semi-finished shoe products ( <i>note a</i> )	26,053	23,133
	Management services income received ( <i>note e</i> )	10,877	1,211
	Acquisition of subsidiaries ( <i>note f</i> )	–	440,340
	Balance due from/to the PCC Group at 30th September		
– trade receivables	2,790	4,318	
– trade payables	26,434	25,350	

For the year ended 30th September, 2004

**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES** (Continued)

Name of company	Nature of transactions/balances	THE GROUP	
		2004 US\$'000	2003 US\$'000
(I) CONNECTED PARTIES (Continued)			
<i>Companies controlled by a substantial shareholder of the Company:</i>			
Golden Brands Developments Limited and its subsidiaries, associates and jointly controlled entities (collectively the "Golden Brands Group")	Management services income received ( <i>note e</i> ) Rental received on dormitories ( <i>note e</i> ) Sales of semi-finished products ( <i>note m</i> ) Balance due from the Golden Brands Group at 30th September – trade receivables	10,043 2,096 3,217  1,321	13,818 1,646 –  2,313
Felbridge International Limited ("Felbridge")	Proceeds from disposal of land and buildings ( <i>note g</i> )	–	6,730
<i>Companies controlled by certain directors:</i>			
Godalming	Rentals paid on land and buildings ( <i>note h</i> )	6,688	7,451
Rising Developments Limited ("Rising")	Purchase of fuel oil ( <i>note a</i> ) Balance due to Rising at 30th September – trade payable	74,101  3,980	62,014  2,843

For the year ended 30th September, 2004

**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES** (Continued)

Name of company	Nature of transactions/balances	THE GROUP	
		2004 US\$'000	2003 US\$'000
(I) CONNECTED PARTIES (Continued)			
<i>Companies controlled by minority shareholders of subsidiaries:</i>			
Rest Assured Group Limited	Acquisition of additional interest in subsidiaries (note i)	345	–
	Proceeds from disposal of partial interest in a subsidiary (note i)	811	–
Chuan Chyi Trading Company	Acquisition of additional interest in a subsidiary (note j)	20	–
Mr. Huang Tsung Jen	Acquisition of interest in a subsidiary (note k)	–	36
Jollyard Investments Limited ("Jollyard")	Acquisition of interest in a subsidiary (note k)	–	36
Mr. Dick Ma	Acquisition of additional interest in a subsidiary (note k)	–	12
Mr. Philip Chung	Acquisition of additional interest in a subsidiary (note k)	–	61
Linear (Taiwan) Inc.	Acquisition of additional interest in a subsidiary (note k)	–	109



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**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES** (Continued)

Name of company	Nature of transactions/balances	THE GROUP	
		2004 US\$'000	2003 US\$'000
(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES			
<i>Jointly controlled entities:</i>			
Various jointly controlled entities other than Rising	Purchase of raw materials ( <i>note l</i> )	71,015	67,861
	Sales of shoe-related products ( <i>note m</i> )	2,405	2,174
	Service fees paid ( <i>note n</i> )	69	125
	Service income ( <i>note n</i> )	3,282	2,683
	Acquisition of addition interest in a jointly controlled entity ( <i>note o</i> )	518	–
	Balance due from/to at 30th September		
	– trade receivables	1,725	2,599
– trade payables	15,721	10,734	
<i>Associates:</i>			
	Purchase of raw materials ( <i>note l</i> )	37,693	32,042
	Sales of shoe-related products ( <i>note m</i> )	73	–
	Service income ( <i>note n</i> )	5,073	2,271
	Proceeds from disposal of property, plant and equipment ( <i>note p</i> )	21,283	–
	Balance due from/to at 30th September		
	– trade receivables	47	144
– trade payables	5,830	5,344	

For the year ended 30th September, 2004

### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes:

- (a) During the year, the Group sold semi-finished shoe products to PCC Group representing approximately 1.0% (2003: 0.9%) of the turnover of the Group for the year. In addition, the Group purchased raw materials and shoe-related products from PCC and companies controlled by PCC. These purchases of raw materials and shoe-related products together with the purchase of fuel oil from Rising, which is a 27% owned jointly controlled entity of PCC Group and a 50% owned jointly controlled entity of Godalming (see note (h) for details of Godalming's shareholders), represented approximately 2.8% (2003: 2.6%) of the turnover of the Group for the year. The extent of these connected sales and purchases did not exceed the limit approved by the shareholders of the Company on 11th September, 1996 and 27th March, 1997 respectively. PCC is owned indirectly through Plantegenet Group Limited as to 13.27% by members of Tsai's family, including certain directors of the Company, Messrs. Tsai Chi Neng and David N.F. Tsai and directly as to 7.01% by relatives of Mr. Tsai Chi Neng.

The above transactions were carried out at market prices or, where no market prices were available, at cost plus a percentage profit mark-up.

- (b) Pursuant to an ordinary resolution passed in the special general meeting of the Company held on 27th March, 1997, a service agreement dated 22nd February, 1997 entered into between the Company and PCC (the "Services Agreement") was approved by the shareholders of the Company. Pursuant to the Services Agreement, the Company has engaged PCC to provide product design and development, know-how, technical and marketing services and to source raw materials and recruit staff in relation to the production and sale of the Group's products. The services to be provided by PCC may be provided by or through members of the PCC Group. But PCC will remain fully liable for the provision of these services.

In consideration of the services provided by the PCC Group under the Services Agreement, the Company shall reimburse the costs and expenses incurred by PCC and shall also pay to PCC the following fees:

- (i) in respect of the products developed by the PCC Group and sold by the Group, 0.5% of the net invoiced amount of such products;
- (ii) in respect of materials, machinery and other goods purchased by, shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, 1% of the merchandise cost invoiced to the PCC Group; and
- (iii) in respect of materials, machinery and other goods sourced by PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, 0.5% of the cost of merchandise invoiced to the Group.

The aggregate of the service fees paid by the Group and the expenses reimbursed to PCC represented approximately 3.4% (2003: 4.2%) of the turnover of the Group for the year and did not exceed the limit approved by the shareholders of the Company on 27th March, 1997.

For the year ended 30th September, 2004

### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

- (c) Pursuant to a production agreement dated 1st January, 1997 ("Production Agreement") entered into between Prime Asia Leather Corporation, Taiwan Branch ("Prime Asia TW"), a wholly-owned subsidiary of the Company and Barits Development Corporation ("Barits"), a company which is beneficially owned by PCC as to 97.63%, Barits provides tanning facilities and processing services to Prime Asia TW for the processing of Prime Asia TW's raw leather into finished leather.

In consideration of the services provided by Barits under the Production Agreement, Prime Asia TW shall pay Barits a monthly production fee ("Production Fee") based on the followings:

- (i) the cost for supplies and labour incurred by Barits;
- (ii) the direct selling and general costs incurred by Barits;
- (iii) the fixed costs on the rental for land, building, equipment and machinery. The fixed monthly rental on land and building is equivalent to the open market rental value at 30th September 2001 as certified by an independent firm of professional valuers. Rental charges for equipment and machinery are calculated by reference to the cost of the equipment and machinery plus a rate on the funding costs of the machinery purchased.

The aggregate of the Production Fees paid by Prime Asia TW represented approximately 0.8% (2003: 0.8%) of the net tangible assets of the Group as at 30th September, 2004 and did not exceed the limit approved by the shareholders of the Company on 29th October, 2002.

- (d) Pursuant to the lease agreement entered by Pou Chien Chemical Company Limited ("Pou Chien Chemical"), a wholly-owned subsidiary of the Company, PCC and Pou Yuen Technology Limited ("Pou Yuen"), a subsidiary of PCC, on 1st October, 2001 ("Rental Agreements"), PCC and Pou Yuen would lease to Pou Chien Chemical certain land and buildings situated in Taiwan.

The rentals on properties were based on an agreed monthly rental under the Rental Agreements, equivalent to the open market rental value at the date of entering of the agreement as certified by an independent valuer in Taiwan.

- (e) On 13th December, 2001, Highmark Services Limited ("Highmark"), a wholly-owned subsidiary of the Company, entered into two services agreements with PCC and Golden Brands Developments Limited ("Golden Brands") for the provision of management services to PCC and Golden Brands and their subsidiaries.

In addition, on 13th December, 2001 Highmark entered into a lease agreement with Golden Brands in leasing to Golden Brands dormitories within the Yue Yuen Industrial Estate, He Lu Industrial Area, Huang Jiang Town, Dongguan, the PRC ("Yue Yuen Industrial Estate").

Golden Brands is ultimately owned as to 92.48% by Mr. Tsai Chi Jui, a substantial shareholder of the Company and PCC is the ultimate holding company of the Company.

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### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

(e) (Continued)

In consideration of the services and facilities provided by Highmark under the services and rental agreements, Highmark charged PCC and Golden Brands the following fees:

- (i) in respect of the common services provided by Highmark, approximately 10% markup on the aggregate cost incurred by Highmark.
  - (ii) in respect of the supply of electricity by Highmark, approximately 10% markup on the cost incurred by Highmark.
  - (iii) in respect of the supply of water by Highmark, approximately 15% markup on the cost incurred by Highmark.
  - (iv) in respect of rental, the prevailing rent is equivalent to the open market rental value at 31st December, 2003 as valued by Knight Frank, an independent firm of professional property valuers.
- (f) On 16th September, 2002, the Company entered into an agreement with the PCC Group for the acquisition by the Company of the issued share capital of the companies indirectly owned by PCC and the shareholders' loans of approximately US\$62.4 million for a consideration of US\$436.6 million (after taking purchase price adjustment into account). The consideration was satisfied by the issue of 60 million shares of HK\$0.50 each in the Company and the payment of US\$249.8 million in cash. The transaction was completed on 5th November, 2002.

On 30th April, 2003, a wholly-owned subsidiary, Great Pacific Investments Limited ("Great Pacific") entered into an agreement with Victorway Trading Limited, a wholly-owned subsidiary of PCC, for the acquisition of 73.04% equity interest of Pro Kingtex Industrial Company Limited ("Pro Kingtex") at a consideration of US\$3.8 million.

Great Pacific has also given indemnity under the agreement to PCC in relation to the guarantees with a maximum liability of US\$11,350,000 to banks and/or financial institution in respect of borrowings by Pro Kingtex and its subsidiaries. Such guarantees were released and replaced by the guarantees of the Company.

- (g) On 22nd July, 2003, a wholly-owned subsidiary of the Company, Dongguan Bestway Housing Development Limited, entered into an agreement with Felbridge, a company wholly-owned by Mr. Tsai Chi Jui, a substantial shareholder of the Company, for the disposal of land use rights together with buildings and structure erected thereon ("Disposed Properties") located in the Dongguan City, Guangdong Province, PRC. The consideration for the disposal was US\$6,730,000 which was equivalent to the value of the Disposed Properties as valued at 30th June, 2003 by Knight Frank, an independent firm of professional property valuers, on an open market basis.

For the year ended 30th September, 2004

### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

- (h) Godalming is owned by Power Point Developments Limited, a company in which a director of the Company, Mr. Choi Kwok Keung, and a discretionary trust, the objects of which include another director of the Company, Mr. Tsai Chi Neng and his relatives, have beneficial interests. The rentals on properties paid to Godalming were based on a tenancy agreement entered into between the Group and subsidiaries of Godalming for a term of 10 years from 1st October, 1992 which may be extended at the option of the Group for a further period of five years. The rent was revised every two years during the initial term.

On 30th August, 2002, the Group exercised the option to renew the tenancy agreement for a further term of five years. On exercise of the option to renew for a further term of five years, the rent was revised. The prevailing rent is equivalent to the open market rental value at 30th September, 2002 as certified by Knight Frank, an independent firm of professional valuers.

- (i) On 1st April, 2004, Dedicated Group acquired a further 9% equity interest in 廣州寶晉 and 15% equity interest in 北京寶盛道吉體育有限公司 (“北京寶盛”) for a total consideration of US\$345,000, from Rest Assured Group Limited, the minority shareholder of 廣州寶晉 and 北京寶盛, with equity interest of 9% and 15%, respectively.

On 1st April, 2004, Dedicated Group partially disposed 20% equity interest in 廣州寶旭貿易有限公司 for a total consideration of US\$811,000 to Rest Assured Group Limited, the minority shareholder of 廣州寶晉 and 北京寶盛.

- (j) On 1st April, 2004, a wholly-owned subsidiary of the Company, Forearn Company Limited acquired the remaining 20% equity interest in Golden Chain Developments Limited (“Golden Chain”) for a total consideration of approximately US\$20,000 from Chuan Chyi Trading Co., the minority shareholder of Golden Chain.

- (k) On 22nd August, 2003, a wholly-owned subsidiary of the Company, Manfield Developments Limited, acquired a further 0.5% equity interest in Selangor Gold Limited (“Selangor Gold”) and shareholder loan from each of Mr. Huang Tsung Jen and Jollyard for a total consideration of approximately US\$72,000. Selangor Gold is formerly a 50% owned jointly controlled entity of the Group. Mr. Huang Tsung Jen and Jollyard, each holds 15% of the issued share capital of Dedicated Group Limited (“Dedicated Group”), a company that is ultimately owned as to 70% by the Company. Mr. Huang Tsung Jen is also a director of Dedicated Group.

On 1st October, 2002, Dedicated Group acquired a further 15% interest in 廣州寶晉體育用品有限公司 (“廣州寶晉”), a formerly 70% owned subsidiary of Dedicated Group, for a total consideration of US\$182,000 from Mr. Dick Ma, Mr. Philip Chung and Linear (Taiwan) Inc., the minority shareholders of 廣州寶晉, with equity interest of 1%, 5% and 9%, respectively.

- (l) The purchases of raw materials were carried out at market prices.
- (m) The sales of semi-finished/shoe-related products were carried out at market prices or, where no market prices were available, at cost plus a percentage profit mark-up.
- (n) Service fees paid and service income were based on terms agreed by both parties.

For the year ended 30th September, 2004

### 38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

- (o) On 1st November, 2004, a wholly-owned subsidiary of the Company, Murata Profits Limited, acquired a further 20% equity interest in Precise Zone Investments Limited ("Precise Zone") from Topmost Industries Limited, a jointly controlled entity of the Group, for a total consideration of approximately US\$518,000. The Group formerly has 15% interest in Precise Zone.
- (p) Property, plant and equipment were disposed of based on terms agreed by both parties on 7th July, 2004.

In addition, as at 30th September, 2004, the Group advanced approximately US\$56.8 million to P.T. Nikomas Gemilang, a 99.38% owned subsidiary, for financing its operations. The advance is unsecured, carries interest at commercial rate and has no fixed repayment term.

As at 30th September, 2004, minority shareholders of certain subsidiaries advanced approximately US\$10.3 million for the operation of subsidiaries. The advances are unsecured, interest-free, have no fixed repayment terms and are in proportion to their interests in the subsidiaries.

### 39. POST BALANCE SHEET EVENTS

On 28th December, 2004, the Group entered into an amendment agreement with, among other parties, Eagle Nice to amend the terms of the Convertible Note. Subject to, among other conditions, approval by independent shareholders of Eagle Nice at its extraordinary general meeting, the Convertible Note will be fully converted into 87,000,000 Eagle Nice Shares. The Group's interest in Eagle Nice will then be increased from 30.88% to 44.96%. Details of the agreement were set out in a joint announcement of the Company and Eagle Nice dated 29th December, 2004.

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**40. PRINCIPAL SUBSIDIARIES**

Details of the Company's principal subsidiaries at 30th September, 2004 are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Bestful Properties Limited	British Virgin Islands	US\$1	100%	Property holding in the PRC
Bortum Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Champolian Investments Inc.	British Virgin Islands	US\$10,000	100%	Investment holding
Chiya Vietnam Enterprise Limited	Vietnam	US\$700,000	51%	Manufacture of foamed cotton
Dah-Chen Shoe Materials Ltd.	Vietnam	US\$437,500	51%	Manufacture of shoe pads
Dedicated Group Limited	British Virgin Islands	US\$100	70%	Sales and marketing of footwear and sportswear in the PRC
Escon Enterprises Limited	British Virgin Islands	US\$1	100%	Leases machinery, equipment to Prime Asia, provision of sub-contracting services for manufacture of leather in the PRC
Essington Developments Limited	British Virgin Islands	US\$100	55%	Manufacture of shoe counters in the PRC
Farquharson Holdings Corp.	British Virgin Islands	US\$10,000	100%	Investment holding
Forearn Company Ltd.	British Virgin Islands	US\$1	100%	Manufacture shoe moulds in the PRC

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**40. PRINCIPAL SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Friendsole Limited	Hong Kong	Ordinary – HK\$1,000	100%	Provision of management services
		Non-voting deferred – HK\$1,000	100%	
Fu Tai Company Limited	British Virgin Islands	US\$1	100%	Manufacture of shoe moulds and EVA midsole for shoes in the PRC
Giacinto Investments Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Great Pacific Investments Ltd.	British Virgin Islands	US\$1	100%	Investment holding
High Shine Investments Limited	British Virgin Islands	US\$100	51%	Investment holding
Impressive Developments Limited	British Virgin Islands	US\$1,000	82.5%	Investment holding
Key International Co., Ltd.	British Virgin Islands	US\$1	100%	Investment holding
Multiform Enterprises Limited	British Virgin Islands	US\$200	100%	Manufacture of moulding equipment in the PRC
Murata Profits Limited	British Virgin Islands	US\$1	100%	Investment holding
Optima Worldwide Corporation	British Virgin Islands	US\$1,000	100%	Provision of administration services



For the year ended 30th September, 2004

**40. PRINCIPAL SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Overboard Investments Limited	British Virgin Islands	US\$1	100%	Manufacture of shoe pads in the PRC
P.T. Nikomas Gemilang	Indonesia	Rp56,680,000,000	99.38%	Manufacture and sale of footwear
P.T. Pou Chen Indonesia	Indonesia	Rp49,872,000,000	90%	Manufacture and sale of footwear
P.T. Suksespermatas Indonusa	Indonesia	Rp3,500,000,000	90%	Manufacture of mould and cutting for shoes
P.T. Variadhana Citraselaras	Indonesia	Rp625,000,000	55%	Manufacture of injection moulds for shoe components
Patterns Developments Limited	British Virgin Islands	US\$1	100%	Investment holding
Pou Chen Vietnam Enterprise Ltd.	Vietnam	US\$36,389,900	100%	Manufacture and sale of footwear
Pou Chien Chemical (Holdings) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pou Chien Chemical Company Limited	Taiwan	NT\$668,100,000	100%	Manufacture of shoe materials (chemical products)

For the year ended 30th September, 2004

**40. PRINCIPAL SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Pou Ming Paper Products Manufacturing Company Limited	British Virgin Islands	US\$1	100%	Manufacture of paper carton boxes and investment holding in the PRC
Pou Yuen Fu Ta Limited	British Virgin Islands	US\$1	100%	Manufacture of footwear in the PRC
Pou Yuen Industrial (Holdings) Limited	Hong Kong	Ordinary – HK\$12,000,000 6% cumulative preference – HK\$433,600,000	100% 100%	Investment holding and property holding in Hong Kong and the PRC
Pou Yuen International Limited	British Virgin Islands	US\$1	100%	Manufacture of footwear in the PRC
Pou Yuen Marketing Company Limited	British Virgin Islands	US\$1	100%	Sale and marketing of footwear in the PRC
Pou Yuen Trading Inc.	British Virgin Islands	US\$1	100%	Sale and marketing of footwear in the PRC
Pou Yuen Vietnam Enterprise Ltd.	Vietnam	US\$86,406,000	100%	Manufacture and sale of footwear
Prime Asia (S.E. Asia) Leather Corporation	British Virgin Islands	US\$1,000	100%	Leather trading in Vietnam

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**40. PRINCIPAL SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Prime Asia China Leather Corporation	British Virgin Islands	US\$1,000	100%	Leather Trading in the PRC
Prime Asia Leather Corporation	British Virgin Islands	US\$50,000	100%	Investment holding
Pro Kingtex Industrial Company Limited	British Virgin Islands	US\$13,792,810	91.68%	Manufacture of apparel in the PRC
Selangor Gold Limited	British Virgin Islands	US\$200	51%	Sales and marketing of footwear and sportswear in the PRC
Solar Link International Inc.	USA	US\$1,000,000	100%	Manufacture and sale of footwear
Technic Holdings Corporation	British Virgin Islands	US\$1	100%	Manufacture and sale of footwear in the PRC
Top Units Developments Limited	British Virgin Islands	US\$100	51%	Investment holding
Upturn Investments Limited	British Virgin Islands	US\$1	100%	Manufacture of paper inner boxes and carton boxes in the PRC
Valuable Developments Limited	British Virgin Islands	US\$100	51%	Investment holding

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#### 40. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued/ contributed capital	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities*
Wet Blue International Corporation	British Virgin Islands	US\$50,000	100%	Wet blue trading in the PRC
Yue Yuen Industrial Limited	Hong Kong	Ordinary – HK\$1,000 Non-voting deferred – HK\$47,000,000	100% 100%	Investment holding and property holding in the PRC
Yue Yuen International Limited	British Virgin Islands	US\$1	100%	Manufacture of footwear in the PRC
Yue Yuen Marketing Company Limited	British Virgin Islands	US\$1	100%	Sale and marketing of footwear in the PRC
Yue Yuen Purchasing & Supply Co. Ltd.	British Virgin Islands	US\$1	100%	Raw materials sourcing in the PRC

\* The principal activities are carried out in the place of incorporation unless otherwise stated.

The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

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**41. PRINCIPAL ASSOCIATES**

Details of the Group's principal associates at 30th September, 2004 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities
All Saints Enterprises Limited	British Virgin Islands	37%	Investment holding
Asia Air Tech Industrial (Pte) Ltd.	Singapore	30%	Investment holding
Bigfoot Limited	British Virgin Islands	48.76%	Cloth product trading/ cloth dyeing & processing/ cloth shoe material binding
Eastlion Enterprises Ltd.	British Virgin Islands	35%	Property holding in the PRC
Eastlion Industrial Ltd.	British Virgin Islands	35%	Manufacture of PU Plastic/ hardeners/processing agents/ lotion plaster/powder coatings
Eagle Nice (International) Holdings Limited	Cayman Islands	30.88%	Investment holding
Just Lucky Investments Limited	British Virgin Islands	38.30%	Property holding in the PRC
Nan Pao Resins (China) Co., Ltd.	People's Republic of China	37%	Manufacture of glues/liquid coatings/powder coatings
Nan Pao Resins (Holdings) Limited	British Virgin Islands	35%	Investment holding
Nan Pao Resins (Vietnam) Enterprise Limited	Vietnam	37%	Manufacture of liquid coating/glues

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**41. PRINCIPAL ASSOCIATES** (Continued)

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities
Natural Options Limited	British Virgin Islands	38.30%	Manufacture of foamed cotton
Original Designs Developments Limited	British Virgin Islands	47%	Manufacture of shoe lasts
Pine Wood Industries Limited	British Virgin Islands	37%	Investment holding
Platium Long John Company Limited	Taiwan	48.76%	Cloth product trading/ cloth dyeing & processing/ cloth shoe material binding
Prosperous Industrial (Holdings) Limited	Cayman Islands	30%	Manufacture of sport bags, backpacks, luggage and travel accessories
Rising Sun Associates Limited	British Virgin Islands	37%	Investment holding
San Fang Chemical Industry Co. Ltd	Taiwan	30.97%	Manufacture and trading of synthetic leather
Talent Pool Management Limited	British Virgin Islands	30%	Provision of school services
Teco (Dongguan) Air Conditioning Equipment Ltd.	People's Republic of China	30%	Manufacture of central cooling system, commercial air conditioner and accessories

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

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**42. PRINCIPAL JOINTLY CONTROLLED ENTITIES**

Details of the Group's principal jointly controlled entities at 30th September, 2004 are as follows:

Name of jointly controlled entity	Place of incorporation/ operation	Proportion of nominal value of issued/ contributed capital held by the Company indirectly	Principal activities
Blessland Enterprises Ltd.	British Virgin Islands	50%	Manufacture of shoe pads
Cohen Enterprises Inc.	British Virgin Islands	50%	Manufacture and sales of leather products for shoes
Ever Altantic Investments Limited	British Virgin Islands	45.84%	Manufacture of apparel in Vietnam and the Philippines
Hua Jian Industrial Holding Co., Limited	British Virgin Islands	50%	Manufacture and sale of ladies shoes
Ka Yuen Rubber Factory Limited	British Virgin Islands	50%	Manufacture and sale of rubber soles in the PRC
Rising Developments Limited	British Virgin Islands	23%	Sale of petrochemical products in the PRC
Topmost Industries Limited	British Virgin Islands	50%	Manufacture of counters for shoes
Twinways Investments Limited	British Virgin Islands	50%	Manufacture of injection moulds for shoe components
Well Success Investments Limited	British Virgin Islands	40%	Investment holding
Yuen Thai Industrial Company Limited	Hong Kong	50%	Manufacture and trading of sports and active wear

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.