Notes to the Financial Statements

For the year ended 30th September, 2005

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 incorporated in Taiwan, and 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 39.

2. Potential impact arising from the recently issued accounting standards

Since 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKAS"), Interpretations and Hong Kong Financial Reporting Standard ("HKFRS") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting period beginning on or after 1st January, 2005 except for HKFRS 3 "*Business Combinations*". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30th September, 2005.

HKFRS 3 is applicable to business combination for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 30th September, 2005.

The Group has commenced an assessment of the impact of the other new HKFRSs and identified that the following new HKFRSs may have a material effect on how the results of operations and financial positions are prepared and presented as described below:

Business Combination

HKFRS 3 is applicable to the Group from 1st October, 2005 as there were no business combination on or after 1st January, 2005. On application of HKFRS 3, amortisation of goodwill on acquisition of subsidiaries, associates and jointly controlled entities will be discontinued. The accumulated amortisation of goodwill for subsidiaries, associates and jointly controlled entities of US$33.2 million, US$3.6 million and US$0.7 million, respectively, will be eliminated with a corresponding decrease to the cost of goodwill. On the adoption of HKFRS 3, negative goodwill of US$1.3 million and goodwill of US$151.4 million recognised in reserves as at 1st October, 2005 will be derecognised with a corresponding adjustment to retained profits.

2. Potential impact arising from the recently issued accounting standards *(Continued)*

Financial Instruments

Convertible bonds

HKAS 32 "*Financial Instruments: Disclosure and Presentation*" requires an issuer of a compound financial instrument that contains financial liability, equity and embedded derivatives, on a retrospective application, to classify the compound instrument into the respective components on initial recognition and to account for these components separately. On adoption of HKAS 32 at 1st October, 2005, it would result in decrease in liabilities of US$38.3 million and retained profits of US$19.2 million and increase in convertible bonds reserve of US$57.5 million.

Classification and measurement of financial assets and financial liabilities

Under HKAS 39 "*Financial Instruments: Recognition and Measurement*", financial assets are classified as "financial assets at fair value through profit or loss", "available for sale financial assets", "loan and receivables" or "held to maturity financial assets". The application of HKAS 39 is expected to result in the reclassification of investment in securities classified as non-current asset with a carrying amount of US$38.4 million to available for sale investments from 1st October, 2005 at a fair value of US$30.8 million with US$7.6 million to be charged to the retained profits.

Derivatives

All derivatives within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. For derivatives that are designated as effective hedging instruments, changes in fair values of such derivatives are recognised in equity for the period in which they arise. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. The adoption of HKAS 39 does not expect to have material effect on the results of operations and financial position of the Group.

Hotel Properties

Hong Kong Interpretation ("HK-INT") 2 "*The Appropriate Accounting Policies for Hotel Properties*" requires owner-operated properties to be classified as property plant and equipment in accordance with HKAS 16 "*Property, Plant and Equipment*", and therefore be accounted for either using the cost model or revaluation model. The retrospective adoption of HK-INT 2 is expected to decrease property, plant and equipment and retained profits by US$5.6 million at 1st October, 2005.

Owner-occupied Leasehold Interests in Land

HKAS 17 "*Leases*" requires that land and building elements of a lease of land and building are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements. In which case, the entire lease is generally treated as a finance lease and be carried at cost and amortised over the term on a straight line basis.

The retrospective adoption of HKAS 17 will result in a decrease in property, plant and equipment and a corresponding increase in prepaid lease payments in respect of leasehold land at 1st October, 2005.

Investment Property

HKAS 40 "Investment Properties" introduces both cost model and fair value model for the measurement of investment property. For fair value model, HKAS 40 requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise.

The Group has elected to use the fair value model to account for investment properties from 1st October, 2005. The investment property revaluation reserve of US$9.3 million will be derecognised with a corresponding adjustment to the retained profits.

2. Potential impact arising from the recently issued accounting standards *(Continued)*

Deferred Taxation related to Investment Properties

HK(SIC) Interpretation 21 "*Income Taxes – Recovery of Revalued Non-Depreciable Assets*" removes the presumption that the carrying amount of investment properties is to be recovered through sale. The Group estimates the retrospective adoption of HK(SIC) Interpretation 21 will result in an increase in deferred tax liabilities of US$3.1 million and a corresponding decrease in retained profits.

3. Significant accounting policies

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting polices 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in the line with those used by other member of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on acquisition represented the excess of the purchase consideration paid over the Group's share 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 is 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.

Negative goodwill

Negative goodwill arising on acquisition represented 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 is credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions on or after 1st October, 2001 is presented separately in the balance sheet 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.

3. Significant accounting policies *(Continued)*

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 any impairment loss, using the equity method of accounting.

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 any identified impairment loss using the equity method of accounting. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

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

Rental income from properties under operating leases, is recognised on a straight-line basis over the lease period.

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 values 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. Costs of land and buildings are transferred to investment properties at cost.

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.

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 Statement of Standard Accounting Practice 17 "Property, Plant and Equipment" issued by the 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 retained profits.

Buildings under construction are stated at cost which includes all construction costs and other directly attributable costs, including borrowing costs. 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 rights 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.

The cost of leasehold improvements is depreciated at 10% per annum using the reducing balance method.

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:

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

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

3. Significant accounting policies *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of the tangible and intangible 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.

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.

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.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts.

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 stated at cost, less any impairment loss that is other than temporary.

Other investments are stated at fair values, with unrealised gains and losses recognised in the income statement.

Convertible bonds

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The discount on redemption and issue costs incurred are amortised on a straight line basis from the date of issue to final redemption. 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 is charged immediately to the income statement.

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 profit before taxation 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 not 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.

3. Significant accounting policies *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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 enacted or substantially enacted at the balance sheet date. 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. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Exchange gains and losses arising on conversion are included in the income statement.

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.

4. Business and geographical segments

Geographical segments

For management purposes, the Group reports the geographical segment as its primary segment information.

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

For the year ended 30th September, 2005

	United States of America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Total US$'000
Turnover	**1,255,227**	**834,627**	**862,438**	**202,543**	**3,154,835**
Results					
Segment results	**103,928**	**68,996**	**47,373**	**16,751**	**237,048**
Other operating income					**110,943**
Unallocated expenses					**(46,415)**
Profit from operations					**301,576**
Finance costs					**(16,648)**
Gain on disposal of a jointly controlled entity					**750**
Share of results of associates					**12,230**
Share of results of jointly controlled entities					**23,013**
Profit before taxation					**320,921**
Income tax expense					**(5,391)**
Profit before minority interests					**315,530**
Minority interests					**(5,404)**
Net profit for the year					**310,126**

4. Business and geographical segments *(Continued)*

Geographical segments *(Continued)*

At 30th September, 2005

	United States of America US$'000	Europe US$'000	Asia US$'000	Others US$'000	Total US$'000
Assets					
Segment assets	**803,395**	**535,285**	**794,005**	**129,830**	**2,262,515**
Interests in associates					**177,414**
Interests in jointly controlled entities					**151,956**
Unallocated corporate assets					**540,723**
Consolidated total assets					**3,132,608**
Liabilities					
Segment liabilities	**154,420**	**102,707**	**112,786**	**24,922**	**394,835**
Unallocated corporate liabilities					**795,519**
Consolidated total liabilities					**1,190,354**
Other information					
Capital additions	**90,549**	**60,191**	**58,355**	**14,608**	**223,703**
Depreciation and amortisation	**46,006**	**30,612**	**36,426**	**7,428**	**120,472**
Amortisation of goodwill	**167**	**152**	**10,713**	**33**	**11,065**
Loss on disposal of property, plant and equipment	**1,586**	**1,053**	**791**	**256**	**3,686**

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

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
Assets					
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					601,928
Consolidated total assets					2,924,280
Liabilities					
Segment liabilities	132,406	86,701	85,554	19,279	323,940
Unallocated corporate liabilities					817,770
Consolidated total liabilities					1,141,710
Other information					
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

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:

	Carrying amount of segment assets		Capital additions	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
People's Republic of China (the "PRC")	**1,479,985**	1,364,842	**112,439**	93,695
Indonesia	**196,016**	184,888	**23,876**	9,626
Vietnam	**522,695**	438,243	**84,188**	45,970
Others	**63,819**	64,112	**3,200**	1,888
	2,262,515	2,052,085	**223,703**	151,179

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.

5. Profit from operations

	2005 US$'000	2004 US$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
– basic salaries and allowances	**529,900**	456,120
– retirement benefits scheme contributions	**7,780**	12,657
	537,680	468,777
Depreciation and amortisation on property, plant and equipment	**120,472**	114,657
Amortisation of goodwill, included in other operating expenses	**11,065**	11,058
	131,537	125,715
Auditors' remuneration	**1,241**	1,132
Loss on disposal of property, plant and equipment	**3,686**	9,200
Research and development expenditure	**94,071**	89,303
and after crediting:		
Interest income on bank deposits	**6,891**	3,620
Gain on disposal of investments in securities	**–**	26,210
Dividend income from investments in securities	**529**	22
Exchange gain	**17,942**	13,080
Unrealised gain on other investments	**–**	79
Gross rental income on investment properties, before deduction of outgoings of US$30,000 (2004: US$32,000)	**5,107**	4,376

6. Finance costs

	2005 US$'000	2004 US$'000
Interest on bank borrowings wholly repayable within five years	**16,800**	11,167
Discount on redemption of convertible bonds *(Note 23)*	**(786)**	(655)
Amortisation of arrangement fees *(Note 23)*	**634**	528
	16,648	11,040

7. Directors' emoluments and employees' emoluments

The emoluments paid or payable to each of the 14 (2004: 12) directors were as follows:

	Tsai Chi Neng	David N.F. Tsai	Edward Y. Ku	Kuo Tai Yu	Lu Chin Chu	Kung Sung Yen	Chan Lu Min	Li I Nan, Steve	Tsai Pei Chun, Patty	Choi Kwok Keung	Shih Hung	John J.D. Sy	So Kwan Lok	Poon Yiu Kin, Samuel	2005
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Directors' fees:															
Executive	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive	–	–	–	–	–	–	–	–	–	–	–	46	–	–	46
Independent non-executive	–	–	–	–	–	–	–	–	–	–	25	–	26	26	77
Other emoluments of executive directors:															
Salaries and other benefits	273	342	299	89	88	151	19	172	89	–	–	–	–	–	1,522
Bonus	1,172	1,061	63	1,046	955	1,044	185	43	40	–	–	–	–	–	5,609
Retirement benefit schemes	–	–	2	–	–	–	–	2	–	–	–	–	–	–	4
Other emoluments of non-executive directors:															
Salaries and other benefits	–	–	–	–	–	–	–	–	–	121	–	–	–	–	121
Bonus	–	–	–	–	–	–	–	–	–	116	–	–	–	–	116
Total directors' emoluments	1,445	1,403	364	1,135	1, 043	1,195	204	217	129	237	25	46	26	26	7,495

	Tsai Chi Neng	David N.F. Tsai	Edward Y. Ku	Kuo Tai Yu	Lu Chin Chu	Kung Sung Yen	Chan Lu Min	Li I Nan, Steve	Choi Kwok Keung	Shih Hung	John J.D. Sy	So Kwan Lok	2004
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Directors' fees:													
Executive	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive	–	–	–	–	–	–	–	–	158	–	–	–	158
Independent non-executive	–	–	–	–	–	–	–	–	–	26	51	–	77
Other emoluments of executive directors:													
Salaries and other benefits	273	339	289	86	93	139	18	166	–	–	–	–	1,403
Bonus	1,301	1,186	82	1,156	1,055	1,154	218	62	–	–	–	–	6,214
Retirement benefit schemes	–	–	2	–	–	–	–	1	–	–	–	–	3
Other emoluments of non-executive directors:													
Bonus	–	–	–	–	–	–	–	–	128	–	–	–	128
Total directors' emoluments	1,574	1,525	373	1,242	1,148	1,293	236	229	286	26	51	–	7,983

7. Directors' emoluments and employees' emoluments *(Continued)*

The directors' emoluments disclosed above include the rateable value of a property which is owned by the Group and occupied by Mr. Li I Nan, Steve, an executive director of the Company. The rateable value of the residential accommodation provided to the director is approximately US$9,000 (2004: US$9,000).

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.

Bonus were determined with reference to the Group's operating results, individual performances and comparable market statistics.

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.

8. Income tax expense

	2005 US$'000	2004 US$'000
Hong Kong Profits Tax at 17.5% (2004: 17.5%)		
– current year	**86**	26
– overprovision in prior years	**(6)**	–
Overseas taxation	**4,275**	1,611
Deferred taxation *(Note 26)*	**(71)**	294
Taxation attributable to the Company and its subsidiaries	**4,284**	1,931
Share of taxation of associates	**332**	309
Share of taxation of jointly controlled entities	**775**	1,112
	5,391	3,352

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

Pursuant to the relevant laws regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

8. Income tax expense *(Continued)*

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

	2005 **US$'000**	2004 US$'000
Profit before taxation	**320,921**	310,997
Tax at the average income tax rate of approximately 24.5% (2004: 24.4%) *(Note)*	**78,742**	75,808
Tax effect of expenses not deductible for tax purpose	**4,267**	3,287
Tax effect of income not taxable for tax purpose	**(76,110)**	(74,988)
Tax effect of tax losses not recognised	**1,604**	169
Utilisation of tax losses previously not recognised	**(114)**	(57)
Effect of tax holiday granted to subsidiaries	**(2,992)**	(867)
Overprovision in prior years	**(6)**	–
Taxation charge for the year	**5,391**	3,352

Note: The average income tax rate for the year ended 30th September, 2005 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.

In March 2004 and 2005, Hong Kong Inland Revenue Department ("IRD") issued protective profits tax assessments of approximately HK$183,000,000 (equivalent to approximately US$23,462,000) and HK$224,000,000 (equivalent to approximately US$28,766,000) relating to the years of assessment 1997/98 and 1998/99, that is, for the financial years ended 30th September, 1997 and 1998, respectively, against certain wholly-owned subsidiaries of the Company. The Group lodged objections with the IRD against the protective assessments. The IRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing tax reserve certificates (the "TRC") of HK$48,000,000 (equivalent to approximately US$6,154,000) and HK$62,526,000 (equivalent to approximately US$8,016,000) for the years of assessment 1997/98 and 1998/99, respectively. These TRC have been purchased by the Group.

In the opinion of the directors, the concerned subsidiaries did not carry on any business and derived no profit in or from Hong Kong and 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 that no profits tax is in fact payable by the Group for these years of assessment and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

9. Dividends

	2005 US$'000	2004 US$'000
2005 Interim dividend of HK$0.27 per share (2004: 2004 Interim dividend of HK$0.25 per share) paid	**56,232**	51,943
2004 Final dividend of HK$0.46 per share (2004: 2003 Final dividend of HK$0.46 per share) paid	**95,529**	95,863
	151,761	147,806

The directors recommend the payment of a final dividend of HK$0.48 per share for the year ended 30th September, 2005. The proposed dividend for 2005 is payable to those shareholders on the register of members on 1st March, 2006.

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.

10. Earnings per share

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

	2005	2004
Earnings:		
Net profit for the year and earnings for the purpose of basic earnings per share	**US$310,126,000**	US$303,337,000
Effect of dilutive potential ordinary shares:		
Amortisation of arrangement fees	**634,000**	–
Discount on redemption of convertible bonds	**(786,000)**	–
Adjustment to the share of results of a jointly controlled entity based on potential dilution of its earnings per share	**(561,000)**	–
Net earnings for the purpose of diluted earnings per share	**US$309,413,000**	US$303,337,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,619,748,986**	1,616,907,456
Effect of dilutive potential ordinary shares:		
Share options	**–**	2,157,801
Convertible bonds	**90,033,568**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,709,782,554**	1,619,065,257

11. Investment properties

	The Group US$'000
Valuation	
At 1st October, 2004	31,723
Transfer from property, plant and equipment *(Note 12)*	6,100
Revaluation decrease	(2,123)
At 30th September, 2005	**35,700**

The Group's investment properties are leased out under operating leases and were revalued at 30th September, 2005 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.

	The Group	
	2005 US$'000	2004 US$'000
The carrying amount of the Group's investment properties in the PRC are held under:		
– long-term land use rights	**1,257**	1,257
– medium-term land use rights	**34,443**	30,466
	35,700	31,723

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
The Group								
Cost or valuation								
At 1st October, 2004	672,127	17,794	26,489	738,895	133,320	92,089	21,533	1,702,247
Additions	33,581	–	61,468	86,308	24,223	14,891	3,232	223,703
Reclassifications	27,893	–	(28,294)	250	31	120	–	–
Transfer to investment properties *(Note 11)*	(6,100)	–	–	–	–	–	–	(6,100)
Disposals	(1,323)	–	–	(18,687)	(2,843)	(3,229)	(1,076)	(27,158)
At 30th September, 2005	**726,178**	**17,794**	**59,663**	**806,766**	**154,731**	**103,871**	**23,689**	**1,892,692**
Comprising:								
At cost	690,665	17,794	59,663	806,766	154,731	103,871	23,689	1,857,179
At valuation – 1995	35,513	–	–	–	–	–	–	35,513
	726,178	17,794	59,663	806,766	154,731	103,871	23,689	1,892,692
Depreciation and amortisation								
At 1st October, 2004	105,548	–	–	379,670	57,947	57,607	14,916	615,688
Provided for the year	21,545	–	–	70,310	13,546	12,739	2,332	120,472
Eliminated on disposals	(96)	–	–	(11,760)	(1,719)	(2,693)	(820)	(17,088)
At 30th September, 2005	**126,997**	**–**	**–**	**438,220**	**69,774**	**67,653**	**16,428**	**719,072**
Net book values								
At 30th September, 2005	**599,181**	**17,794**	**59,663**	**368,546**	**84,957**	**36,218**	**7,261**	**1,173,620**
At 30th September, 2004	566,579	17,794	26,489	359,225	75,373	34,482	6,617	1,086,559

12. Property, plant and equipment *(Continued)*

	Land and buildings US$'000	Leasehold improvements US$'000	Total US$'000
The Company			
Cost			
At 1st October, 2004 and 30th September, 2005	**242**	**20**	**262**
Depreciation and amortisation			
At 1st October, 2004	47	15	62
Provided for the year	5	1	6
At 30th September, 2005	**52**	**16**	**68**
Net book values			
At 30th September, 2005	**190**	**4**	**194**
At 30th September, 2004	195	5	200

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, 2005, if the leasehold 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$592,875,000 (2004: US$560,274,000).

The Group has acquired rights to the use of land (the "land rights") in the PRC, Indonesia and Vietnam 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, 2005, the net book value of the land rights for which the Group had not been granted formal title amounted to approximately US$50.9 million (2004: approximately US$46.2 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.

12. Property, plant and equipment *(Continued)*

	The Group		The Company	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'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	**7,961**	6,088	**–**	–
– Indonesia	**64,500**	67,251	**–**	–
Properties held under medium-term leases or medium-term land use rights in				
– Hong Kong	**3,404**	3,501	**190**	195
– the PRC	**348,817**	332,466	**–**	–
– Indonesia	**4,185**	4,308	**–**	–
– Vietnam	**165,818**	148,469	**–**	–
Freehold properties in Mexico	**4,496**	4,496	**–**	–
Hotel properties held under long-term land use rights in the PRC	**17,794**	17,794	**–**	–
Buildings under construction situated in				
– the PRC	**14,924**	17,584	**–**	–
– Vietnam	**40,373**	8,774	**–**	–
– Indonesia	**4,048**	131	**–**	–
– Mexico	**318**	–	**–**	–
	676,638	610,862	**190**	195

13. Deposits made for acquisition of properties

The deposits at 30th September, 2005 and 2004 were made by the Group in connection with the acquisition of properties in PRC and the Vietnam, respectively. The acquisition of properties in Vietnam was completed during the year ended 30th September, 2005 and the deposits of approximately US$5,000,000 was transferred to property, plant and equipment. The amounts committed at 30th September, 2005 and 2004 are shown as capital commitments in note 34.

14. Interests in subsidiaries/amounts due to subsidiaries

	The Company	
	2005 US$'000	2004 US$'000
Unlisted shares, at cost	**60,832**	60,832
Amounts due from subsidiaries	**1,753,079**	1,466,986
	1,813,911	1,527,818
Amounts due to subsidiaries	**136,809**	31,224

The amounts due from (to) subsidiaries 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.

Details of the Company's principal subsidiaries at 30th September, 2005 are set out in note 39.

15. Goodwill

	The Group
	US$'000
COST	
At 1st October, 2004 and at 30th September, 2005	**221,294**
AMORTISATION	
At 1st October, 2004	22,123
Provided for the year	11,065
At 30th September, 2005	**33,188**
CARRYING VALUES	
At 30th September, 2005	**188,106**
At 30th September, 2004	199,171

Goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

16. Interests in associates

	The Group	
	2005	2004
	US$'000	US$'000
Share of net assets of associates	**112,152**	74,862
Goodwill on acquisition *(Note (i))*	**59,958**	45,537
Amounts due from associates	**5,304**	5,734
Convertible note issued by an associate *(Note (ii))*	**–**	26,578
	177,414	152,711
Market value of listed shares	**126,880**	107,145

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, 2005 are set out in note 40.

16. Interests in associates *(Continued)*

Notes:

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

	US$'000
Cost	
At 1st October, 2004	46,609
Arising on acquisition of additional interests in associates	16,922
At 30th September, 2005	**63,531**
Amortisation	
At 1st October, 2004	1,072
Provided for the year	2,501
At 30th September, 2005	**3,573**
Carrying values	
At 30th September, 2005	**59,958**
At 30th September, 2004	45,537

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

(ii) In 2004, the Group entered into a subscription agreement with Eagle Nice (International) Limited ("Eagle Nice"), a company with its shares listed on the Stock Exchange and engaged in the manufacture and trading of sportswear and garments, for the subscription of 105,000,000 ordinary shares of HK$0.01 each ("Eagle Nice Share") and the subscription of a convertible note at a subscription price of HK$207.1 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.

On 28th December, 2004, the Group entered into an amendment agreement ("Amendment Agreement") with, among other parties, Eagle Nice to amend the conversion period of the Convertible Note. The Amendment Agreement was completed on 15th March, 2005 and the conversion of the Convertible Note took place on 17th March, 2005. On the conversion of the Convertible Note, the Group's interest in Eagle Nice was increased from 30.88% to 44.96%.

Details of the Amendment Agreement and the conversion of Convertible Notes were set out in the joint announcements of the Company and Eagle Nice dated 29th December, 2004 and 17th March, 2005, respectively.

17. Interests in jointly controlled entities

	The Group	
	2005	2004
	US$'000	US$'000
Share of net assets of jointly controlled entities	**112,303**	94,722
Goodwill on acquisition *(Note (i))*	**4,874**	5,150
Amounts due from jointly controlled entities	**24,779**	17,684
Convertible note issued by a jointly controlled entity *(Note (ii))*	**10,000**	–
	151,956	117,556

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, 2005 are set out in note 41.

17. Interests in jointly controlled entities *(Continued)*

Notes:

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

	US$'000
Cost	
At 1st October, 2004 and at 30th September, 2005	**5,527**
Amortisation	
At 1st October, 2004	377
Provided for the year	276
At 30th September, 2005	**653**
Carrying amount	
At 30th September, 2005	**4,874**
At 30th September, 2004	5,150

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

(ii) Pursuant to a subscription agreement dated 16th November, 2004, the Group acquired a convertible note issued by a jointly controlled entity in the principal amount of US$10,000,000. The note is unsecured, bear interest at London Interbank Offered Rate ("LIBOR") plus a margin of 1.25% per annum together with participation equally and rateably with the shareholders of the jointly controlled entity in all distributions, assets, capital and capital gains. The note has a maturity date on the earlier of 31st December, 2009 and the termination date of certain stipulations specified in the agreement. The Group has the right at any time to convert all or any of the note into fully paid ordinary shares of US$1.00 each in the share capital of the jointly controlled entity of a conversion price of US$1.00 per share.

The jointly controlled entity and its subsidiaries are engaged in the sale of sports products in the PRC.

18. Investments in securities

	The Group	
	2005	2004
	US$'000	US$'000
Non-current investments		
Investment securities		
Listed equity securities		
– Hong Kong	**34,177**	34,177
– overseas	**4,204**	4,143
	38,381	38,320
Current investments		
Other investments – equity securities		
Listed overseas	**–**	111
Unlisted overseas	**465**	465
	465	576
Market value of listed securities	**30,832**	47,151

19. Inventories

	The Group	
	2005	2004
	US$'000	US$'000
Raw materials	**187,225**	192,284
Work in progress	**67,495**	59,322
Finished goods	**153,046**	106,553
	407,766	358,159

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

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$376,145,000 (2004: US$332,753,000) and an aged analysis is as follows:

	The Group	
	2005	2004
	US$'000	US$'000
0 to 30 days	**269,999**	243,610
31 to 90 days	**94,338**	69,918
Over 90 days	**11,808**	19,225
	376,145	332,753

21. Trade and other payables

Included in trade and other payables are trade and bills payables of US$218,116,000 (2004: US$181,876,000) and an aged analysis is as follows:

	The Group	
	2005	2004
	US$'000	US$'000
0 to 30 days	**152,961**	132,719
31 to 90 days	**45,287**	41,853
Over 90 days	**19,868**	7,304
	218,116	181,876

22. Short-term bank borrowings

	The Group		The Company	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Current portion of long-term bank borrowings *(Note 24)*	**71,557**	67,498	**70,000**	52,290
Trust receipt and import loans	**772**	22,015	**–**	–
Short-term bank loans	**86,232**	99,033	**–**	–
Bank overdrafts	**–**	6	**–**	–
	158,561	188,552	**70,000**	52,290

23. Convertible bonds

	The Group and The Company	
	2005 US$'000	2004 US$'000
Convertible bonds due 2008	**317,000**	317,000
Less: Release of discount on redemption to income statement	**(1,441)**	(655)
Unamortised arrangement fees	**(2,008)**	(2,642)
	(3,449)	(3,297)
	313,551	313,703

On 23rd December, 2003, the Company issued US$300 million zero coupon convertible bonds due in 2008 ("CB 2008"). 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 a 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.

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 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.

23. Convertible bonds *(Continued)*

The bondholders may, at their option, require the Company to redeem all or some of the bonds on 23rd December, 2005 ("Put Option Date") at 99.5 per cent of the principal amount (the "Put Option"). The period for notifying the exercise of the Put Option expired on 23rd November, 2005 and the Put Option in respect of US$308,755,000 principal amount of the CB 2008 was exercised for redemption on 23rd December, 2005 (the "Exercised Bonds"). On 14th December 2005, the Company signed a put release agreement (the "Put Release Agreement") with a financial institution ("Financial Institution") pursuant to which the Company has agreed, on request of the holders of the Exercised Bonds, to revoke the Put Option exercised so that such CB 2008 will continue to be outstanding as if the Put Option had never been exercised. Under the Put Release Agreement, the Financial Institution has agreed to solicit purchases of the Exercised Bonds in respect of which the Put Option exercised is revoked by the Company. In addition, the Company will make an additional payment to or to the order of the Financial Institution on maturity of Exercised Bonds which are so purchased to increase the redemption amount.

As a result, the Put Option in respect of US$223,225,000 principal amount of the CB 2008 has been revoked and US$231,470,000 principal amount of the CB 2008 remains outstanding. The Company has paid US$85,102,350 to redeem US$85,530,000 principal amount of the CB 2008 after the balance sheet date.

As at 30th September, 2005, none of the CB 2008 had been converted into ordinary shares of the Company.

24. Long-term bank borrowings

	The Group		**The Company**	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
The bank borrowings are repayable within the periods as follows:				
Within one year	**71,557**	67,498	**70,000**	52,290
After one but within two years	**3,515**	139,518	**–**	122,710
After two but within five years	**280,213**	134,808	**280,213**	98,000
	355,285	341,824	**350,213**	273,000
Less: Amount due within one year included under current liabilities *(Note 22)*	**(71,557)**	(67,498)	**(70,000)**	(52,290)
Amount due after one year	**283,728**	274,326	**280,213**	220,710

Included in the bank borrowings is an amount of US$350 million (2004: US$168 million) drawn under a syndicated loan facility of US$420 million (2004: US$350 million), which is effectively a US dollar loan with commercial interest rates linked to the US dollar. Pursuant to the 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$3,817,000 (2004: US$3,888,000).

27. Share capital

	Number of shares	Amounts
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At 1st October, 2003, 30th September, 2004 and 30th September, 2005	**2,000,000,000**	**500,000**
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At 1st October, 2003	1,603,748,986	400,937
Exercise of share options	16,000,000	4,000
At 30th September, 2004 and 30th September, 2005	**1,619,748,986**	**404,937**

	US$'000
Shown in the financial statements as at 30th September, 2004 and 30th September, 2005	**52,274**

28. Share option schemes

A. 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 the primary purpose of providing incentives to directors and eligible employees.

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

The following table discloses the movement in the share options granted to the employees of the Group under the Company's Share Option Scheme for the year ended 30th September, 2005 and 2004:

		Number of share options		
Date of grant	**Exercise price per share**	**Outstanding at 1.10.2003**	**Exercised during the year ended 30.9.2004**	**Outstanding at 30.9.2004 and 30.9.2005**
	HK$			
12th December, 1996	5.110	16,000,000	(16,000,000)	–

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

28. Share option schemes *(Continued)*

B. PCC

In accordance with the terms of 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 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.

There were no options granted to any directors and employees of the Group under the PCC Scheme in respect of services provided to the Group for the years ended 30th September, 2005 and 2004.

29. Reserves

	Share premium US$'000	**Contributed surplus** US$'000	**Retained profits** US$'000	**Total** US$'000
THE COMPANY				
At 1st October, 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)
At 30th September, 2004	598,557	38,126	226,256	862,939
Net profit for the year	–	–	247,552	247,552
Dividends *(Note 9)*	–	–	(151,761)	(151,761)
At 30th September, 2005	**598,557**	**38,126**	**322,047**	**958,730**

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.

30. Acquisition of a subsidiary

	2004 US$'000
Net assets acquired:	
Property, plant and equipment	124
Inventories	768
Trade and other receivables	920
Bank balances and cash	936
Trade and other payables	(1,149)
	1,599
Less: Interest previously acquired and classified as jointly controlled entity	(584)
Net assets	1,015
Goodwill arising on acquisition	735
	1,750
Satisfied by:	
Cash consideration	1,750
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,750)
Bank balances and cash acquired	936
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(814)

The subsidiary acquired during the year ended 30th September, 2004 contributed approximately US$3,732,000 to the Group's turnover and profit of approximately US$443,000 to the Group's profit from operations.

31. Analysis of the balances of cash and cash equivalents

	2005 US$'000	2004 US$'000
Bank balances and cash	**380,516**	465,856
Deposits placed with a financial institution	**24,877**	–
Bank overdrafts	**–**	(6)
	405,393	465,850

32. Major non-cash transactions

During the year ended 30th September, 2005, the major non-cash transactions were as follows:

(a) Deposits made for acquisition of properties of US$5,000,000 were transferred to property, plant and equipment.

(b) The consideration for the acquisition of additional interest in an associate of US$26,578,000 was satisfied by the conversion of the convertible note issued by the associate previously.

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 formed part of the consideration for the acquisition of a subsidiary.

(b) Investment securities with a carrying value of US$54,792,000 were transferred to interests in associates.

33. Operating lease commitments

The Group as lessee

	The Group	
	2005	2004
	US$'000	US$'000
Minimum leases payments paid under operating leases during the year:		
Land and buildings	**18,549**	14,463
Plant and machinery	**4,566**	2,599
	23,115	17,062

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	
	2005	2004
	US$'000	US$'000
Within one year	**16,177**	11,379
In the second to fifth year inclusive	**23,042**	18,563
After five years	**28,946**	6,629
	68,165	36,571

Operating lease payments represent rentals payable by the Group for certain of its office properties, factories and staff quarters. Leases are negotiated for an average term of five years.

Included in the above are commitments under non-cancellable operating leases of approximately US$13.0 million (2004: US$20.1 million) which expire in 2007 with 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.

33. Operating lease commitments *(Continued)*

The Group as lessor

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

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

	The Group	
	2005 US$'000	2004 US$'000
Within one year	**1,358**	1,050
In the second to fifth year inclusive	**4,266**	2,313
After five years	**18,542**	9,336
	24,166	12,699

34. Capital commitments

	The Group	
	2005 US$'000	2004 US$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– amount committed for construction of buildings	**2,721**	9,453
– acquisition of property, plant and equipment	**5,495**	11,721
	8,216	21,174

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

35. Contingent liabilities

	The Group		The Company	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Guarantees given to banks in respect of banking facilities utilised by:				
– subsidiaries	**–**	–	**30,128**	167,515
– associates	**1,284**	1,284	**1,284**	1,284
– jointly controlled entities	**20,689**	20,866	**20,689**	20,866
	21,973	22,150	**52,101**	189,665

36. Retirement benefit schemes

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 workers under the subcontracting arrangements in China are subject to retirement benefits scheme established in the PRC. A specified percentage of their payroll is contributed 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 contribution under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

37. 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 (the "Listing Rules"). The transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

		The Group	
Name of company	**Nature of transactions/balances**	**2005 US$'000**	2004 US$'000
(I) CONNECTED PARTIES			
Substantial shareholder of the Company:			
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 *(note a)*	**3,013**	2,769
	Costs reimbursed to PCC under the Services Agreement *(note b)*	**237,987**	207,498
	Expenses reimbursed to PCC under the Services Agreement *(note b)*	**83,328**	83,028
	Service fees paid *(note b)*	**10,441**	9,366
	Tanning facilities and processing services fee paid *(note c)*	**12,102**	13,341
	Rental expenses under the Rental Agreement *(note d)*	**945**	893
	Sales of semi-finished shoe products *(note a)*	**21,464**	26,053
	Management services income received *(note e)*	**16,762**	10,877
	Balance due from/to the PCC Group at 30th September		
	– trade receivables	**4,371**	2,790
	– trade payables	**34,331**	26,434

37. Connected and related party transactions and balances *(Continued)*

Name of company	Nature of transactions/balances	The Group 2005 US$'000	The Group 2004 US$'000
(I) CONNECTED PARTIES *(Continued)*			
Companies controlled by a substantial shareholder of the Company:			
Golden Brands Developments Limited and its subsidiaries, associates and jointly controlled entities (collectively the "Golden Brands Group")	Management services income received *(note e)*	**5,626**	10,043
	Rental received on dormitories *(note e)*	**2,068**	2,096
	Sales of semi-finished products *(note i)*	**2,007**	3,217
	Balance due from/to the Golden Brands Group at 30th September		
	– trade receivables	**3,716**	1,321
	– trade payables	**28**	–
Companies controlled by certain directors:			
Godalming	Rentals paid on land and buildings *(note f)*	**7,135**	6,688
Rising Developments Limited ("Rising")	Purchase of fuel oil *(note a)*	**–**	74,101
	Balance due to Rising at 30th September		
	– trade payable	**1,814**	3,980
Company controlled by the minority shareholders of subsidiaries:			
Rest Assured Group Limited	Acquisition of additional interest in subsidiaries *(note g)*	**–**	345
	Proceeds from disposal of partial interest in a subsidiary *(note g)*	**–**	811
	Purchase of sportswear products *(note j)*	**703**	–
	Service fees paid *(note k)*	**1,014**	–
Chuan Chyi Trading Company	Acquisition of additional interest in a subsidiary *(note h)*	**–**	20
A non-wholly owned subsidiary:			
廣州寶旭貿易有限公司 ("廣州寶旭")	Sales of sportswear products *(note i)*	**444**	–
	Purchase of sportswear products *(note j)*	**845**	–

37. Connected and related party transactions and balances *(Continued)*

Name of company	Nature of transactions/balances	THE GROUP 2005 US$'000	2004 US$'000
(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES			
Jointly controlled entities:			
Various jointly controlled entities other than Rising	Purchase of raw materials *(note j)*	**95,796**	71,015
	Sales of shoe-related products *(note i)*	**3,888**	2,405
	Service fees paid *(note k)*	**85**	69
	Service income *(note k)*	**5,327**	3,282
	Acquisition of additional interest in a jointly controlled entity *(note l)*	**–**	518
	Balance due from/to at 30th September		
	– trade receivables	**4,515**	1,725
	– trade payables	**13,726**	15,721
Associates:			
	Purchase of raw materials *(note j)*	**58,162**	37,693
	Sales of shoe-related products *(note i)*	**440**	73
	Service income *(note k)*	**1,836**	5,073
	Proceeds from disposal of property, plant and equipment *(note m)*	**–**	21,283
	Balance due from/to at 30th September		
	– trade receivables	**215**	47
	– trade payables	**6,176**	5,830

Notes:

(a) During the year, the Group sold semi-finished shoe products to PCC Group representing approximately 0.7% (2004: 1.0%) 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 and a 50% owned jointly controlled entity of Godalming (see note (f) for details of Godalming's shareholders), represented approximately 0.1% (2004: 2.8%) 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 13.18% 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 7.09% 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.

37. Connected and related party transactions and balances *(Continued)*

Notes: (Continued)

(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 3.0% (2004: 3.4%) 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.

(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 98.07%, 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 0.7% (2004: 0.8%) of the net tangible assets of the Group as at 30th September, 2005 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 (Holdings) 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, 2002 ("Rental Agreement"), 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 Agreement, equivalent to the open market rental value at the date of entering of the agreement as certified by an independent valuer in Taiwan.

37. Connected and related party transactions and balances *(Continued)*

Notes: (Continued)

(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 93.65% by Mr. Tsai Chi Jui, a substantial shareholder of the Company and PCC is the ultimate holding company of the Company.

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) 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 values.

(g) On 1st April, 2004, Dedicated Group acquired a further 9% equity interest in 廣州寶晉體育用品有限公司 ("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 of 20% equity interest in 廣州寶旭 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.

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

(i) The sales of shoe-related/semi-finished/sportswear products were carried out at market prices or, where no market prices were available, at cost plus a percentage profit mark-up.

(j) The purchases of raw materials/sportswear products were carried out at market prices.

(k) Service fees paid and service income were based on terms agreed by both parties.

(l) On 1st November, 2003, 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 Industrial 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.

(m) Property, plant and equipment was disposed of based on terms agreed by both parties on 7th July, 2004.

37. Connected and related party transactions and balances *(Continued)*

In addition, as at 30th September, 2005, the Group advanced approximately US$31.8 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, 2005, the amount of loans from minority shareholders of certain subsidiaries approximated to US$4.0 million (2004: US$10.3 million), which were advanced to finance the operations of subsidiaries. The advances are unsecured and interest-free and in proportion to their interests in the subsidiaries.

38. Post balance sheet events

Other than the Put Release Agreement in respect of CB 2008 as detailed in note 23, the Group has no material post balance sheet events.

39. Principal subsidiaries

Details of the Company's principal subsidiaries at 30th September, 2005 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

39. 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*
Forearn Company Ltd.	British Virgin Islands	US$1	100%	Manufacture of shoe moulds in the PRC
Friendsole Limited	Hong Kong	Ordinary - HK$1,000 Non-voting deferred - HK$1,000	100% 100%	Provision of management services
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
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

39. 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*
P.T. Sukespermata 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)
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 Sung Vietnam Industrial Enterprise Limited	Vietnam	US$47,000,000	100%	Manufacture and sale of footwear
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

39. 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
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.*

39. Principal subsidiaries *(Continued)*

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 no right 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.

40. Principal associates

Details of the Group's principal associates at 30th September, 2005 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 ("Eagle Nice") *(Note (i))*	Cayman Islands	44.96%	Investment holding and its subsidiaries are engaged in manufacture and trading of sportswear and garments
Just Lucky Investments Limited	British Virgin Islands	38.30%	Property holding in the PRC
Nan Pao Resins (China) Co., Ltd.	The PRC	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

40. 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%	Investment holding and its subsidiaries are engaged in manufacture and sale of sports bag
Rising Sun Associates Limited	British Virgin Islands	37%	Investment holding
San Fang Chemical Industry Co. Ltd. ("San Fang") *(Note (ii))*	Taiwan	41.56%	Manufacture and trading of synthetic leather
Talent Pool Management Limited	British Virgin Islands	30%	Provision of school services
Teco (Dongguan) Air Conditioning Equipment Ltd.	The PRC	30%	Manufacture of central cooling system, commercial air conditioner and accessories

Notes:

(i) Eagle Nice is incorporated in Cayman Islands with its shares listed on the Stock Exchange.

(ii) San Fang is incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation.

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.

41. Principal jointly controlled entities

Details of the Group's principal jointly controlled entities at 30th September, 2005 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
Best Focus Holdings Limited	British Virgin Islands	50%	Investment holding and its subsidiaries are engaged in manufacture and sale of paper carton boxes in the PRC
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
Great Skill Industrial Limited	British Virgin Islands	50%	Investment holdings and its subsidiaries are engaged in manufacture and sale of plastic shoe injection in the PRC and in Indonesia
Hua Jian Industrial Holding Co., Ltd.	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.