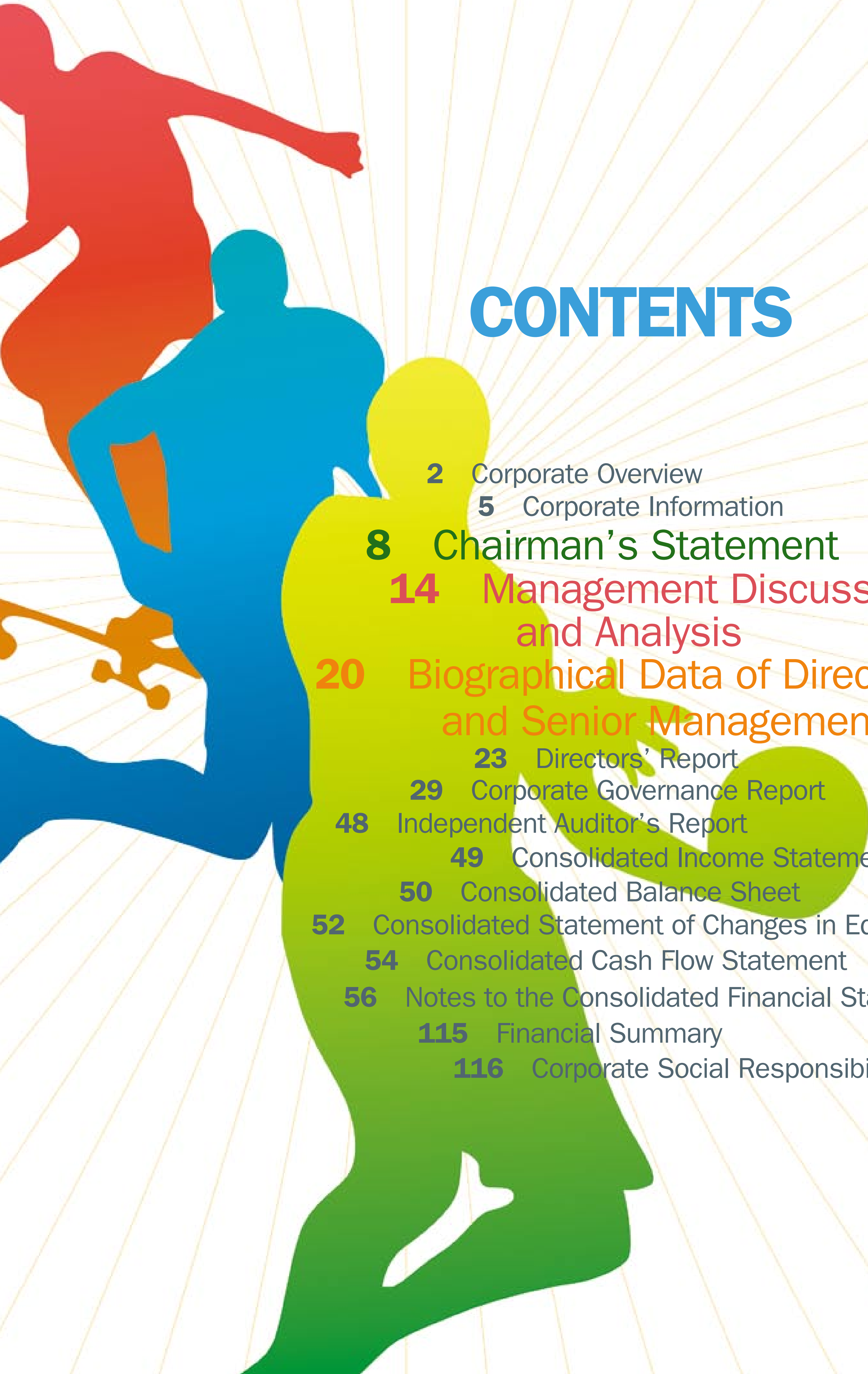
2007
Annual Report
二零零七年年報

裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

Stock Code 股份代號：551

OUR MISSION

Leveraging on our defined strategies in horizontal expansion and vertical integration, we will work to maintain our position as the world's largest manufacturer on branded athletic and casual footwear. At the same time, we will maximize our presence in the wholesale and retail markets in Greater China. In the process of achieving our goals, we are committed to deepening the strategic relationships we have with our partners and fulfilling our responsibilities as an international corporate citizen.



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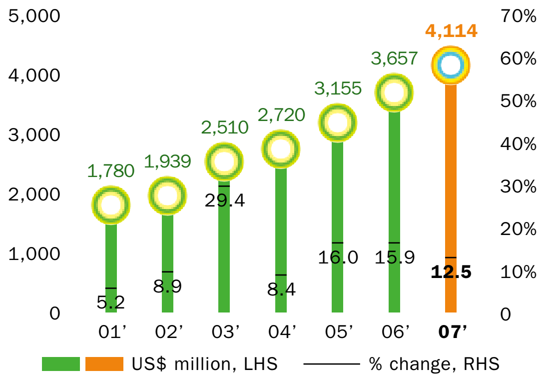
FINANCIAL AND OPERATING HIGHLIGHTS FOR THE YEAR ENDED 30TH SEPTEMBER

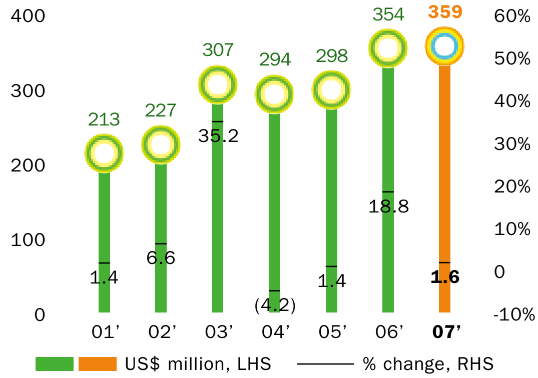
(US$ millions, except where otherwise stated)	**2007**	2006	% change
Total Production Volume (million pairs)	**232.2**	196.4	18.2
Turnover	**4,114.1**	3,657.4	12.5
Profit from Operations	**418.1**	349.6	19.6
Net Profit to Equity Holders of the Company	**359.4**	353.6	1.6
Total Assets	**4,120.8**	3,378.8	22.0
Capital Expenditure	**337.6**	292.1	15.6
EBITDA	**520.6**	457.6	13.8
Basic Earnings Per Share (US$)	**0.216**	0.218	(0.9)
Dividend Per Share			
Interim	**HK$0.31**	HK$0.29	6.9
Final	**HK$0.53 (proposed)**	HK$0.51	3.9
Full Year	**HK$0.84 (proposed)**	HK$0.80	5.0
Total Equity	**2,493.8**	2,136.6	16.7
Return on Average Total Equity (%)	**15.5**	17.3	(1.8)
Gearing Ratio (%)	**38.5**	33.8	4.7
Net Debt to Equity Ratio (%)	**22.2**	22.8	(0.6)
Number of Outstanding Issued Shares (30/9)	**1,663,628,986**	1,619,748,986	2.7

KEY SHAREHOLDER VALUE INDICES

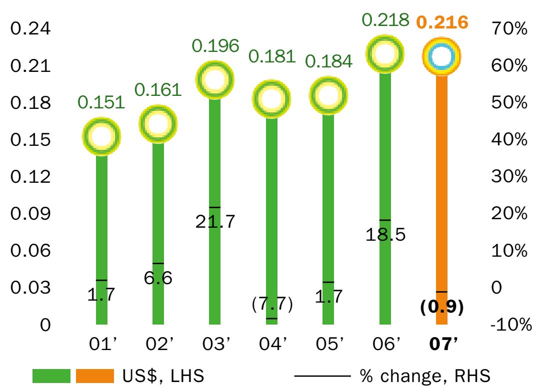
Consolidated Turnover
US$ million



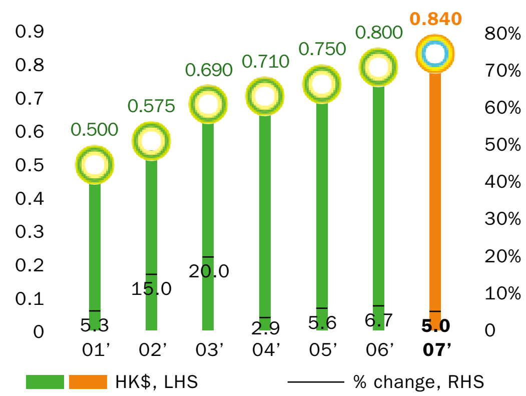
Net Profit Attributable to Equity Holders of the Company
US$ million



Earnings Per Share
US$

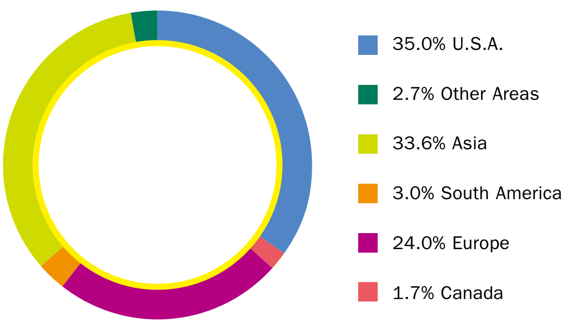


Dividend Per Share
HK$

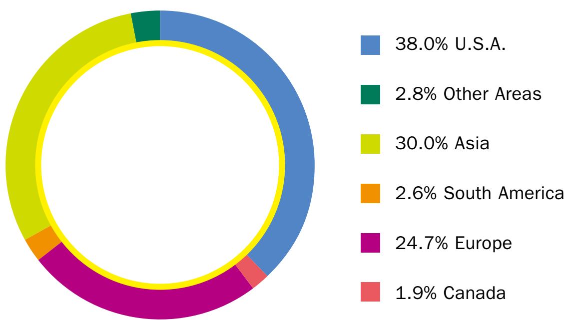


DIVERSIFIED MARKET DISTRIBUTION

2007 Turnover by Geographical Market



2006 Turnover by Geographical Market




Factory administrative office building in Dongguan, China


Production facilities in Huangjiang, China


Factory in Dongguan, China


Embroidering patterns on parts in Zhongshan, China


Production plant in Indonesia


Production plant in Vietnam

Corporate Information

EXECUTIVE DIRECTORS
Tsai Chi Neng *(Chairman)*
David N. F. Tsai *(Managing Director)*
Edward Y. Ku[3]
Kuo Tai Yu
Lu Chin Chu
Kung Sung Yen
Chan Lu Min
Li I Nan, Steve
Tsai Pei Chun, Patty

NON-EXECUTIVE DIRECTOR
John J. D. Sy[1, 3]

INDEPENDENT NON-EXECUTIVE DIRECTORS
So Kwan Lok[1, 3, 4]
Poon Yiu Kin, Samuel[1, 2, 3]
Liu Len Yu[1, 3]

Notes:
1. *Member of Audit Committee*
2. *Chairman of Audit Committee*
3. *Member of Remuneration Committee*
4. *Chairman of Remuneration Committee*

COMPANY SECRETARY
Ng Lok Ming

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS
7th Floor, Blocks A-D
Hop Hing Industrial Building
702 Castle Peak Road
Kowloon, Hong Kong

AUDITORS
Deloitte Touche Tohmatsu

REGISTRARS
Tricor Secretaries Limited
26/F
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
- ABN-AMRO Bank
- Banco Bilbao Vizcaya Argentaria
- Bank of America, N.A.
- Bank of China (Hong Kong) Limited
- Bank of Taiwan
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- Bank SinoPac
- Bayerische Landesbank
- BNP Paribas
- CALYON
- Chinatrust Commercial Bank, Ltd.
- Citibank, N.A.
- Citic Ka Wah Bank Limited
- DBS Bank Ltd.
- Fortis Bank
- Hang Seng Bank
- Industrial and Commercial Bank of China (Asia) Ltd.
- Mega International Commercial Bank Co., Ltd.
- Mizuho Corporate Bank Ltd.
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- The Hongkong and Shanghai Banking Corporation Limited

SOLICITORS
Richards Butler in association with Reed Smith LLP

Footwear Manufacturing

Amid market consolidation we continued to invest, intent on achieving enhanced customer satisfaction and maintaining our industry-leading levels of service.

For the 15th year in a row since listed on the Stock Exchange of Hong Kong Limited, turnover growth increased, rising 12.5% year-on-year to US$4,114.1 million in the year under review.

12.5%
Growth in turnover

232.2 million
number of pairs of shoes produced

I am pleased to report that the Group performed well in the fiscal year ended 30th September, 2007. For the 15th year in a row since listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), turnover growth increased, rising 12.5% year-on-year to US$4,114.1 million in the year under review. This encouraging growth was due to increased contributions from the Greater China wholesale and retail sales operations, as well as the steady performance of our core footwear manufacturing businesses. The Group's net profit attributable to equity holders increased 1.6% year-on-year to US$359.4 million for the fiscal year.

We saw steady growth in revenue and net profit throughout the year despite the volatility in crude oil prices and petrochemical material prices. Wage rises and currency fluctuations also created uncertainty for the manufacturing operation. Nevertheless, the Group continued to achieve impressive growth given our ability to provide a comprehensive range of services to customers. Our commitment to serving client needs in the manufacturing business is recognized by our customers, without whose support the Group would not have been able to achieve such outstanding growth.

We broadened our product categories to meet existing customers' sourcing requirements and at the same time expanded our customer base. As a result, we continued to gain market share and maintained our leading position in the branded footwear manufacturing business. The Group accounts for about 17% of the combined wholesale value of the global branded athletic and casual footwear market. And once again, the growth rates of the Group's volume output and revenue growth on footwear manufacturing outpaced those of the global market as a whole.

We also continued to improve production efficiency and implement effective cost-saving measures. Our dedicated management team and diligent workforce worked together to provide value-added services to our customers amid a challenging operating environment. The Group believes that our investments in research and development and in upgrading machinery will enhance the overall efficiency of footwear manufacturing. Flexible production line set-ups and innovative production procedures can also help reduce production lead times, resulting in cost savings in the supply chain.

During the period under review, we saw unparalleled growth in the wholesale and retail sales operations in the Greater China region. Turnover in this area soared 48.8% year-on-year to US$488.4 million. By the end of September 2007, the Group operated about 1,214 self-run stores/counters under subsidiaries and about 1,716 stores/counters under joint ventures in mainland China.

In the wholesale operation, the total number of distribution points for our three exclusive licensee brands – Converse, Hush Puppies and Wolverine – was about 2,600 in the Greater China region. The strong growth in domestic consumption in mainland China, coupled with increasing demand for sports shoes and apparel, should continue to underpin demand for sporting goods there. The Olympic Games, to be held in Beijing in August 2008, is expected to boost sporting goods consumption further, helped by major advertising campaigns by many international and local brands.

In view of this, the Group has taken the opportunity to expand the retail distribution network aggressively over the last year, and has become one of the major players in sporting goods distribution nationwide. Additional resources and management power will be put into developing the Greater China wholesale and retail sales operations going forward.

The Group's strategy of horizontal expansion will continue, and we believe the challenging operating environment will provide the Group with the opportunity to expand further, thereby enhancing our position as the largest branded footwear manufacturer. Our investments in retailing in mainland China should continue to bear fruit, with our operation there expected to enter a new period of growth next year.

Although the manufacturing environment in the past year continued to be challenging, the Group managed to maintain its growth and profit margins by leveraging on its economies of scale, improving efficiencies and expanding its retail operation. Some associate companies, and especially jointly controlled entities, however, found the business environment particularly tough. They have undergone organizational restructuring and have reset their business directions. This resulted in substantial losses, which undermined the Group's bottom line performance.

LOOKING AHEAD

Sustained growth in footwear manufacturing and a surge in mainland China retail operations boosted Group turnover in the first quarter of fiscal 2008. For the three months ended December 2007, the Group recorded a 16.8% year-on-year rise in turnover to approximately US$1,121.6 million. Our efforts to deliver high-quality service and to be client-focused have resulted in increasing order flows. The timely expansion of our mainland retail network is riding the wave of rising domestic consumption, and this has led to the leap in turnover growth.

More than 1,200

Self-run stores/counters operated in the mainland under our subsidiaries and about 1,700 stores/counters operated under joint ventures

Close to 2,600

sales points in mainland China for 3 licensee brands

The Group's business should continue to grow, but we are well aware of the potential impact on US retail sales from the sub-prime mortgage problem. On the cost side, oil prices remain at a high level and there is constant inflation pressure on wages. The potential appreciation of the Chinese yuan and the implementation of new regulations on labor will exert further pressure on manufacturers with production bases in the mainland.

The Group is well-prepared for the challenges, having weathered surging oil prices since the second half of 2004. We have also witnessed additional consolidation among footwear suppliers in the last three years, and believe our leading position will be enhanced given our operating leverage and production efficiency improvements.

We are pressing ahead with capacity expansion plans in our three existing production bases of mainland China, Vietnam and Indonesia, in line with the sourcing requirements of customers. The production base in China will be diversified further to tap the labor sources available in different geographical regions. Meanwhile, the development of new industrial estates in Vietnam and Indonesia is on schedule. Our early entry into these two countries has given us valuable experience in operating large-scale factories there, and the new facilities will boost our presence in these two countries.

Turnover from our China wholesale and retail sales operations should continue to grow, with further investment in organic growth and in joint ventures with local retail chain operators in various regions. The Group has built up an extensive sporting goods distribution network throughout the mainland, selling products for international as well as local sporting goods brands. The Olympic Games in Beijing should spur on consumption of sporting goods in 2008, underpinning further growth for the Group. We have also diversified the type of stores that we are operating from single-brand to multi-brand, mega-stores and factory outlets catering for a wider spectrum of customers.

Turning to the restructuring of the retail operation, on 12th December, 2007, we announced plans to spin off and separate list Pou Sheng International (Holdings) Limited and its subsidiaries on the main board of the Stock Exchange of Hong Kong Limited. The restructuring would effectively consolidate the retail business under the Pou Sheng Group. The rationale and benefits of the proposed spin-off are numerous: It would help achieve operational focus; increase management focus and motivation; provide a new source of capital; and, enhance valuations. It is intended that assured entitlement to certain Pou Sheng shares would be provided to existing shareholders of Yue Yuen by way of preferred application in any offering of new Pou Sheng shares in the listed entity.

The Group achieved steady growth last year and is looking for the momentum to be sustained in the coming year. The fast expansion of the China wholesale and retail sales operations and the sustained order flow on the footwear manufacturing side should underpin overall growth. There will be challenges on the cost side due to rising oil prices and wages. However, I believe the Group is well-positioned to weather these challenges. The adoption of effective cost-control measures and our ongoing quest for efficiency improvements will underpin the Group's operating performance. Meanwhile, the timely expansion of our mainland China wholesale and retail sales operations has started bearing fruit.

The Group is now stronger in terms of manufacturing and its China retail network than it was a year ago. And management continues to deliver on creating value for the shareholders through an effective growth strategy.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to thank our customers, suppliers, business associates and shareholders for their support. I would also like to offer special thanks to our staff for their invaluable service and contribution throughout last year.

Tsai Chi Neng
Chairman

Hong Kong
17th January, 2008

Greater China Wholesale and Retail

Riding the wave of surging consumer spending, our network expanded and developed, helping us to become one of the largest and fastest-growing players in the market.


YYSPORTS

The strength of cooperation between the Group and customers ensured that together we were able to overcome challenges in the footwear manufacturing supply chain.

48.8%
Growth in Greater China retail sales

US$115 million
Spent on R & D

REVIEW OF OPERATIONS

General Overview

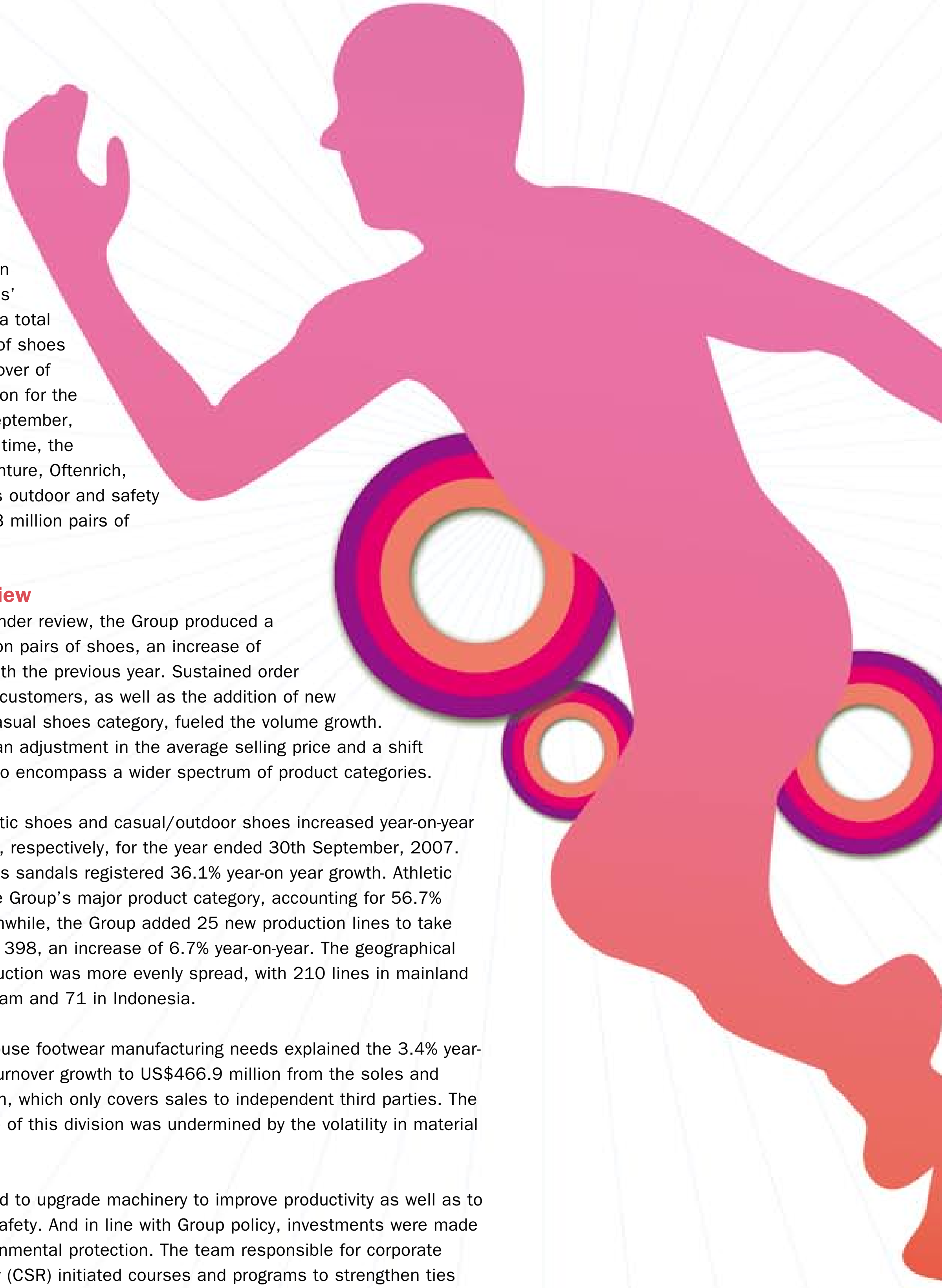
For the year ended 30th September, 2007, the Group recorded turnover of US$4,114.1 million, representing year-on-year growth of 12.5%, while net profit attributable to equity holders grew 1.6% year-on-year to US$359.4 million. Basic earnings per share decreased 0.9% year-on-year to US$0.216 due to a share placement during the year. The successful execution of the Group's growth strategy in both footwear manufacturing and mainland China wholesale and retail sales operations underpinned the rise in turnover.

The Group maintained steady business growth during the year despite turbulence in underlying material prices and general wage increases. The strength of cooperation between the Group and customers ensured that together we were able to overcome challenges in the footwear manufacturing supply chain. Meanwhile, the consolidation of suppliers provided the Group with the opportunity to build on its leading position. The Group is therefore well-positioned to face the challenges that lie ahead, including wage inflation, currency fluctuations, the implementation of labor laws in mainland China, as well as the generally tight labor conditions in the Pearl River Delta region.

Despite a high base of comparison, retail sales in the Greater China region posted strong year-on-year growth of 48.8% to US$488.4 million in fiscal 2007. The expansion of the retail network and penetration into second-tier cities in the mainland helped buoy sales growth. Same-store sales in most of the shops operated for more than one year recorded double-digit growth during the year under review. Both wholesale and retail sales performed very well, and the Group is well-positioned to capitalize on the strong sales growth expected to result from the Olympics being held in Beijing in August. The Group invested in numerous retail sales joint ventures in different locations in the mainland during the year, and intends to introduce advanced inventory control systems into these joint ventures to facilitate their growth.

In line with the Group's horizontal expansion strategy, investments were made in a number of associates and jointly controlled entities engaged in material supplies, the production of ladies' shoes, the manufacture of safety shoes, and sports apparel manufacturing.

Eagle Nice, which is 38.4% owned by the Group, reported a 55.6% increase in turnover for the six months ended September 2007 on the back of strong demand for sports apparel in Asia.



Hua Jian, 50%-owned by the Group, is engaged in manufacturing ladies' shoes. It produced a total of 14 million pairs of shoes and generated turnover of about US$192 million for the year ended 30th September, 2007. At the same time, the 45%-owned joint venture, Oftenrich, which manufactures outdoor and safety shoes, produced 13 million pairs of shoes.

Production Review

During the period under review, the Group produced a total of 232.2 million pairs of shoes, an increase of 18.2% compared with the previous year. Sustained order flows from existing customers, as well as the addition of new customers in the casual shoes category, fueled the volume growth. The year also saw an adjustment in the average selling price and a shift in the product mix to encompass a wider spectrum of product categories.

Revenue from athletic shoes and casual/outdoor shoes increased year-on-year by 10.6% and 9.5%, respectively, for the year ended 30th September, 2007. Revenue from sports sandals registered 36.1% year-on year growth. Athletic shoes remained the Group's major product category, accounting for 56.7% of total sales. Meanwhile, the Group added 25 new production lines to take the total number to 398, an increase of 6.7% year-on-year. The geographical distribution of production was more evenly spread, with 210 lines in mainland China, 117 in Vietnam and 71 in Indonesia.

An increase in in-house footwear manufacturing needs explained the 3.4% year-on-year decline in turnover growth to US$466.9 million from the soles and components division, which only covers sales to independent third parties. The overall performance of this division was undermined by the volatility in material prices.

The Group continued to upgrade machinery to improve productivity as well as to ensure workplace safety. And in line with Group policy, investments were made in enhancing environmental protection. The team responsible for corporate social responsibility (CSR) initiated courses and programs to strengthen ties between the management and employees, and the results of these initiatives have been encouraging.

Total Turnover by Product Category

For the year ended 30th September	2007 US$ millions	2007 %	2006 US$ millions	2006 %	y-o-y % change
Athletic Shoes	2,333.8	56.7	2,109.7	57.7	10.6
Casual/Outdoor Shoes	713.2	17.3	651.6	17.8	9.5
Sports Sandals	62.5	1.5	45.9	1.3	36.1
Soles & Components	466.9	11.4	483.5	13.2	(3.4)
Retail Sales – Shoes & Apparel	488.4	11.9	328.2	9.0	48.8
Others	49.3	1.2	38.5	1.0	28.1
Total Turnover	**4,114.1**	**100.0**	**3,657.4**	**100.0**	**12.5**

There was steady turnover growth in each geographical area, and distribution was more balanced among the Group's three major markets – the US, Asia and Europe. Turnover growth was particularly strong in the emerging market regions of South America and Asia, with surging retail sales in the Greater China region driving the rise recorded in the latter.

Total Turnover by Geographical Market

	2007 US$ millions	2007 %	2006 US$ millions	2006 %	y-o-y % change
U.S.A.	1,441.4	35.0	1,391.2	38.0	3.6
Canada	69.2	1.7	67.3	1.9	2.8
Europe	987.7	24.0	904.5	24.7	9.2
South America	121.5	3.0	94.4	2.6	28.7
Asia	1,383.8	33.6	1,097.0	30.0	26.1
Other Areas	110.5	2.7	103.0	2.8	7.3
Total Turnover	**4,114.1**	**100.0**	**3,657.4**	**100.0**	**12.5**

Cost Review

Total operating costs increased 11.8% year-on-year to US$3,818 million, while cost of sales rose 11.6% to US$3,144 million for the year ended 30th September, 2007. Increased wages led to a higher percentage of direct labor costs to total sales, while higher material prices were behind the slight rise in the percentage of materials to sales. The percentage of administrative expenses to overall total sales was kept under control, due to the management's efforts in rationalizing administrative operations. A surge in selling and distribution expenses was mainly due to business expansion and a proportional rise in sales from the mainland China retail sales operations.

Research and Development

During the period under review, the Group invested US$115 million in research and development (R&D), a 16% increase over fiscal 2006. The investment was mainly in materials development, preparation work on technical development package, and on enhancing production procedures efficiency. The Group maintained separate R&D teams and customer R&D centers. Significant progress was made in shortening production lead times and in developing advanced and high-quality footwear.

FINANCIAL REVIEW

Liquidity

The Group's financial position remained stable. As at 30th September, 2007, the Group had cash and cash equivalents of US$408 million (2006: US$235 million) and total borrowings of US$961 million (2006: US$722 million). The gearing ratio (total borrowings to total equity) was 39% (2006: 34%) and the net debt to equity ratio (total borrowings net of cash on hand to total equity) stood at 22% (2006: 23%). The increase in the gearing ratio was due to a rise in capital expenditure on new production capacity and the retail business.

Capital expenditure

Capital expenditure rose to US$337.6 million (2006: US$292.1 million), mainly due to the acquisition of land for plant development and spending on machinery. The Group spent about US$94.6 million on constructing new factory buildings and ancillary facilities, mainly in Vietnam and mainland China. Meanwhile, US$150.9 million went into plant and equipment and leasehold improvements for production facility expansion, and US$53.5 million was spent on acquiring new land and buildings.

Dividends

A final dividend of HK$0.53 per share (2006: HK$0.51) has been recommended, making the full-year dividend per share HK$0.84 (2006: HK$0.80).

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The policy of upholding steady growth in the normal dividend payment each year remains intact. The dividend payout ratio for 2007 is 50%, which compares with 47% in 2006.

Employees

As at 30th September, 2007, the Group had about 300,000 staff, up from 280,000 in 2006. The Group adopts a remuneration system based on an employee's performance throughout the year, and offers equal opportunities to all staff. There are incentives in the form of discretionary performance bonuses to those who make creative suggestions that improve productivity.

Sports Apparel and Accessories Manufacturing

Diversification efforts were ongoing, ensuring we are well-positioned to capitalize on future growth opportunities.

Biographical Data of Directors and Senior Management

EXECUTIVE DIRECTORS

TSAI Chi Neng, aged 59, is Chairman of the Group, responsible for overall management, marketing and production. Mr. Tsai, who joined the Group in 1992, has more than 30 years of experience in the footwear business in Taiwan, Canada and the US. Over the years he has implemented various cost control and staff incentive programs that have allowed the Group to continue to grow.

David, N.F. TSAI, aged 57, is the Group's Managing Director. Prior to taking up this position in 1997, he was Chairman of Pou Yuen. Mr. Tsai has more than 30 years' experience in the footwear sector and is well known in the industry. He has worked closely with the top management of leading global athletic and casual footwear brands. In addition to overall management, his responsibilities include sales and marketing activities.

Edward Y. KU, aged 65, joined the Group in 1997 and serves as General Counsel, responsible for legal, organizational matters, merger and acquisitions, corporate social responsibility and certain special projects. He was previously the senior partner in the law firm, Ku & Fong, in Los Angeles, and is licensed to practice law in California and Taiwan. He also served as an executive director of First Public Bank in Los Angeles. Mr. Ku holds a Bachelor-in-law degree from the National Taiwan University and a J.D. degree from Washington University in St. Louis, in the US.

KUO Tai Yu, aged 57, is General Manager in charge of one of the three manufacturing groups. He has over 30 years of experience in the production of footwear in Taiwan. Mr. Kuo holds a Bachelors degree from Chung Hsing University in Taiwan.

LU Chin Chu, aged 54, is General Manager of one of the three manufacturing groups. He has 30 years of experience in the manufacturing of footwear and related components, and is a college graduate.

KUNG Sung Yen, aged 53, is General Manager of one of the three manufacturing groups. He has over 30 years of experience in the athletic footwear industry.

CHAN Lu Min, aged 53, is in charge of finance and accounting for the Group, which he joined in 2001. He has 29 years of finance and accounting experience in Taiwan. Mr. Chan is a graduate of Chung Hsing University in Taiwan.

LI I Nan, Steve, aged 66, is responsible for financial operations of the Group. He joined the Group in 1992, and has many years of experience in the footwear business, including in sourcing and wholesale operations. He holds a Bachelors and a Master of Arts degree from the National Chengchi University in Taiwan and the University of Southern California, respectively. He studied corporate finance and budgeting at New York University.

TSAI Pei Chun, Patty, aged 28, graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science in Economics with concentration in Finance and a College Minor in Psychology. She joined the Group in 2002 as a personal assistant to the Group Chairman of Pou Chen. Miss Tsai also serves as a board director of Mega Financial Holding Co., Ltd in Taiwan.

NON-EXECUTIVE DIRECTOR

John, J.D. SY, aged 61, joined the Group in 1997. He is a partner in the accounting firm, Sy, Lee & Chen, in Los Angeles. He also serves as a director of Pioneer Insurance Company based in the US. Mr. Sy holds a Masters in Accounting from the University of Missouri, a Masters in Taxation from the Gold Gate University in the US and a Bachelors in Public Finance from the National Cheng Chi University in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SO Kwan Lok, aged 74, is currently President of EVG Enterprises, Inc. in California He has more than 20 years of experience in banking and over 40 years of experience in California's real estate and investment business, in which he is still active. He has an 18-year association with the University of California, San Diego, as a university foundation trustee and as an Executive Committee member of the International Advisory Board of the Graduate School of International Relations and Pacific Studies. He holds a Masters in Mechanical Engineering from the Massachusetts Institute of Technology.

POON Yiu Kin, Samuel, aged 48, is Executive Chairman of UniCredit Group's Markets and Investment Banking business in the Asia-Pacific Region. Mr. Poon was formerly a Managing Director of Merrill Lynch, where he held various positions including Co-head of Investment Banking and Head of Debt Capital Markets for the Asia-Pacific Region, and Head of Corporate Finance for Europe, the Middle East and Africa. Mr. Poon co-founded and currently chairs the Governing Board of EdExchange, a registered charitable organization that provides an online platform for educational fund-raising for non-profit schools in Hong Kong. He is also Vice Chairman of the Joint Committee on Student Finance under the Education and Manpower Bureau, and Honorary Treasurer of the English Schools Foundation. Mr. Poon is an independent non-executive director of Aluminum Corporation of China Limited. He holds a Masters in Business Administration from London Business School and a Masters in Education and a Bachelors in Business Administration from The Chinese University of Hong Kong.

LIU Len Yu, aged 47, is a law professor in the Department of Law at National Cheng Chi University, a director of the Securities and Futures Investors Protection Center, and an advisory member of the Public Interest Fund for Studying the New Trend of Economic and Financial Law, all in Taiwan. Dr. Liu was formerly a commissioner at the Taiwan Fair Trade Commission, Taiwan listing review committee for the Taiwan Stock Exchange and GreTai Securities Market (the OTC market) respectively. He is currently an independent director of Global Brands Manufacture Limited, a company listed on the GreTai Securities Market in Taiwan and a 54.15%-owned associate of Pou Chen Corporation. Dr. Liu holds a Doctor of Laws from Stanford Law School, Master of Laws degrees from Harvard Law School and National Chung Hsing University, and a Bachelor of Laws from National Chung Hsing University.

SENIOR MANAGEMENT

YANG Chun Hui, aged 57, is an Executive Vice President of the Group in charge of certain production divisions in China and Vietnam. Mr. Yang joined the Group in 1992, and has 25 years of experience in the footwear industry. He graduated from National Taiwan University, where he majored in Business Administration.

HSIU Wen Bin, aged 51, joined the Group in 1998 and is an Executive Vice President in charge of footwear and apparel for certain brand customers. He is also a specialist on IT and supply chain system development. Mr. Hsiu had many years of footwear manufacturing experience in Thailand before joining the Group.

TSAI Nai Kun, aged 52, is an Executive Vice President of the Group in charge of certain research and development programs. He is a college graduate and has 29 years of experience in the footwear business.

CHENG Hsin Min, aged 52, joined the Group in 1980 and is an Executive Vice President engaged in a major brand business. He graduated from Fu Jen Catholic University in Taiwan and has 26 years of experience in the footwear sector.

LIN Pin Huang, aged 51, joined the Group in 1989 and is an Executive Vice President in charge of certain brand customers' business in Dongguan and Vietnam. He is a graduate of Tung Hai University and has over 14 years of experience in the footwear business.

HSU Huan Chan, aged 53, joined the Group in 1990 and is a Vice President of the Group in charge of certain factory operations in mainland China and Indonesia. Mr. Hsu has more than 20 years of experience in the footwear industry.

TSAI Nai Chi, aged 51, is a Vice President of the Group and is in charge of certain marketing activities and production operations in Zhongshan. He has 24 years of experience in the footwear business.

LIN Cheng Tien, Jerry, aged 48, joined the Group in 1990 and is a Vice President responsible for the sales and marketing of certain brand customers. He has more than 12 years of experience in sales and marketing of footwear in Taiwan.

LIU Juei Chung, aged 52, is a Vice President of the Group in charge of certain production operations at shoe and component factories. He is a college graduate and has over 26 years of experience in the sports and casual shoes business.

CHIANG Ching Po, aged 60, joined the Group in 1975 and is a Vice President in charge of Group's administration centres in China, Vietnam and Indonesia.

SHAO Wen Hsien, aged 56, is a Senior Executive Manager in charge of certain production operations in Vietnam. He has 29 years of experience in footwear manufacturing.

CHEN Teng, aged 55, joined the Group in 1991 and is a Senior Executive Manager in charge of certain production operations in the Group's Vietnam factories.

TSAI Nai Yun, aged 52, joined the Group in 1992 and is a Senior Executive Manager in charge of mold production.

WU Tien Tzu, aged 52, joined the Group in 1988 and is a Senior Executive Manager in charge of certain athletic shoe production operations in Indonesia.

WU Chen Chi, aged 52, is a Senior Executive Manager in charge of a joint-venture division in China and Vietnam. He joined the Group in 1982.

LAI Chang Li, aged 48, joined the Group in 1993 and is a Senior Executive Manager in charge of business and production operation in Zhuhai, mainland China. Mr. Lai graduated from National Cheng Chi University in Taiwan and holds a Bachelors in Business Administration.

CHAO Chih Wen, aged 52, joined the Group in 1984 and is a Senior Executive Manager in charge of production operations in China.

CHIN Te Shan, aged 51, joined the Group in 1992 and is a Senior Executive Manager in charge of a key product design and development centre. Mr. Chin graduated from Arizona State University and holds a Masters in Journalism.

CHEN Hsin Chien, aged 51, joined the Group in 1984 and is a Senior Executive Manager in charge of a production operation for a key account customer in China.

HSU Yung Hung, aged 47, joined the Group in 1990 and is a Senior Executive Manager in charge of a key product design and development centre in China.

HSIAO Tsai Yuan, aged 48, joined the Group in 1981 and is a Senior Executive Manager in charge of certain plants operating in Vietnam.

LEE Cheng Chuan, aged 44, joined the Group in 1989 and is a Senior Executive Manager, responsible for a name-brand production in Vietnam.

CHOU Tsung Ming, aged 52, joined the Group in 1990 and is a Senior Executive Manager in charge of a name-brand production in China. He graduated from Chung Yuan Christian University in Taiwan.

CHANG Chia Li, aged 50, joined the Group in 1997, is a Senior Executive Manager, involving in a name-brand technical development. He graduated from South Fields College in the United Kingdom.

CHIN Chine Huei, aged 48, joined the Group in 2001 and is a Senior Executive Manager, working in a R&D center for a name-brand customer in China.

CHEN Shih Chung, aged 52, joined the Group in 1998 and is a Senior Executive Manager, in charge of a name-brand production in Indonesia.

CHIU Wing Tak, David, aged 47, joined the Group in 1988. He worked for more than eight years in the banking industry prior to joining the Group as a senior manager. He is primarily responsible for factory customs affairs, shipping and transportation, as well as for liaising with the Chinese mainland authorities.

CHAU Chi Ming, Dickens, aged 44, is a Senior Manager, Finance & Treasury, responsible for daily financial management and treasury functions. Mr. Chau had eight years of corporate banking experience before joining the Group in 1993. He graduated from The Chinese University of Hong Kong with a Bachelors in Business Administration, majoring in Finance. He is a member of The Hong Kong Society of Accountants and a Fellow of The Association of Chartered Certified Accountants of the UK.

CHOW Sai Kin, aged 56, serves as a Senior Accounting Manager overseeing the Group's accounting activities. He graduated from The Chinese University of Hong Kong in 1975, majoring in Economics. Mr. Chow holds a Bachelors in Social Science, and has 27 years of working experience in the accounting and auditing fields. Before joining the Group in 1994, he was chief accountant at a financial institution.

NG Lok Ming, William, aged 35, is the Company Secretary and Head of Legal Department of the Group. He is primarily responsible for the company secretarial matters and legal affairs of the Group. Before he joined the Group in 2007, Mr. Ng had worked as a director of a computer company and was the legal counsel of a listed company. Mr. Ng graduated from the University of Hong Kong with a LL.B. and P.C.LL. in 1995 and 1996 respectively. He later obtained the LL. M. in the Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of HKSAR in 2001.

Directors' Report

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 30th September, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacture and marketing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30th September, 2007 are set out in the consolidated income statement on page 49 of the annual report.

An interim dividend of HK$0.31 per share was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK$0.53 per share to the shareholders on the register of members on 3rd March, 2008, amounting to approximately HK$881,723,000.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Group at 30th September, 2007 are set out in notes 46, 47 and 48 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 34 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately US$94.6 million for construction of new factory, dormitories, staff quarters and accommodation facilities, mainly in the PRC and Vietnam. The Group also invested approximately US$56.5 million in land and buildings and approximately US$150.9 million in machinery and leasehold improvements for the expansion of the Group's business.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately US$2.6 million.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 30th September, 2007, the Company's reserves available for distribution to shareholders were US$773,444,000 (2006: US$451,121,000), which comprises the contributed surplus of US$38,126,000 (2006: US$38,126,000) and retained profits of US$735,318,000 (2006: US$412,995,000) of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY (Continued)

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

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Tsai Chi Neng *(Chairman)*
David N.F. Tsai *(Managing Director)*
Edward Y. Ku[3]
Kuo Tai Yu
Lu Chin Chu
Kung Sung Yen
Chan Lu Min
Li I Nan, Steve
Tsai Pei Chun, Patty

Non-executive Director:

John J.D. Sy[1, 3]

Independent Non-executive Directors:

So Kwan Lok[1, 3, 4]
Poon Yiu Kin, Samuel[1, 2, 3]
Liu Len Yu[1, 3]

Notes:
1. *Member of Audit Committee*
2. *Chairman of Audit Committee*
3. *Member of Remuneration Committee*
4. *Chairman of Remuneration Committee*

In accordance with the Bye-law 87 of the Company's Bye-laws, Mr. Tsai Chi Neng, Mr. David N. F. Tsai, Miss Tsai Pei Chun, Patty, Mr. John J. D. Sy and Mr. Poon Yiu Kin, Samuel will retire as directors and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each of the non-executive directors is the period up to his retirement as required by the Company's Bye-laws.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th September, 2007, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Long position

Ordinary shares of HK$0.25 each of the Company

	Number of ordinary shares					
Name of director	**Beneficial owner**	**Held by spouse and/or children under 18**	**Held by controlled corporation**	**Held by a discretionary trust**	**Total**	**Percentage of the issued share capital of the Company**
Tsai Chi Neng	–	–	–	–	–	–
David N. F. Tsai	–	–	–	–	–	–
Edward Y. Ku	–	–	–	–	–	–
Kuo Tai Yu	–	–	–	–	–	–
Lu Chin Chu	–	–	–	–	–	–
Kung Sung Yen	–	–	–	–	–	–
Chan Lu Min	40,000	–	–	–	40,000	0.0024%
Li I Nan, Steve	–	–	–	–	–	–
Tsai Pei Chun, Patty	–	–	–	–	–	–
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–
Liu Len Yu	–	–	–	–	–	–

Other than the interest disclosed above, none of the directors or the chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th September, 2007.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company nor its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO showed that, other than the interests disclosed in "Directors' and Chief Executives' Interests In Securities", the following shareholders had notified the Company of their relevant interests in shares representing 5% or more of the issued share capital of the Company.

Long position

Ordinary shares of HK$0.25 each of the Company

Name of shareholder	Notes	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
Pou Chen Corporation ("PCC")	(a)	824,143,835	49.54%
Wealthplus Holdings Limited ("Wealthplus")	(a)	767,707,605	46.15%
Max Creation Industrial Limited ("Max Creation")	(b)	213,365,500	12.82%
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822	8.98%
World Future Investments Limited ("World Future")	(c)	213,365,500	12.82%
Mr. Tsai Chi Jui	(c)	213,685,500	12.84%

Notes:

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 767,707,605 ordinary shares were held by Wealthplus as listed above, 49,127,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune") and 7,308,698 ordinary shares were held by Top Score Investments Limited ("Top Score"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC and Top Score is a 98.46% owned subsidiary of PCC.

(b) Of the 213,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver as listed above, 46,467,440 ordinary shares were held by Red Hot Investments Limited ("Red Hot") and 17,403,238 ordinary shares were held by Moby Dick Enterprises Limited ("Moby Dick"). Quicksilver, Red Hot and Moby Dick are wholly-owned subsidiaries of Max Creation.

(c) World Future is deemed to be interested in 213,365,500 ordinary shares under the SFO by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, brother of Mr. Tsai Chi Neng, is also deemed to be interested in these 213,365,500 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui holds 320,000 ordinary shares directly.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30th September, 2007.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 9th January, 2007, the Company entered into certain agreements and supplemental agreements with the relevant connected persons in relation to amending and formalizing the terms of certain continuing connected transactions as disclosed in note 44 ("Continuing Connected Transactions"). Details of these transactions are set out in the circular of the Company dated 7th February, 2007. The Continuing Connected Transactions and the respective annual limit were approved by the shareholders of the Company at a special general meeting on 1st March, 2007.

Details of the transactions regarded as connected transactions for the year are set out in note 44 to the consolidated financial statements.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS (Continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions and engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors have confirmed that the transactions were entered into by the Group in ordinary course of business, on normal commercial terms or on terms no less favourable than terms available to or from independent third parties, if identified, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Continuing Connected Transactions for the year did not exceed the limit approved by the shareholders of the Company on 1st March, 2007

Save as disclosed in note 44:

(i) no contracts of significance to which the Company, or any of its fellow subsidiaries and subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year; and

(ii) there were no transactions which need to be disclosed as connected transactions in accordance with Chapter 14A of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were approximately 54% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 22% of the Group's total sales for the year.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 29 to 47.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30th September, 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 45 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
David N. F. Tsai
Managing Director

Hong Kong, 17th January, 2008

Corporate Governance Report

The Group recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Company has applied the principles and has complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules throughout the year ended 30th September, 2007, with deviation from Code Provision A.4.1.

The Company periodically reviews its corporate governance practices to ensure that the practices continue to meet the requirements of the Code.

A. DIRECTORS

A.1 The Board

Principle
An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The overall management of the Company's business is vested in the Board.

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The directors have to take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

A. DIRECTORS (Continued)

A.1 The Board (Continued)

The Board is composed of nine executive directors (including the Chairman and the Managing Director of the Company) and four non-executive directors (of whom three are independent non-executive directors), whose biographical details are set out in "Biographical Data of Directors and Senior Management" section on pages 20 to 22. Mr. Tsai Chi Neng, Mr. David N.F. Tsai and Miss Tsai Pei Chun, Patty are, amongst others, members of Tsai's family. Mr. Tsai Chi Neng is uncle of Mr. David N.F. Tsai and Miss Tsai Pei Chun, Patty. Mr. David N.F. Tsai and Miss Tsai Pei Chun, Patty are cousins. Save as disclosed herein, none of the members of the Board are related to one another.

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

Code Provisions	Compliance	Actions by the Company
A.1.1 The board should meet regularly and board meetings should be held at least 4 times a year at approximately quarterly intervals.	Yes	The Board met five times during the year and four of them were regular board meetings.
A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.	Yes	Directors were invited to include any matters which they thought appropriate in the agenda for regular board meetings.
A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.	Yes	14 days prior notice was normally given for regular board meetings.
A.1.4 All directors should have access to the advice and services of the company secretary.	Yes	All directors have full, timely and direct access to the advice and services of the Company Secretary of the Company.

A. DIRECTORS (Continued)

A.1 The Board (Continued)

Code Provisions	Compliance	Actions by the Company
A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and open for inspection.	Yes	Minutes are kept by the appointed secretary of the meetings and available for inspection at the Company's principal place of business.
A.1.6 Draft and final versions of minutes of board meetings should be sent to all directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.	Yes	All draft minutes would be sent to directors for review and comment within one month after each meeting.
A.1.7 There should be a procedure for directors to seek independent professional advice at the issuer's expense.	Yes	Directors are permitted to seek independent professional advice, if required, at the Company's expenses.
A.1.8 If a substantial shareholder/director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, a board meeting should be held. Independent non-executive directors should be present at such board meeting.	Yes	The Company will continue to ensure that such matters that require board meetings be held instead of by way of circulation.

Compliance with Recommended Best Practices

- There is in place a Directors' & Officers' Liabilities Insurance cover; and
- Board Committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of Appendix 14 to the Listing Rules.

A. DIRECTORS (Continued)

A.2 Chairman and Chief Executive Officer

Principle
There should be a clear division between the management of the board and the day-to-day management at the board level of the issuer's business to ensure a balance of power and authority, so that power is not concentrated in any one individual.

The positions of the Chairman and the Managing Director are held by Mr. Tsai Chi Neng and Mr. David N.F. Tsai respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separate from that of the Managing Director. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensure the effectiveness of the Board. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Managing Director focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The Managing Director is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Code Provisions	Compliance	Actions by the Company
A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	Yes	Division of responsibilities between the Chairman and the Managing Director is clearly defined and set out in writing. Chairman and Managing Director are served by different persons.
A.2.2 & A.2.3 The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner.	Yes	The Chairman has a clear responsibility to ensure all the directors are properly briefed and given accurate information.

Compliance with Recommended Best Practices
Clear division of responsibilities between Chairman and Managing Director has been approved and adopted by the Company. The Chairman has a clear responsibility to ensure that the Board works effectively and discusses all key and appropriate issues.

A. DIRECTORS (Continued)

A.3 Board composition

Principle
The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient caliber and number for their views to carry weight.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors. The Board has reviewed its own structure, size and composition to ensure that it has a balance of expertise, skills, independence and experience appropriate to the requirements of the business of the Group.

Code Provisions	Compliance	Actions by the Company
A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications.	Yes	Composition of the Board, by category of Directors, is disclosed in all corporate communications.

A.4 Appointments, re-election and removal

Principle
There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provisions	Compliance	Actions by the Company
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.	Partial Compliance	The non-executive directors (including independent non-executive directors) of the Company were not appointed for specific terms, but are subject to retirement by rotation in accordance with the Bye-laws of the Company. Since the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice in this aspect is no less exacting than that in the Code.

A. DIRECTORS (Continued)

A.4 Appointments, re-election and removal (Continued)

Code Provisions	Compliance	Actions by the Company
A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Yes	Prior to the annual general meeting held on 1st March, 2007 ("2007 AGM"), Code Provision A.4.2 was partially complied by the Company. Following the shareholders' approval at the 2007 AGM, the Bye-laws of the Company have been amended, which provides, inter alia, that every director shall be subject to retirement by rotation at least once every three years. The Company has fully complied with Code Provision A.4.2 since then.

Compliance with Recommended Best Practices

The Company's circular of its annual general meeting contained detailed information on election of directors, including details of biographies, and, if applicable, independence of all directors standing for re-election. Each of the independent non-executive directors has confirmed their independence.

A. DIRECTORS (Continued)

A.5 Responsibilities of directors

Principle

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

During the year, 5 Board meetings, 3 Audit Committee meetings and 1 Remuneration Committee meeting were held. The attendance record of each director at the aforesaid meetings is set out below:

	Attendance of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive directors			
Tsai Chi Neng	3/5	N/A	N/A
David N.F. Tsai	3/5	N/A	N/A
Edward Y. Ku[3]	5/5	N/A	1/1
Kuo Tai Yu	2/5	N/A	N/A
Lu Chin Chu	2/5	N/A	N/A
Kung Sung Yen	2/5	N/A	N/A
Chan Lu Min	5/5	N/A	N/A
Li I Nan, Steve	5/5	N/A	N/A
Tsai Pei Chun, Patty	3/5	N/A	N/A
Non-executive director			
John J.D. Sy[1, 3]	3/5	2/3	1/1
Independent non-executive directors			
So Kwan Lok[1, 3, 4]	3/5	3/3	1/1
Poon Yiu Kin, Samuel[1, 2, 3]	2/5	3/3	1/1
Liu Len Yu[1, 3]	3/5	3/3	1/1

Notes:

1. *Member of Audit Committee*
2. *Chairman of Audit Committee*
3. *Member of Remuneration Committee*
4. *Chairman of Remuneration Committee*

A. DIRECTORS (Continued)

A.5 Responsibilities of directors (Continued)

Code Provisions	Compliance	Actions by the Company
A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	Yes	A comprehensive information package containing an introduction to the Group's operations, directors' responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment. They can also elect to receive briefing from the Company Secretary on the content of the information package.
A.5.2 The functions of non-executive directors should include: – bring an independent judgement at the board meeting; – take the lead where potential conflicts of interests arise; – serve on the audit, remuneration, nomination and other governance committees, if invited; and – scrutinise the issuer's performance.	Yes	Non-executive directors are well aware of their functions and have been actively performing their functions.
A.5.3 Every director should ensure that he can give sufficient time to the affairs of the issuer.	Yes	There is reasonably satisfactory attendance rate.

A. DIRECTORS (Continued)

A.5 Responsibilities of directors (Continued)

Code Provisions	Compliance	Actions by the Company
A.5.4 Directors must comply with their obligations under the Model Code set out in Appendix 10.	Yes	The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules regarding directors' dealings in securities. Directors have confirmed compliance with the Model Code throughout the year. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. No incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

Compliance with Recommended Best Practices

Directors disclose their other directorship at the time of appointment and, subsequently, at least once every year to the Company.

A.6 Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Compliance	Actions by the Company
A.6.1 Agenda and accompanying board papers should be sent in full to all directors at least 3 days before board/board committee meeting.	Yes	Agenda and board papers are sent to all directors at least three days before the meetings unless it is on urgent basis.
A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.	Yes	Senior management works closely with the Board and meets each other on regular basis.

A. DIRECTORS (Continued)

A.6 Supply of and access to information (Continued)

Code Provisions	Compliance	Actions by the Company
A.6.3 All directors are entitled to have access to board papers. Steps must be taken to respond as promptly and fully as possible.	Yes	Board papers and minutes are properly kept by the company secretarial division under legal department of the Company and are available for inspection by directors.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Principle
An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee currently comprises Mr. So Kwan Lok, Mr. Edward Y. Ku, Mr. John J. D. Sy, Mr. Poon Yiu Kin, Samuel and Dr. Liu Len Yu. The Chairman of the Remuneration Committee is Mr. So Kwan Lok, an independent non-executive director of the Company. The majority of the Committee members are independent non-executive directors.

Code Provisions	Compliance	Actions by the Company
B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference. Three out of five directors in the Remuneration Committee are independence non-executive directors.
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	Yes	The Remuneration Committee carries out annual review of compensation packages for all directors of the Company.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

B.1 The level and make-up of remuneration and disclosure (Continued)

Code Provisions	Compliance	Actions by the Company
B.1.3, B.1.4 & B.1.5 The terms of reference of the remuneration committee should include the specific duties as stipulated in B.1.3 of Appendix 14 to the Listing Rules. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	The terms of reference are set out in writing with adoption of the specific duties as provided in B.1.3 of Appendix 14 to the Listing Rules. It is available upon request. The Company will pay for the fees for all professional advice and other assistance as required by the Remuneration Committee.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Actions by the Company
C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	Yes	Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval.
C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	Company's directors and auditors state their respective responsibilities on pages 47 and 48 of the Annual Report.

C. ACCOUNTABILITY AND AUDIT (Continued)

C.1 Financial Reporting (Continued)

Code Provisions	Compliance	Actions by the Company
C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Yes	The Board aims at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public pursuant to all sort of statutory requirements.

C.2 Internal controls

Principle
The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is responsible for maintaining a sound and effective system of internal controls of the Group and for reviewing its effectiveness through the Audit Committee. The internal control system is designed to provide reasonable assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

Code Provisions	Compliance	Actions by the Company
C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	Yes	The Board has conducted an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management functions. The Internal Audit team has prepared risk management analysis on factory operation and conducted audit or investigation accordingly.

C. ACCOUNTABILITY AND AUDIT (Continued)

C.2 Internal controls (Continued)

Code Provisions	Compliance	Actions by the Company
C.2.1 (Continued)	Yes	Based on the assessments made by the Group's Internal Audit department, the Audit Committee and the Board considered that the key areas of the Group's internal control systems have reasonably been implemented with room for improvement. The Internal Audit team has actively conducted audit activities and followed up any improvements which were identified.

C.3 Audit Committee

Principle
The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Audit Committee currently comprises Mr. Poon Yiu Kin, Samuel, Mr. So Kwan Lok, Dr. Liu Len Yu and Mr. John J.D. Sy. The Chairman of Audit Committee is Mr. Poon Yiu Kin, Samuel, an independent non-executive director of the Company. The majority of the Committee members are independent non-executive directors. None of the members of the Audit Committee are a former partner of the Company's existing external auditors.

The Audit Committee held 3 meetings during the year to review the financial results and reports, financial reporting, internal control and compliance procedures, and to make recommendations to the Board on the re-appointment of the external auditors.

Code Provisions	Compliance	Actions by the Company
C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Yes	Draft minutes prepared by the secretary of the meeting are sent to members within one month of each meeting. Full minutes are kept by the secretary of the meeting.

C. ACCOUNTABILITY AND AUDIT (Continued)

C.3 Audit Committee (Continued)

Code Provisions	Compliance	Actions by the Company
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for one year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later.	Yes	None of the members of the Audit Committee are former partners of the Company's existing auditing firm.
C.3.3 The terms of reference of the audit committee should include at least the following duties: – review of relationship with the issuer's auditors; – review of financial information of the issuer; and – oversight of the issuer's financial reporting system and internal control procedures.	Yes	The terms of reference have been revised to cover the scope of duties as required in this Code Provision.
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Yes	The terms of reference are available upon request.
C.3.5 Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	Not applicable	Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditors of the Company.

C. ACCOUNTABILITY AND AUDIT (Continued)

C.3 Audit Committee (Continued)

Code Provisions	Compliance	Actions by the Company
C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.	Yes	The Company will at its expenses provide such assistance as required by the Audit Committee.

Compliance with Recommended Best Practices

The terms of reference of the Audit Committee have been revised to include the following duties:

(a) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and

(b) to act as the key representative body for overseeing the Company's relation with the external auditor.

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Actions by the Company
D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Yes	The segregation of duties and responsibilities between the Board and the management has been defined and provided in the internal guidelines of the Company.
D.1.2 An issuer should formalize the functions reserved to the board and those delegated to management.	Yes	The duties of the Board include: – establishing strategic development and direction of the Company; – setting up the objective of management; – monitoring performance of management; and – overseeing relationships between the Company and its clients.

D. DELEGATION BY THE BOARD (Continued)

D.2 Board Committees

Principle
Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Board has established Audit Committee, Remuneration Committee and Executive Committee with defined terms of reference. The terms of reference of the Board Committees are available upon request.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Code Provisions	Compliance	Actions by the Company
D.2.1 Board committees are established with sufficiently clear terms of reference.	Yes	The Board has established three Board Committees (Audit Committee, Remuneration Committee and Executive Committee) with specific terms of reference.
D.2.2 The terms of reference of board committees should require such committees to report back to the board.	Yes	Board Committees would report to the Board their work, findings and recommendations in Board meetings.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle
The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Actions by the Company
E.1.1 A separate resolution should be proposed by the chairman of a general meeting for substantially separate issue.	Yes	Separate resolutions are proposed at the meeting on each substantially separate issue.
E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	The Board Chairman and either the chairman of the Audit Committee and Remuneration Committee or their representatives would attend the annual general meeting ("AGM") of the Company.

E. COMMUNICATION WITH SHAREHOLDERS (Continued)

E.2 Voting by Poll

Principle
The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Actions by the Company
E.2.1 Disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll.	Yes	Prior to the annual general meeting held on 1st March, 2007 ("2007 AGM"), Code Provision E.2.1 was partially complied by the Company. Following the shareholders' approval at the 2007 AGM, the Bye-laws have been amended to allow the directors holding proxies in respect of the shares representing 5% or more of the total voting rights at a particular meeting to demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. The Company has amended its Bye-laws in line with this Code Provision since then. As a usual practice of the Company, procedures for demanding a poll were set out in the circular accompanying the AGM notice.
E.2.2 The issuer should ensure that votes cast are properly counted and recorded.	Yes	Branch Share Registrars was appointed as scrutiniser.
E.2.3 The chairman of a meeting should at the commencement of the meeting ensure that the procedures for demanding a poll by shareholders and the detailed procedures for conducting a poll are explained.	Yes	The chairman of the meeting took care of the meeting procedures and conducted a poll (if applicable) after all shareholders had gained a full understanding of the procedures.

NOMINATION OF DIRECTORS

The Company has not established nomination committee but will constantly review and consider whether such committee is required. All new appointments and re-appointments to the Board are subject to approval of the Board of Directors of the Company.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, Messrs. Deloitte Touche Tohmatsu is set out as follows:

	US$'000
Audit services	1,119
Non-audit services	1,143
	2,262

The above non-audit services include professional advisory on taxation, professional services rendered in connection with the setting up of overseas companies, the field audit by the Inland Revenue Department of certain subsidiaries of the Group, the report of factual findings on agreed upon procedures in respect of connected parties transactions, the proposed initial public offering for the retail business and the review of internal control of retail business.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

DIRECTOR'S RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

Deloitte.
德勤

TO THE MEMBERS OF YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 114, which comprise the consolidated balance sheet as at 30th September, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 30th September, 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
17th January, 2008

Consolidated Income Statement

For the year ended 30th September, 2007

	NOTES	2007 US$'000	2006 US$'000
Turnover	6	**4,114,090**	3,657,379
Cost of sales		**(3,143,553)**	(2,815,959)
Gross profit		**970,537**	841,420
Other income		**100,376**	96,850
Net increase in fair value of investment properties	14	**4,530**	1,931
Net gain on derivative financial instruments and convertible bonds	7	**17,369**	9,368
Selling and distribution expenses		**(221,157)**	(154,154)
Administrative expenses		**(312,563)**	(299,988)
Other expenses		**(141,018)**	(145,783)
Finance costs	8	**(50,181)**	(41,855)
Share of results of associates		**24,676**	24,758
Share of results of jointly controlled entities		**(5,922)**	43,057
Profit before taxation		**386,647**	375,604
Income tax expense	9	**(17,715)**	(9,257)
Profit for the year	10	**368,932**	366,347
Attributable to:			
Equity holders of the Company		**359,432**	353,591
Minority interests		**9,500**	12,756
		368,932	366,347
Dividends	12	**174,632**	160,708
		US cents	US cents
Earnings per share	13		
– Basic		**21.6**	21.8
– Diluted		**20.6**	21.0

Consolidated Balance Sheet
At 30th September, 2007

	NOTES	2007 US$'000	2006 US$'000
Non-current assets			
Investment properties	14	**61,982**	57,169
Property, plant and equipment	15	**1,367,743**	1,194,409
Prepaid lease payments	16	**114,285**	106,332
Goodwill	17	**190,636**	188,535
Investments in associates	19	**292,179**	246,717
Amounts due from associates	20	**2,801**	6,999
Investments in jointly controlled entities	21	**261,372**	225,009
Amounts due from jointly controlled entities	22	**93,223**	37,273
Available-for-sale investments	23	**21,744**	31,151
Rental deposits and prepayment		**21,797**	–
		2,427,762	2,093,594
Current assets			
Inventories	24	**498,691**	419,581
Trade and other receivables	25	**780,692**	620,692
Prepaid lease payments	16	**2,079**	1,766
Taxation recoverable		**806**	8,253
Derivative financial instruments	26	**3,125**	400
Deposits placed with a financial institution	27	**24,000**	24,000
Bank balances and cash	28	**383,617**	210,506
		1,693,010	1,285,198
Current liabilities			
Trade and other payables	29	**622,227**	506,597
Taxation payable		**11,400**	5,795
Derivative financial instruments	26	**24,032**	815
Short-term bank borrowings	30	**148,769**	193,163
Bank overdrafts		**5,417**	–
		811,845	706,370
Net current assets		**881,165**	578,828
Total assets less current liabilities		**3,308,927**	2,672,422

	NOTES	2007 US$'000	2006 US$'000
Non-current liabilities			
Convertible bonds	31	**492,135**	237,837
Long-term bank borrowings	32	**314,838**	290,493
Deferred taxation	33	**8,150**	7,523
		815,123	535,853
Net assets		**2,493,804**	2,136,569
Capital and reserves			
Share capital	34	**53,682**	52,274
Reserves		**2,365,696**	2,039,046
Equity attributable to equity holders of the Company		**2,419,378**	2,091,320
Minority interests		**74,426**	45,249
Total equity		**2,493,804**	2,136,569

The consolidated financial statements on pages 49 to 114 were approved and authorised for issue by the Board of Directors on 17th January, 2008 and are signed on its behalf by:

David N.F. Tsai
MANAGING DIRECTOR

Li I Nan, Steve
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 30th September, 2007

	Attributable to equity holders of the Company										
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Convertible bonds reserve US$'000	Non-distributable reserve fund US$'000 (note b)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1st October, 2005	52,274	598,557	(7,549)	(16,688)	30,560	–	–	1,256,383	1,913,537	17,987	1,931,524
Revaluation decrease on investments	–	–	(8,902)	–	–	–	–	–	(8,902)	–	(8,902)
Share of reserves of associates	–	–	–	–	–	–	455	–	455	–	455
Share of reserves of jointly controlled entities	–	–	–	–	–	–	(211)	–	(211)	–	(211)
Net (expense) income recognised directly in equity	–	–	(8,902)	–	–	–	244	–	(8,658)	–	(8,658)
Impairment loss on available-for-sale investments	–	–	6,000	–	–	–	–	–	6,000	–	6,000
Profit for the year	–	–	–	–	–	–	–	353,591	353,591	12,756	366,347
Total recognised income and expense for the year	–	–	(2,902)	–	–	–	244	353,591	350,933	12,756	363,689
Redemption of convertible bonds by the Company	–	–	–	–	(12,442)	–	–	–	(12,442)	–	(12,442)
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	17,712	17,712
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	1,353	1,353
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(2,301)	(2,301)
Dividends (note 12)	–	–	–	–	–	–	–	(160,708)	(160,708)	–	(160,708)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(2,258)	(2,258)
At 30th September, 2006	52,274	598,557	(10,451)	(16,688)	18,118	–	244	1,449,266	2,091,320	45,249	2,136,569
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	13,607	–	13,607	1,545	15,152
Gain on fair value changes of investments	–	–	1,369	–	–	–	–	–	1,369	–	1,369
Total income recognised directly in equity	–	–	1,369	–	–	–	13,607	–	14,976	1,545	16,521
Profit for the year	–	–	–	–	–	–	–	359,432	359,432	9,500	368,932
Total recognised income for the year	–	–	1,369	–	–	–	13,607	359,432	374,408	11,045	385,453
Acquisition of business	–	–	–	–	–	–	–	–	–	4,883	4,883
Issue of new shares	1,408	128,465	–	–	–	–	–	–	129,873	–	129,873
Cost of issue new shares	–	(1,591)	–	–	–	–	–	–	(1,591)	–	(1,591)
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	20,285	20,285
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(4,677)	(4,677)
Dividends (note 12)	–	–	–	–	–	–	–	(174,632)	(174,632)	–	(174,632)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(2,359)	(2,359)
Transfer	–	–	–	–	–	6,454	–	(6,454)	–	–	–
At 30th September, 2007	**53,682**	**725,431**	**(9,082)**	**(16,688)**	**18,118**	**6,454**	**13,851**	**1,627,612**	**2,419,378**	**74,426**	**2,493,804**

Notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(b) According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.

Consolidated Cash Flow Statement
For the Year Ended 30th September, 2007

	2007 US$'000	2006 US$'000
OPERATING ACTIVITIES		
Profit before taxation	**386,647**	375,604
Adjustments for:		
Release of prepaid lease payments	**2,154**	1,741
Depreciation of property, plant and equipment	**138,830**	129,791
Discount on acquisition of additional interests in subsidiaries	**–**	(1,022)
Dividend income from available-for-sale investments	**(2,562)**	(1,742)
Finance costs	**50,181**	41,855
Impairment loss on amounts due from associates	**–**	3,110
Impairment loss on amounts due from jointly controlled entities	**–**	3,500
Impairment loss on available-for-sale investments	**–**	6,000
Increase in fair value of investment properties	**(4,530)**	(1,931)
Interest income	**(14,375)**	(10,572)
Loss on deemed disposal of a subsidiary	**–**	1,353
Loss on disposal of investment properties	**–**	746
Loss on disposal of property, plant and equipment	**4,507**	7,558
Net gain on derivative financial instruments and convertible bonds	**(17,369)**	(9,368)
Gain on deemed disposal of an associate	**(1,054)**	–
Share of results of associates	**(24,676)**	(24,758)
Share of results of jointly controlled entities	**5,922**	(43,057)
Operating cash flow before movements in working capital	**523,675**	478,808
Increase in inventories	**(71,387)**	(14,484)
Increase in trade and other receivables	**(144,253)**	(73,121)
Increase in trade and other payables	**103,769**	100,293
Increase in rental deposits and prepayments	**(21,797)**	–
Cash generated from operations	**390,007**	491,496
Hong Kong Profits Tax (paid) refunded	**(247)**	19
Overseas taxation paid	**(2,547)**	(10,498)
Purchase of tax reserve certificates	**(8,333)**	(9,140)
NET CASH FROM OPERATING ACTIVITIES	**378,880**	471,877

	NOTES	2007 US$'000	2006 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(324,612)**	(287,452)
Advance to jointly controlled entities		**(55,950)**	(12,246)
Investments in jointly controlled entities		**(46,223)**	(79,501)
Investments in associates		**(16,731)**	(56,344)
Prepaid land leases		**(12,965)**	(4,686)
Acquisition of additional interests in subsidiaries		**(4,677)**	(1,960)
Acquisition of business (net of cash and cash equivalent acquired)	37	**(4,082)**	–
Purchase of available-for-sale investments		**(1,492)**	–
Interest received		**14,375**	10,572
Proceeds from disposal of property, plant and equipment		**13,407**	8,440
Dividends received from associates		**10,819**	10,100
Dividends received from jointly controlled entities		**7,188**	11,666
Repayment from (advance to) associates		**4,198**	(4,803)
Proceeds from disposal of jointly controlled entities		**4,271**	–
Proceeds from early termination of land leases		**3,427**	744
Dividends received from available-for-sale investments		**2,562**	1,742
Proceeds from disposal of available-for-sale investments		**105**	345
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	38	**–**	(2,476)
Purchase of investment properties		**–**	(14,175)
NET CASH USED IN INVESTING ACTIVITIES		**(406,380)**	(420,034)
FINANCING ACTIVITIES			
Bank borrowings raised		**1,645,321**	574,501
Issuance (redemption) of convertible bonds		**270,000**	(85,102)
Proceed from placing new shares		**129,873**	–
Contribution from minority shareholders		**20,285**	17,712
Repayment of bank borrowings		**(1,665,370)**	(533,134)
Dividends paid		**(174,632)**	(160,708)
Interest paid on bank borrowings		**(25,477)**	(29,696)
Cost of issue convertible bonds		**(3,381)**	–
Dividends paid to minority shareholders of subsidiaries		**(2,359)**	(2,258)
Cost of issue new shares		**(1,591)**	–
Repayment to minority shareholders of subsidiaries		**–**	(4,045)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**192,669**	(222,730)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**165,169**	(170,887)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**2,525**	–
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		**234,506**	405,393
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**402,200**	234,506
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Bank balances and cash		**383,617**	210,506
Bank overdrafts		**(5,417)**	–
Deposits placed with a financial institution		**24,000**	24,000
		402,200	234,506

1. GENERAL

The Company was 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 addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section to the annual report.

The consolidated financial statements are presented in United States dollar, which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 46, 47 and 48, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st October, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards, amendment or interpretations that have been issued but are not yet effective for the Group's current financial year. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on how the results and financial position of the Group are prepared and presented, except for HKFRS 8. However, the directors are not yet in a position to determine whether HKFRS 8 would have a significant impact on how the disclosure of segmental information in the consolidated financial statements are presented.

HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) - INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) - INT 12	Service Concession Arrangements[5]
HK(IFRIC) - INT 13	Customer Loyalty Programmes[6]
HK(IFRIC) - INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st November, 2006
[4] Effective for annual periods beginning on or after 1st March, 2007
[5] Effective for annual periods beginning on or after 1st January, 2008
[6] Effective for annual periods beginning on or after 1st July, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st October, 2001, the Group has discontinued amortisation from 1st October, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions on or after 1st January, 2005 (Continued)

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the consolidated balance sheet as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Additional interests in subsidiaries are measured at the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the book value of net assets attributable to the additional interest acquired are accounted for as goodwill.

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill arising on acquisition of associates

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1st October, 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Goodwill arising on acquisition of jointly controlled entities

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. From 1st October, 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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 lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less subsequent accumulated depreciation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 *"Property, Plant and Equipment"* 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. Prior to 30th September, 1995, the revaluation increase arising on the revaluation of these assets was credited to the reserve in shareholders' equity. 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 corresponding revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using either the straight-line method or reducing balance method.

Construction in progress represents property, plant and equipment in the course of construction for production and for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid lease payments

The up-front payments to acquire leasehold interest in land are accounted for as operating lease and are stated at cost and released over the lease term on a straight-line basis.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose 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 accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of the relevant category of financial assets to the Group are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates and jointly controlled entities, deposits placed with a financial institution and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss are derivative financial assets (see accounting policy below).

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Convertible bonds

(a) Convertible bonds 2008 contain liability, equity component and embedded derivative

Convertible bonds issued by the Company that contains financial liability, equity component and embedded derivative are classified separately into respective items on initial recognition. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible bonds. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component and derivatives, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bonds reserve.

In subsequent years, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option. The embedded derivative is measured at fair value with changes in fair value recognised in profit or loss.

(b) Convertible bonds 2011 contain liability, conversion option derivative and other embedded derivative

Convertible bonds issued by the Group that contain both liability, conversion option components and other embedded derivative are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, conversion option components and other embedded derivative are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivatives and other embedded derivative are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, derivative and equity components or conversion option derivative and other embedded derivative in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity while the costs related to derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities, including trade and other payables and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 as reported in the consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and investments 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 profits 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 realised. Deferred tax is charged or credited to profit or loss, 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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit scheme

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following judgments that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Prepaid lease payments

Despite the Group has paid substantially the full purchase consideration as detailed in notes 14, 15 and 16, certain of the Group's rights to the use of the land were not granted formal titles from the relevant government authorities. In the opinion of the directors, the absence of formal title to these lands rights does not impair the value of the relevant properties to the Group.

Taxation

As stated in note 9, the Hong Kong Inland Revenue Department ("IRD") have issued protective assessment in aggregate of approximately US$106.0 million relating to certain assessment years. The directors of the Company believe that no tax is payable under these protective assessments and consequently, provision has not been made in the consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 30th September, 2007, the carrying amount of goodwill is approximately US$190,636,000. Details of the recoverable amount calculation are disclosed in note 18.

Fair value of derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market, where the valuation techniques are those commonly applied by market practitioners. For derivative financial instruments, assumptions are made based on market statistic and adjusted for specific features of the instrument. Details of the derivative financial instruments and their assumptions used are disclosed in notes 26 and 31.

5. FINANCIAL INSTRUMENTS

5a. Financial risk management objectives and policies

Details of the Group's financial instruments are disclosed in the respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 30th September, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group arising from:

– the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

– the amount disclosed as contingent liabilities in note 42.

The Group has concentration of credit risk on certain individual customers. At the balance sheet date, the five largest receivable balances accounted for approximately 24% of the trade receivables and the largest trade receivable attributable to the Group's trade receivables was approximately 8% of the Group's total trade receivables. The Group seeks to minimise its risk by dealing with counterparties which have good credit history.

At the balance sheet date, the two largest receivable balances from jointly controlled entities accounted for 42% of the balances. The management reviews the operations of those investments to ensure there were no irrecoverable debts. In this regards, management considers that the Group's credit risk on amounts due from jointly controlled entities are reduced.

In order to minimise the credit risk, management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date and ensure that adequate impairment are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations of customers are mainly on the United States of America, Europe and Asia which accounted for 34%, 23% and 36%, respectively, of the trade receivables at 30th September, 2007. In order to minimise the credit risk, management try to build an extensive customer base that spread over the world, which can minimise the credit risk by geographical location.

The Group also has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings. Apart from mentioned above, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse geographical areas.

5. FINANCIAL INSTRUMENTS (Continued)

5a. Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Market risk

(i) Foreign exchange risk

Substantial transactions entered into by the Group are denominated in United States dollar, the functional currency of relevant group entities and the foreign exchange risk adhered is limited. Foreign exchange risk arising from sales and purchases transacted in currencies other than United States dollar is managed by the Group's treasury team with the use of foreign exchange forward contracts or derivatives, provided that the cost involved is not expensive in comparison to the underlying exposure.

(ii) Cash flow interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have adverse effects on the Group's result for the current reporting year and in future years.

The interest rate exposure for the Group is restricted to the variable rate bank borrowings (see notes 30 and 32 for details of these borrowings) and deposits placed with a financial institution and bank balances (see notes 27 and 28 for details of these bank deposits and balances). The Group's bank borrowings are mostly subject to floating rate and the Group adopted interest-rate swap for minimising the cash flow interest rate risk.

(iii) Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (see Notes 30 and 32 for details of these borrowings). In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings.

(iv) Price risk

The Group is exposed to equity price risk through the Group's available-for-sale investments and conversion option derivative. The Group has a treasury team to monitor price risk and will consider hedging the risk exposure should the need arise.

5b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

– the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost on the consolidated financial statements approximate their fair value.

6. TURNOVER AND SEGMENTAL INFORMATION

Turnover mainly represents revenue arising on sales of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

Geographical segments

The Group reports its primary segment information on geographical location of its customers, irrespective of the origin of the goods, and an analysis of the Group's turnover and results and segmental assets and liabilities by geographical segments, is presented below:

For the year ended 30th September, 2007

	United States of America US$'000	Europe US$'000	PRC US$'000	Rest of Asia US$'000	Others US$'000	Total US$'000
TURNOVER	1,441,417	987,726	828,171	555,600	301,176	4,114,090
RESULTS						
Segment results	170,022	116,866	85,071	44,349	35,558	451,866
Other income						100,376
Unallocated expenses						(156,067)
Net increase in fair value of investment properties						4,530
Net gain on derivative financial instruments and convertible bonds						17,369
Finance costs						(50,181)
Share of results of associates						24,676
Share of results of jointly controlled entities						(5,922)
Profit before taxation						386,647
Income tax expense						(17,715)
Profit for the year						368,932
ASSETS						
Segment assets	344,563	235,394	223,205	175,194	71,928	1,050,284
Investments in associates						292,179
Amounts due from associates						2,801
Investments in jointly controlled entities						261,372
Amounts due from jointly controlled entities						93,223
Unallocated corporate assets						2,420,913
Consolidated total assets						4,120,772
LIABILITIES						
Segment liabilities	106,965	73,286	61,826	41,851	22,349	306,277
Unallocated corporate liabilities						1,320,691
Consolidated total liabilities						1,626,968

Segment assets consist of inventories, trade receivables and other operating assets. Segment liabilities comprise of certain trade payables. Property, plant and equipment and prepaid lease payments are not directly attributable to each customer and cannot be allocated to the segments on a reasonable basis.

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

Geographical segments (Continued)

For the year ended 30th September, 2006

	United States of America US$'000	Europe US$'000	PRC US$'000	Rest of Asia US$'000	Others US$'000	Total US$'000
TURNOVER	1,391,242	904,458	666,102	430,912	264,665	3,657,379
RESULTS						
Segment results	161,180	104,769	61,794	39,422	30,592	397,757
Other income						96,850
Unallocated expenses						(156,262)
Net increase in fair value of investment properties						1,931
Net gain on derivative financial instruments and convertible bonds						9,368
Finance costs						(41,855)
Share of results of associates						24,758
Share of results of jointly controlled entities						43,057
Profit before taxation						375,604
Income tax expense						(9,257)
Profit for the year						366,347
ASSETS						
Segment assets	291,274	189,410	188,018	123,379	55,633	847,714
Investments in associates						246,717
Amounts due from associate						6,999
Investments in jointly controlled entities						225,009
Amounts due from jointly controlled entities						37,273
Unallocated corporate assets						2,015,080
Consolidated total assets						3,378,792
LIABILITIES						
Segment liabilities	92,780	60,319	46,042	29,844	17,658	246,643
Unallocated corporate liabilities						995,580
Consolidated total liabilities						1,242,223

An analysis of the Group's other information attributable to geographical markets by location of customer for both years is not presented as the amounts involved cannot be allocated by location of its customers.

6. TURNOVER AND SEGMENTAL INFORMATION (Continued)

The following table is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located. Segment assets consist of inventories, trade receivables, property, plant and equipment, prepaid lease payments and other operating assets.

	Carrying amounts of total assets		Capital additions	
	2007 US$'000	2006 US$'000	**2007 US$'000**	2006 US$'000
PRC	**1,590,438**	1,312,757	**245,430**	145,400
Vietnam	**545,779**	512,297	**45,955**	67,964
Indonesia	**311,134**	271,004	**45,783**	82,929
Others (note)	**46,095**	54,163	**2,755**	16,167
Segment total	**2,493,446**	2,150,221	**339,923**	312,460
Unallocated corporate assets	**1,627,326**	1,228,571	**–**	–
	4,120,772	3,378,792	**339,923**	312,460

Note: Others included Taiwan, United States of America and Mexico.

Business segment

For management purposes, the Group is currently organised into two divisions in (i) manufacturing and sales of footwear products and (ii) retailing business. These divisions are the basis on which the Group reports its secondary segment information.

The following table provides an analysis of the Group's revenue, carrying amount of segment assets, and capital additions, analysed by the business segment. Segment assets consist of inventories, trade receivables, property, plant and equipment, prepaid lease payments and other operating assets that are directly attributable to the business segment.

	Revenue US$'000	**Carrying amount of total assets US$'000**	**Capital additions US$'000**
2007			
Manufacture and sale of footwear products	**3,625,240**	**2,239,983**	**269,039**
Retailing business	**488,431**	**198,790**	**31,172**
Others	**419**	**54,673**	**39,712**
	4,114,090	**2,493,446**	**339,923**
Unallocated corporate assets		**1,627,326**	**–**
		4,120,772	**339,923**
2006			
Manufacture and sale of footwear products	3,329,212	2,045,555	307,363
Retailing business	328,167	104,666	5,097
	3,657,379	2,150,221	312,460
Unallocated corporate assets		1,228,571	–
		3,378,792	312,460

7. NET GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS AND CONVERTIBLE BONDS

	2007 US$'000	2006 US$'000
Fair value changes on derivatives embedded in convertible bonds	**14,063**	32,892
Fair value changes on other derivative financial instruments	**3,306**	(414)
Loss on modification of convertible bonds	**–**	(25,399)
Gain on redemption of convertible bonds	**–**	2,289
	17,369	9,368

8. FINANCE COSTS

	2007 US$'000	2006 US$'000
Interest on bank borrowings:		
– wholly repayable within five years	**24,867**	29,471
– not wholly repayable within five years	**610**	225
Effective interest expenses on convertible bonds	**24,704**	12,159
	50,181	41,855

9. INCOME TAX EXPENSE

	2007 US$'000	2006 US$'000
Taxation attributable to the Company and its subsidiaries:		
Profits Tax		
Hong Kong Profits Tax at 17.5% (2006: 17.5%)		
– current year	**751**	604
– underprovision in prior years	**22**	22
PRC Enterprise Income Tax		
– current year	**12,683**	4,812
Overseas taxation		
– current year	**3,634**	3,169
– (over)underprovision in prior years	**(2)**	5
	17,088	8,612
Deferred tax charge (note 33)	**627**	645
	17,715	9,257

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 provision of PRC income tax is calculated based on the statutory rate of 33% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC.

9. INCOME TAX EXPENSE (Continued)

Pursuant to the relevant laws and 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 in the applicable tax rate for the next three years. The tax holidays and concessions will expire between 2008 and 2010.

Pursuant to《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》and the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in specific encouraged industries are subject to a preferential tax rate of 15% during the period of 2001 to 2010.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Law.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2007 US$'000	2006 US$'000
Profit before taxation	386,647	375,604
Tax at domestic rates applicable to profits of taxable entities in the countries concerned (Note)	88,111	88,401
Tax effect of expenses not deductible for tax purpose	7,490	10,884
Tax effect of income not taxable for tax purpose	(75,847)	(88,752)
Tax effect of tax losses not recognised	1,244	2,054
Effect of tax holiday granted to subsidiaries	(402)	(799)
Effect of tax concessions or preferential tax rates	(2,901)	(2,558)
Underprovision in prior years	20	27
Tax charge for the year	17,715	9,257

Note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

9. INCOME TAX EXPENSE (Continued)

From March 2004 to March 2006, the IRD issued protective profits tax assessments, in aggregate, of approximately HK$623,507,000 (equivalent to approximately US$80,164,000) relating to the years of assessment 1997/98, 1998/99 and 1999/2000, that is, for the financial years ended 30th September, 1997, 1998 and 1999, 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$181,526,000 (equivalent to approximately US$23,311,000) for those three years of assessment. These TRC were purchased by the relevant subsidiaries.

In March 2007, IRD further issued protective profits tax assessments of approximately HK$201,371,000 (equivalent to approximately US$25,817,000) relating to the year of assessment 2000/2001, that is, for the financial year ended 30th September, 2000. The IRD agreed to hold over the tax claim subject to the purchasing of TRC of HK$65,000,000 (equivalent to approximately US$8,333,000). The TRC was purchased by the relevant subsidiaries on 1st June, 2007.

The directors of the Company believe that no profits tax is payable by the Group in respect of the concerned subsidiaries and no provision for Hong Kong profits tax in respect of the protective assessments is necessary. In the opinion of the directors, those subsidiaries did not carry on any business and derived no profit in or from Hong Kong. The subsidiaries which carry on business in Hong Kong only provided limited administrative services and have already paid Hong Kong Profits Tax. Having taken advice from the Company's legal adviser, the directors of the Company believe that no profits tax is in fact payable by the Group of these years of assessment or for any other years and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

Whilst the Group has been advised that it has a strong case that the tax claimed is not in fact payable, the directors are also considering alternative approaches in the best interest of the Group to resolve the dispute with the IRD without legal proceedings, which are costly and time consuming. If the dispute is not resolved and the courts uphold the assessments against the relevant members of the Group, this may affect the Group's financial conditions and results of operations.

10. PROFIT FOR THE YEAR

	2007 US$'000	2006 US$'000
Profit for the year has been arrived at after charging:		
Employee benefit expense, including directors' emoluments		
– basic salaries, bonus and allowances	**741,485**	618,509
– retirement benefit scheme contributions	**11,007**	10,004
	752,492	628,513
Release of prepaid lease payments	**2,154**	1,741
Auditors' remuneration	**1,119**	1,400
Depreciation of property, plant and equipment	**138,830**	129,791
Impairment loss on amounts due from associates	**–**	3,110
Impairment loss on amounts due from jointly controlled entities	**–**	3,500
Impairment loss on available-for-sale investments	**–**	6,000
Loss on deemed disposal of a subsidiary	**–**	1,353
Loss on disposal of investment properties	**–**	746
Loss on disposal of property, plant and equipment	**4,507**	7,558
Research and development expenditure	**114,684**	98,913
Share of taxation of associates (included in share of results of associates)	**889**	1,540
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	**3,000**	–
and after crediting:		
Interest income	**14,375**	10,572
Discount on acquisition of additional interests in subsidiaries	**–**	1,022
Dividend income from listed available-for-sale investments	**2,562**	1,742
Net exchange gain	**6,417**	13,176
Gain on deemed disposal of an associate	**1,054**	–
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US$36,000 (2006: US$33,000)	**4,944**	5,269
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	**–**	569

Note: For the years ended 30th September, 2006 and 2007, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 13 directors (2006: 15 directors) were as follows:

2007

	Tsai Chi Neng US$'000	David N.F. Tsai US$'000	Edward Y. Ku US$'000	Kuo Tai Yu US$'000	Lu Chin Chu US$'000	Kung Sung Yen US$'000	Chan Lu Min US$'000	Li I Nan, Steve US$'000	Tsai Pei Chun, Patty US$'000	John J.D. Sy US$'000	So Kwan Lok US$'000	Poon Yiu Kin, Samuel US$'000	Liu Len Yu US$'000	Total US$'000
Directors' fees:														
Executive	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive	–	–	–	–	–	–	–	–	–	45	–	–	–	45
Independent non-executive	–	–	–	–	–	–	–	–	–	–	30	42	26	98
Other emoluments of executive directors:														
Salaries and other benefits	272	340	316	100	106	159	18	179	100	–	–	–	–	1,590
Bonus	1,016	928	77	910	831	908	172	55	32	–	–	–	–	4,929
Retirement benefit schemes	–	–	1	–	–	–	–	1	–	–	–	–	–	2
Other emoluments of non-executive directors:														
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonus	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total directors' emoluments	1,288	1,268	394	1,010	937	1,067	190	235	132	45	30	42	26	6,664

2006

	Tsai Chi Neng US$'000	David N.F. Tsai US$'000	Edward Y. Ku US$'000	Kuo Tai Yu US$'000	Lu Chin Chu US$'000	Kung Sung Yen US$'000	Chan Lu Min US$'000	Li I Nan, Steve US$'000	Tsai Pei Chun, Patty US$'000	Choi Kwok Keung US$'000	Shih Hung US$'000	John J.D. Sy US$'000	So Kwan Lok US$'000	Poon Yiu Kin, Samuel US$'000	Liu Len Yu US$'000	Total US$'000
Directors' fees:																
Executive	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive	–	–	–	–	–	–	–	–	–	–	–	45	–	–	–	45
Independent non-executive	–	–	–	–	–	–	–	–	–	–	13	–	29	42	15	99
Other emoluments of executive directors:																
Salaries and other benefits	274	342	308	93	100	153	18	175	101	–	–	–	–	–	–	1,564
Bonus	1,260	1,149	77	1,125	1,027	1,124	206	55	32	–	–	–	–	–	–	6,055
Retirement benefit schemes	–	–	2	–	–	–	–	1	–	–	–	–	–	–	–	3
Other emoluments of non-executive directors:																
Salaries and other benefits	–	–	–	–	–	–	–	–	–	37	–	–	–	–	–	37
Bonus	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total directors' emoluments	1,534	1,491	387	1,218	1,127	1,277	224	231	133	37	13	45	29	42	15	7,803

11. 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 an executive director of the Company. The rateable value of the residential accommodation provided to Mr. Li I Nan, Steve, was approximately US$10,000 (2006: US$9,600).

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 was determined with reference to the Group's operating results, individual performance 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.

12. DIVIDENDS

	2007 US$'000	2006 US$'000
Dividends recognised as distribution during the year:		
2007 Interim dividend of HK$0.31 per share (2006: 2006 Interim dividend of HK$0.29 per share) paid	66,002	60,517
2006 Final dividend of HK$0.51 per share (2006: 2005 Final dividend of HK$0.48 per share) paid	108,630	100,191
	174,632	160,708

The directors recommend the payment of a final dividend of HK$0.53 per share for the year ended 30th September, 2007. The proposed final dividend will be paid on or before 13th March, 2008 to those shareholders whose names appear on the Company's register of members on 3rd March, 2008.

This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2007 US$'000	2006 US$'000
Earnings:		
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	359,432	353,591
Effect of dilutive potential ordinary shares:		
Gain on fair value changes on derivative financial instruments	(14,063)	(32,892)
Finance costs on convertible bonds	24,704	12,159
Loss on modification of convertible bonds	–	25,399
Gain on redemption of convertible bonds	–	(2,289)
Profit for the year attributable to equity holders of the Company for the purpose of diluted earnings per share	370,073	355,968

	2007	2006
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,660,984,164	1,619,748,986
Effect of dilutive potential ordinary shares:		
Convertible bonds	134,352,478	71,332,038
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,795,336,642	1,691,081,024

14. INVESTMENT PROPERTIES

	US$'000
FAIR VALUE	
At 1st October, 2005	35,700
Additions	14,175
Transfer from prepaid lease payments	784
Transfer from property, plant and equipment	5,325
Net increase in fair value recognised in the consolidated income statement	1,931
Disposals	(746)
At 30th September, 2006	57,169
Transfer from property, plant and equipment	283
Net increase in fair value recognised in the consolidated income statement	4,530
At 30th September, 2007	**61,982**

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties situated in the PRC of approximately US$48,215,000 at 30th September, 2007 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited ("Knight Frank"), independent qualified professional valuers not connected with the Group. The valuation, which conforms to Hong Kong Institute of Surveyors ("HKIS") Valuation Standards on Properties (First Edition 2005) published by HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

The fair value of the Group's investment properties situated in the United States of America of approximately US$13,767,000 as at 30th September, 2007 have been determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was arrived at by reference to recent market prices for similar properties.

	2007 **US$'000**	2006 US$'000
The carrying value of investment properties shown above comprises properties on:		
– long-term leases or land use rights in the PRC	**1,366**	1,350
– medium-term land use rights in the PRC	**46,849**	42,052
– freehold land in the United States of America	**13,767**	13,767
	61,982	57,169

As at 30th September, 2007, the carrying value of the investment properties in the PRC for which the Group had not been granted formal title of the use of land ("land rights") amounted to approximately US$37.8 million (2006: approximately US$34.0 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 as the directors believe the formal title to these land rights will be granted in due course.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Freehold land US$'000	Land and buildings US$'000	Hotel properties US$'000	Construction in progress US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
COST OR VALUATION										
At 1st October, 2005	248,547	4,496	359,743	17,794	59,663	806,766	154,731	103,871	23,689	1,779,300
Additions	25,588	–	3,045	199	74,738	135,836	29,477	15,267	3,302	287,452
Reclassification	58,154	–	18,246	–	(76,758)	315	–	43	–	–
Transfer to investment properties	–	–	(5,325)	–	–	–	–	–	–	(5,325)
Disposal of subsidiaries	–	–	(6,829)	–	–	(5,126)	(59)	(553)	(106)	(12,673)
Disposals	(74)	–	–	(593)	(1,317)	(41,897)	(3,148)	(6,026)	(2,458)	(55,513)
At 30th September, 2006	332,215	4,496	368,880	17,400	56,326	895,894	181,001	112,602	24,427	1,993,241
Exchange realignment	–	–	1,533	–	654	576	785	516	66	4,130
Additions	15,439	–	41,081	–	94,593	106,573	44,283	19,409	3,234	324,612
Acquisition of business	–	–	–	–	–	–	2,346	–	–	2,346
Reclassification	30,889	–	32,021	–	(76,033)	1,902	10,508	713	–	–
Transfer to investment properties	–	–	–	–	(283)	–	–	–	–	(283)
Disposals	(64)	–	(3,423)	(5,385)	–	(29,485)	(13,012)	(3,114)	(2,328)	(56,811)
At 30th September, 2007	**378,479**	**4,496**	**440,092**	**12,015**	**75,257**	**975,460**	**225,911**	**130,126**	**25,399**	**2,267,235**
Comprising:										
At cost	378,479	4,496	404,579	12,015	75,257	975,460	225,911	130,126	25,399	2,231,722
At valuation – 1995	–	–	35,513	–	–	–	–	–	–	35,513
	378,479	4,496	440,092	12,015	75,257	975,460	225,911	130,126	25,399	2,267,235
DEPRECIATION										
At 1st October, 2005	60,104	–	54,968	5,550	–	438,220	69,774	67,653	16,428	712,697
Provided for the year	15,210	–	9,285	1,213	–	73,699	15,507	12,554	2,323	129,791
Disposal of subsidiaries	–	–	(1,196)	–	–	(2,088)	(51)	(726)	(80)	(4,141)
Eliminated on disposals	(64)	–	–	(509)	–	(30,469)	(1,141)	(5,091)	(2,241)	(39,515)
At 30th September, 2006	75,250	–	63,057	6,254	–	479,362	84,089	74,390	16,430	798,832
Exchange realignment	–	–	68	–	–	87	481	69	22	727
Provided for the year	17,581	–	10,114	1,039	–	75,387	19,948	12,341	2,420	138,830
Eliminated on disposals	(61)	–	(134)	(1,879)	–	(24,196)	(8,364)	(2,356)	(1,907)	(38,897)
At 30th September, 2007	**92,770**	**–**	**73,105**	**5,414**	**–**	**530,640**	**96,154**	**84,444**	**16,965**	**899,492**
CARRYING VALUES										
At 30th September, 2007	**285,709**	**4,496**	**366,987**	**6,601**	**75,257**	**444,820**	**129,757**	**45,682**	**8,434**	**1,367,743**
At 30th September, 2006	256,965	4,496	305,823	11,146	56,326	416,532	96,912	38,212	7,997	1,194,409

Note: Included in land and buildings are certain owner-occupied leasehold land and buildings of approximately US$3,250,000 (2006: US$3,308,000) and US$363,737,000 (2006: US$302,515,000) in Hong Kong and the PRC, respectively, where in the opinion of the directors of the Company, allocation between the land and building elements could not be made reliably.

As at 30th September, 2007, the carrying value of land and buildings for which the Group had not been granted formal title of the rights to use of land amounted to approximately US$190.0 million (2006: approximately US$189.0 million). In the opinion of the directors, the absence of formal title to these land rights does not impair the recoverable amount of the relevant properties to the Group as the directors believe the formal title to these land rights will be granted in due course.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated at the following rates per annum:

Land and buildings and Buildings	Over a term of 20 years to 50 years, or shorter of the lease terms, where appropriate	(straight-line method)
Freehold land	Nil	
Hotel properties	3.3% – 15%	(straight-line method)
Plant and machinery	5% – 15%	(straight-line method)
Leasehold improvements	10%	(reducing balance method)
Furniture, fixtures and equipment	20% – 30%	(reducing balance method)
Motor vehicles	20% – 30%	(reducing balance method)

At 30th September, 2007, if the leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical costs less accumulated depreciation at approximately US$367,477,000 (2006: US$306,313,000).

	2007 **US$'000**	2006 US$'000
The carrying value of the properties shown above comprises properties on:		
Land under long-term leases or land use rights in		
– the PRC	**1,531**	3,794
– Indonesia	**102,985**	75,609
Land under medium-term leases or land use rights in		
– Hong Kong	**3,250**	3,308
– the PRC	**362,206**	298,720
– Vietnam	**182,724**	181,357
Freehold land in Mexico	**4,496**	4,496
Hotel properties under medium-term land use rights in the PRC	**6,601**	11,146
	663,793	578,430

16. PREPAID LEASE PAYMENTS

	2007 US$'000	2006 US$'000
The Group's prepaid lease payments comprise leasehold land held under:		
Long-term leases and land use rights in		
– the PRC	**2,785**	3,987
– Indonesia	**23,081**	23,081
Medium-term leases and land use rights in		
– the PRC	**66,334**	56,406
– Vietnam	**24,164**	24,624
	116,364	108,098
Analysed for reporting purposes as:		
Current asset	**2,079**	1,766
Non-current asset	**114,285**	106,332
	116,364	108,098

The Group has acquired rights to the land rights in the PRC, Indonesia and Vietnam and has erected buildings thereon. While the Group has paid substantially the full purchase consideration, the relevant government authorities have not granted formal title to certain of these land rights to the Group. As at 30th September, 2007, the carrying value of the land rights for which the Group had not been granted formal title amounted to approximately US$49.6 million (2006: approximately US$48.6 million) with building of approximately US$35.0 million (2006: US$33.2 million) erected on those land rights. 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 as the directors believe the formal title to these land rights will be granted in due course.

17. GOODWILL

	US$'000
COST	
At 1st October, 2005	188,106
Arising on acquisition of additional interests in subsidiaries	429
At 30th September, 2006	188,535
Arising on acquisition of business (note 37)	2,101
At 30th September, 2007	**190,636**

Particulars regarding impairment testing on goodwill are disclosed in note 18.

18. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill with indefinite useful lives as detailed in note 17 has been allocated to three individual cash generating units ("CGUs"). The carrying amount of goodwill as at 30th September, 2007 has been allocated to the following units:

	2007	2006
	US$'000	US$'000
Manufacture and marketing of footwear materials ("Unit A")	**182,127**	182,127
Manufacture and marketing of sports apparel ("Unit B")	**5,724**	5,724
Retail sales of footwear and apparel ("Unit C")	**2,785**	684
	190,636	188,535

During the year ended 30th September, 2007, management of the Group determines that there were no impairments of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of the above CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one year period, and discount rates of 13%, 12% and 12% for Unit A, Unit B and Unit C, respectively. The cash flows beyond the one year period are extrapolated for 5 years using a steady growth rate of 4%. These growth rates are based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the units' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of allocated goodwill of Unit A, Unit B and Unit C to exceed the corresponding recoverable amounts.

19. INVESTMENTS IN ASSOCIATES

	2007	2006
	US$'000	US$'000
Cost of investments in associates (notes 1 & 2):		
Listed in Hong Kong	**52,647**	40,484
Listed in Taiwan	**88,053**	86,832
Unlisted	**110,764**	95,254
Share of post-acquisition profits and reserves, net of dividends received	**40,715**	24,147
	292,179	246,717
Fair value of listed investments	**172,028**	105,065

Details of the Group's principal associates at 30th September, 2007 are set out in note 47.

19. INVESTMENTS IN ASSOCIATES (Continued)

Notes:

1. Included in cost of investments in associates is goodwill arising on acquisition of associates of approximately US$83,888,000 (2006: US$78,238,000) and the movement are as follows:

	US$'000
COST	
At 1st October, 2005	59,958
Arising on acquisition of associates	18,280
At 30th September, 2006	78,238
Arising on acquisition of associates	5,650
At 30th September, 2007	83,888

2. During the year ended 30th September, 2007, the Group invested in the associates with a carrying amount of US$10,922,000 (2006: nil) at the balance sheet date for which the investment amounts are subject to a price adjustment. The adjustment is determined based on the financial performance of the associate during a specified profit evaluation period.

The summarised financial information in respect of the Group's associates is set out below:

	2007 US$'000	2006 US$'000
Total assets	**1,280,407**	709,513
Total liabilities	**(562,182)**	(288,568)
Net assets	**718,225**	420,945
The Group's share of net assets of associates	**208,291**	168,479
Turnover	**1,035,428**	780,238
Profit for the year	**60,976**	58,538
The Group's share of results of associates for the year	**24,676**	24,758

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of these associates, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2007 US$'000	2006 US$'000
Unrecognised share of (profits) losses of associates for the year	**(198)**	570
Accumulated unrecognised share of losses of associates	**6,689**	6,887

20. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured, interest-free, have no fixed terms of repayment and expected not to be received within one year after the balance sheet date.

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2007 US$'000	2006 US$'000
Cost of unlisted investments in jointly controlled entities (notes 1 & 2)	**184,889**	146,338
Share of post-acquisition profits and reserves, net of dividends received	**76,483**	78,671
	261,372	225,009

Details of the Group's principal jointly controlled entities at 30th September, 2007 are set out in note 48.

Notes:

1. Included in cost of investments in jointly controlled entities is goodwill arising on acquisition of jointly controlled entities of approximately US$10,669,000 (2006: US$9,208,000) and the movement are as follows:

	US$'000
COST	
At 1st October, 2005	4,874
Arising on acquisition of jointly controlled entities	4,334
At 30th September, 2006	9,208
Arising on acquisition of jointly controlled entities	1,461
At 30th September, 2007	**10,669**

2. During the year ended 30th September, 2007, the Group invested in interest in jointly controlled entities with a carrying amount of US$33,036,000 (2006: nil) at the balance sheet date for which the consideration paid are subject to a price adjustment. The adjustment is determined based on the financial performance of the jointly controlled entities during a specified profit evaluation period.

   The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2007 US$'000	2006 US$'000
Current assets	**453,044**	353,270
Non-current assets	**212,261**	156,678
Current liabilities	**(279,016)**	(169,603)
Non-current liabilities	**(92,580)**	(86,636)
Income	**685,183**	633,999
Expenses	**(685,684)**	(593,027)

22. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment and expected not to be received within one year after the balance sheet date.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2007 US$'000	2006 US$'000
Listed investments:		
– Equity securities listed in Hong Kong	**9,519**	27,019
– Equity securities listed overseas	**10,760**	4,012
	20,279	31,031
Unlisted overseas equity securities	**1,465**	120
	21,744	31,151

At the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair value cannot be measured reliably. Fair value of these listed investments have been determined by reference to bid prices quoted in active markets.

The above unlisted securities represent investments in unlisted equity securities issued by a private entity incorporated overseas. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. INVENTORIES

	2007 US$'000	2006 US$'000
Raw materials	**180,861**	175,291
Work in progress	**80,814**	84,706
Finished goods	**237,016**	159,584
	498,691	419,581

25. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms, ranging from 30 days to 90 days, which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US$497,269,000 (2006: US$428,133,000) and an aged analysis of which is as follows:

	2007 US$'000	2006 US$'000
0 to 30 days	**349,321**	309,856
31 to 90 days	**137,794**	109,035
Over 90 days	**10,154**	9,242
	497,269	428,133

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000
Interest rate swaps (note a)	–	–	400	–
Foreign currency forward contracts (note b)	3,125	234	–	815
Embedded derivative in convertible bonds (note 31)	–	23,798	–	–
	3,125	24,032	400	815

Notes:

(a) During the year, the interest rate swap was called by bank and the Group did not enter into any other interest rate swap arrangements.

(b) Major terms of foreign currency forward contracts as at 30th September, 2007 are as below:

(i)

Aggregate Principal Amount	Maturity	Forward Exchange Rates
– USD269.9 million	From October 2007 to September 2008	Sell USD/buy RMB at 7.278 to 7.6143
– USD167.5 million	From October 2007 to September 2008	Sell RMB/buy USD at 7.105 to 7.485

(ii) The Group has also entered into certain USD vs HKD structured forward contracts which give the Group the opportunities to sell USD/buy HKD at more favourable exchange rates than market exchange rates but the Group is obliged to buy USD/sell HKD at a fixed exchange rate of 7.745 if the exchange rate falls below 7.745 for a maximum of US$4 million per month for each contract for a period of 18 months. As of 30th September, 2007, the remaining tenors of the 2 outstanding contracts were 1 month and 5 months respectively.

27. DEPOSITS PLACED WITH A FINANCIAL INSTITUTION

The deposits placed with a financial institution carry interest at prevailing market rate of 5.5% (2006: 4%) per annum.

28. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 0.10% to 5.50% (2006: 0.10% to 5.55%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007	2006
	US$'000	US$'000
United States dollars	14,555	2,459
Hong Kong dollars	18,632	9,937
New Taiwan dollars	9,944	703
Renminbi	40,041	30,732
	83,172	43,831

29. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$306,277,000 (2006: US$246,643,000) and an aged analysis is as follows:

	2007 US$'000	2006 US$'000
0 to 30 days	205,783	171,522
31 to 90 days	74,385	49,906
Over 90 days	26,109	25,215
	306,277	246,643

30. SHORT-TERM BANK BORROWINGS

	2007 US$'000	2006 US$'000
Current portion of long-term bank borrowings (note 32)	5,187	70,934
Short-term bank borrowings	141,443	116,598
Trust receipt and import loans	2,139	5,631
	148,769	193,163
Analysed as:		
Secured	178	173
Unsecured	148,591	192,990
	148,769	193,163

The Group's short-term bank borrowings are interest bearing as follows:

	2007 US$'000	2006 US$'000
Fixed rate borrowings	67,042	12,245
Variable rate borrowings	81,727	180,918
	148,769	193,163

The Group's has floating-rate borrowings carry interest at London Interbank Offered Rate ("LIBOR") plus a fixed percentage per annum.

The range of effective interest rates on the Group's short-term bank borrowings are as follows:

	2007	2006
Effective interest rate:		
Fixed rate borrowings	5.31% to 7.65%	4.70% to 5.58%
Variable rate borrowings	4.37% to 7.87%	4.70% to 8.30%

30. SHORT-TERM BANK BORROWINGS (Continued)

The above borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007 US$'000	2006 US$'000
New Taiwan dollars	3,214	5,631
United States dollars	7,180	50,267
	10,394	55,898

31. CONVERTIBLE BONDS

(i) Convertible bonds

Zero Coupons Convertible Bonds due 2008 ("CB 2008")

On 23rd December, 2003, the Company issued US$300 million CB 2008 which are listed on the Luxembourg Stock Exchange. The CB 2008 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 US$3.52 (i.e. HK$27.33 per share with a fixed rate of exchange applicable on conversion of the CB 2008 of HK$7.7622 to US$1.00), subject to anti-dilutive adjustments, 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.

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 CB 2008 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's shares on the Stock Exchange was 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% of the 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 agreement of CB 2008.

The bondholders could, at their option, require the Company to redeem all or some of the CB 2008 on 23rd December, 2005 ("Put Option Date") at 99.5 per cent of the principal amount ("Put Option"). 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 will continue to be outstanding as if the Put Option had never been exercised. In addition, the Company will make an additional payment to the order of the Financial Institution on maturity of the Exercised Bonds.

As a result, the Exercised Bonds with a principal amount of US$223,225,000 were revoked and continued to be outstanding. The balances of Exercised Bonds with principal amount of US$85,530,000 were redeemed by the Company with cash of US$85,102,000.

31. CONVERTIBLE BONDS (Continued)

(i) Convertible bonds (Continued)

Zero Coupons Convertible Bonds due 2008 ("CB 2008") (Continued)
At 30th September, 2007, CB 2008 with a carrying amount of US$250,792,000 (principal of US$231,470,000) remained outstanding.

At 30th September, 2007, there was no quoted market value for the CB 2008 (quoted market value at 30th September, 2006: US$230,023,000).

Zero Coupon Convertible Bonds due 2011 ("CB 2011")
On 20th October, 2006, the Company entered into a bond subscription agreement with an arranger in connection with the issue of CB 2011 by the Company with an aggregate principal amount of HK$1,800 million (equivalent to approximately US$231 million). The Company has granted the arranger an option to require the Company to issue a further HK$300 million (equivalent to approximately US$39 million) CB 2011 on the same terms. The net proceeds, after arrangement fee of US$3 million, from these transactions were used for general working capital, capital expenditure, business expansion and repayment of existing debt.

On 2nd November, 2006, notice was given to the Company by the arranger to exercise the option in full such that the aggregate principal amount of CB 2011 is HK$2,100 million (equivalent to approximately US$270 million).

At the option of the holders, the CB 2011 are convertible into ordinary shares of HK$0.25 each in the share capital of the Company, at a conversion price of HK$26.75 per share, subject to anti-dilutive adjustments, at any time on or after 27th December, 2006 up to and including 7th November, 2011.

The CB 2011 do not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2011 will be redeemed by the Company at 113.227 per cent of their principal amount on 17th November, 2011. All but not some only of these bonds may be redeemed at the option of the Company: (i) on or after 17th November, 2007 when the closing price of the Company's shares on the Stock Exchange shall have been at least 120% of the conversion price for each of the 30 consecutive trading days or (ii) at any time providing at least 90% of the principal amount of the CB 2011 has been converted, redeemed or purchased and cancelled or (iii) in the event of certain changes relating to Bermuda or Hong Kong taxation law (each bondholder may, after the Company serves notice to exercise such tax redemption option, elect to refuse such redemption by the Company); (in all cases) prior to 17th November, 2011, at an early redemption amount as stated in the agreement of CB 2011.

The bondholders may, at their option, require the Company to redeem all or some of the CB 2011 on 17th November, 2009 at 107.738 per cent of their principal amount. All but not some only of these bonds may be redeemed at the option of the bondholders upon (i) the Company shares ceasing to be listed on the Stock Exchange or (ii) the occurrence of a change of control as stated in the CB 2011.

At the issue of CB 2011, an amount of US$228,868,000 and US$37,751,000 were recognised as liability and derivative embedded in CB 2011, respectively.

At 30th September, 2007, CB 2011 with a carrying amount of US$241,343,000 (principal amount of HK$2,100 million, equivalent to approximately US$270 million) remained outstanding.

At 30th September, 2007, the quoted market value of the CB 2011 is US$281,346,000.

31. CONVERTIBLE BONDS (Continued)

(i) Convertible bonds (Continued)

The movement of the liability component of the CB 2008 and CB 2011 for the year ended 30th September, 2007 is set out below:

	2007			
	CB 2008 US$'000	CB 2011 US$'000	Total US$'000	2006 US$'000
At the beginning of the year	237,837	–	237,837	275,229
Issue of CB 2011	–	228,868	228,868	–
Effective interest expenses	12,955	11,749	24,704	12,159
Redemption	–	–	–	(74,950)
Modification on the terms for CB 2008 pursuant to Put Release Agreements	–	–	–	25,399
Exchange difference	–	726	726	–
At the end of the year	250,792	241,343	492,135	237,837

During the year ended 30th September, 2007, the effective interest rates of CB 2008 and CB 2011 were 5.45% (2006: 5.45%) and 5.84% (2006: N/A), respectively.

(ii) Derivative financial instruments

	2007 US$'000	2006 US$'000
Put option embedded in the CB 2008 at 1st October, 2006/2005	–	32,892
Derivatives embedded in the CB 2011	37,751	–
Exchange realignment	110	–
Changes in fair value	(14,063)	(32,892)
Embedded derivatives at 30th September, 2007/2006 (note 26)	23,798	–

The derivatives embedded in CB 2011 were fair valued by the arranger on the issue date of 20th October, 2006 and the balance sheet date of 30th September, 2007 at approximately US$37,751,000 and US$23,798,000, respectively. The change in fair value of approximately US$14,063,000 have been credited to the consolidated income statement for the year ended 30th September, 2007.

The inputs used in the Monis model adopted by the management in determining the fair values at the respective dates were as follows:

	30th September, 2007	20th October, 2006
Share price	HK$23.25	HK$24.00
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.2%	3.2%
Volatility	31%	23%

32. LONG-TERM BANK BORROWINGS

	2007 US$'000	2006 US$'000
The long-term bank borrowings are repayable:		
Within one year	**5,187**	70,934
In more than one year, but not exceeding two years	**25,473**	944
In more than two years, but not exceeding three years	**280,428**	201
In more than three years, but not exceeding four years	**228**	280,428
In more than four years, but not exceeding five years	**241**	228
In more than five years	**8,468**	8,692
	320,025	361,427
Less: Amount due within one year included in current liabilities (note 30)	**(5,187)**	(70,934)
Amount due after one year	**314,838**	290,493
Analysed as:		
Secured	**9,351**	9,525
Unsecured	**305,487**	280,968
	314,838	290,493

At 30th September, 2007, the above secured borrowings are secured by certain investment properties of the Group with a carrying value of approximately US$13,767,000 (2006: US$13,767,000).

Included in the long-term bank borrowings is an amount of US$280 million (2006: US$350 million) drawn under a syndicated loan facility of US$420 million (2006: US$420 million), which is effectively a United States dollar loan with commercial interest rates linked to the United States dollar and is repayable in June 2010. Pursuant to the loan agreement, certain substantial shareholders of the Company, the family of Tsai, together with Pou Chen Corporation ("PCC"), both being substantial shareholders of Yue Yuen, 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. At 30th September, 2007, the Group had undrawn syndicated loans facilities of US$140 million (2006: US$70 million).

32. LONG-TERM BANK BORROWINGS (Continued)

The above borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	United States dollar equivalent of Hong Kong dollar US$'000
As at 30th September, 2007	**280,213**
As at 30th September, 2006	280,213

The Group's long-term bank borrowings are interest-bearing as follows:

	2007 US$'000	2006 US$'000
Fixed rate borrowings	**9,351**	9,525
Variable rate borrowings	**305,487**	280,968
	314,838	290,493

The Group's floating-rate borrowings carry interest at LIBOR plus a fixed rate per annum. Interest is repricing every six months.

The ranges of effective interest rates on the Group's long-term bank borrowing are as follows:

	2007	2006
Effective interest rate:		
Fixed rate borrowings	**6.23%**	6.23%
Variable rate borrowings	**5.2% to 7.9%**	4.6 to 6.7%

33. DEFERRED TAXATION

The major deferred tax liabilities recognised and movements thereon during the current and prior years are as follows:

	Accelerated tax depreciation US$'000	Revaluation of investment properties US$'000	Total US$'000
At 1st October, 2005	3,817	3,061	6,878
Charged to the consolidated income statement	8	637	645
At 30th September, 2006	3,825	3,698	7,523
(Credit) charged to the consolidated income statement	(11)	638	627
At 30th September, 2007	**3,814**	**4,336**	**8,150**

33. DEFERRED TAXATION (Continued)

At the balance sheet date, the Group had unused tax losses of approximately US$23,801,000 (2006: US$18,871,000). No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years until 2012.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$10,088,000 (2006: US$7,289,000). No liability has been recognised in respect of these differences because the Group control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There was no other significant unprovided deferred taxation for the year or at the balance sheet date.

34. SHARE CAPITAL

	Number of shares	**Amount HK$'000**
Authorised:		
Ordinary shares of HK$0.25 each:		
At 1st October, 2005, 30th September, 2006		
and 30th September, 2007	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 1st October, 2005 and 30th September, 2006	1,619,748,986	404,937
Issue of new shares	43,880,000	10,970
At 30th September, 2007	1,663,628,986	415,907

	US$'000
Shown in the consolidated financial statements as at	
30th September, 2007	53,682
30th September, 2006	52,274

On 20th October, 2006, a placing and subscription agreement was entered into among Wealthplus Holdings Limited ("Wealthplus"), the Company and a placing agent ("Placing Agent") under which (i) Wealthplus appointed the Placing Agent to place 43,880,000 existing ordinary shares ("Placing Shares") in the Company at a price of HK$23.05 per Placing Share; and (ii) Wealthplus to subscribe for 43,880,000 new shares ("Subscription Shares") in the Company at a price of HK$23.05 per Subscription Share. The issued price of HK$23.05 represented a discount of 3.96% to the closing price of HK$24.00 per share on 19th October, 2006. The Subscription Shares were issued under the general mandate granted to the directors of the Company at the annual general meeting on 1st March 2006. The net proceeds of HK$999,044,000 (equivalent to approximately US$128,282,000) would be used for general working capital, capital expenditure and business expansion. The transaction was completed on 1st November 2006.

Wealthplus is a wholly-owned subsidiary of Pou Chen Corporation, a substantial shareholder of the Company.

Details of the above are set out in the announcement to the shareholders of the Company dated 20th October, 2006.

The shares issued during the year rank pari passu with the then existing shares in issue in all respects.

35. BALANCE SHEET OF THE COMPANY

	2007 US$'000	2006 US$'000
Non-current assets		
Property, plant and equipment	**184**	189
Investments in subsidiaries	**60,832**	60,832
	61,016	61,021
Current assets		
Sundry receivables	**816**	2
Amounts due from subsidiaries	**2,336,490**	1,650,963
Derivative financial instruments	**–**	400
Bank balances and cash	**1,193**	78
	2,338,499	1,651,443
Current liabilities		
Sundry payables	**10,437**	4,344
Amounts due to subsidiaries	**20**	–
Derivative financial instruments	**24,032**	–
Short-term bank borrowings	**22,003**	–
Current portion of long-term bank borrowings	**–**	70,000
	56,492	74,344
Net current assets	**2,282,007**	1,577,099
Total assets less current liabilities	**2,343,023**	1,638,120
Non-current liabilities		
Convertible bonds (note 31)	**492,135**	237,837
Long-term bank borrowings	**280,213**	280,213
	772,348	518,050
	1,570,675	1,120,070
Capital and reserves		
Share capital	**53,682**	52,274
Reserves (note 36)	**1,516,993**	1,067,796
	1,570,675	1,120,070

36. RESERVES OF THE COMPANY

	Share premium US$'000	Contributed surplus US$'000	Convertible bonds reserve US$'000	Retained profits US$'000	Total US$'000
At 1st October, 2005	598,557	38,126	30,560	296,917	964,160
Profit for the year	–	–	–	276,786	276,786
Dividends (note 12)	–	–	–	(160,708)	(160,708)
Redemption of convertible bonds	–	–	(12,442)	–	(12,442)
At 30th September, 2006	598,557	38,126	18,118	412,995	1,067,796
Issue of new shares	126,874	–	–	–	126,874
Profit for the year	–	–	–	496,955	496,955
Dividends (note 12)	–	–	–	(174,632)	(174,632)
At 30th September, 2007	**725,431**	**38,126**	**18,118**	**735,318**	**1,516,993**

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.

37. ACQUISITION OF BUSINESS

On 1st January, 2007, a non-wholly-owned subsidiary of the Group acquired the business and the relevant assets and liabilities of a retailing business in Yunnan, PRC, for a consideration of RMB56,100,000 (equivalent to approximately US$7,184,000) from a minority shareholder of a subsidiary. This acquisition has been accounted for using the purchase method.

The carrying amounts and fair value of the net assets acquired in the transaction and the goodwill arising therefrom are as follows:

	2007 US$'000 (note)
Net assets acquired:	
Purchase of property, plant and equipment	2,346
Inventories	7,723
Trade and other receivables	7,414
Taxation recoverable	1,242
Bank balances and cash	3,102
Trade and other payables	(11,861)
	9,966
Goodwill	2,101
Minority interests	(4,883)
Total consideration	7,184
Satisfied by:	
Cash	7,184
Net cash outflow arising on acquisition:	
Cash consideration paid	(7,184)
Bank balances and cash acquired	3,102
	(4,082)

Note: The fair values of the net assets acquired approximate to their carrying amounts on or before the date of acquisition.

37. ACQUISITION OF BUSINESS (Continued)

The acquired business contributed US$1.9 million to Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st October, 2006, total revenue and the profit after taxation of the Group for the year ended 30th September, 2007 would have been US$4,120.0 million and US$370.0 million, respectively. This pro forma information is for illustration purposes only and is not necessarily an indication of the Group's revenue and results of operations that would actually have been achieved had the acquisition been completed on 1st October, 2006, nor is it intended to be a projection of future results.

38. DISPOSAL OF SUBSIDIARIES

On 1st October, 2005, the Group disposed of its 51% equity interest in a wholly-owned subsidiary, Liberty Bell Investments Limited ("Liberty Bell"), which is an investment holding company. Its subsidiary is engaged in the manufacture and trading of footwear components in the PRC. After the disposal, Liberty Bell is a 49% owned associate of the Group as at 30th September, 2006 and 2007.

	2006 US$'000
Net assets disposed of:	
Property, plant and equipment	8,532
Prepaid lease payments	933
Inventories	2,669
Trade and other receivables	8,167
Bank balances and cash	3,959
Trade and other payables	(17,826)
Total consideration	6,434
Transferred to interests in associates	(3,152)
	3,282
Satisfied by:	
Cash	1,483
Deferred consideration	1,799
	3,282
Net cash outflow arising on disposal:	
Cash consideration	1,483
Bank balances and cash disposed of	(3,959)
	(2,476)

The deferred consideration was fully settled in October 2006.

The impact of Liberty Bell on the Group's results and cash flows in the current and prior years is not significant.

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th September, 2007, the Group had no major non-cash transactions.

During the year ended 30th September, 2006, deposit made for acquisition of land use rights of US$6,147,000 was transferred to prepaid lease payments.

40. OPERATING LEASE

The Group as lessee

	2007 US$'000	2006 US$'000
Operating leases rentals in respect of:		
Minimum leases payments:		
– Leasehold land and buildings	**15,348**	12,683
– Retail shops	**10,722**	8,491
– Plant and machinery	**4,614**	2,946
	30,684	24,120
Contingent rentals:		
– Retail shops	**41,964**	28,614
	72,648	52,734

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

	2007 US$'000	2006 US$'000
Within one year	**23,312**	16,032
In the second to fifth year inclusive	**39,751**	16,635
After five years	**21,402**	38,877
	84,465	71,544

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

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable.

Included in the above are commitments under non-cancellable operating leases of approximately US$6.8 million (2006: US$6.4 million) which expire in 2008 payable to related companies, Godalming Industries Limited and its subsidiaries details of which are set out in note 44(f).

40. OPERATING LEASE (Continued)

The Group as lessor

All of the Group's investments properties held have committed tenants for the next one to five years and rentals are fixed.

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

	2007 US$'000	2006 US$'000
Within one year	2,893	2,327
In the second to fifth year inclusive	7,396	5,545
After five years	25,691	19,853
	35,980	27,725

In addition to the basic rental receipts as disclosed above, the lease agreements with certain tenants also include provisions for the payment of contingent rent to the Group. In general, these contingent rents are calculated with reference to the turnover generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable. Rental income received from these contingent lease contacts during the year 30th September, 2007 was US$419,000 (2006: Nil).

41. COMMITMENTS

	2007 US$'000	2006 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– construction of buildings	22,164	28,115
– acquisition of property, plant and equipment	10,872	2,688
	33,036	30,803
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
– investment in associates	5,414	–
– investment in jointly controlled entities	6,875	–
– investment in available-for-sale investments	6,983	–
	19,272	–
	52,308	30,803

In addition, the Group had commitments in respect of further investments in associates and jointly controlled entities as set out in notes 19 and 21, respectively.

42. CONTINGENCIES

The Group had the following contingencies:

	2007 US$'000	2006 US$'000
Guarantees given to banks in respect of banking facilities utilised by:		
– associates	6,455	2,655
– jointly controlled entities	66,020	41,300
	72,475	43,955

43. RETIREMENT BENEFITS 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 subcontracting agreements in the PRC are subject to retirement benefit scheme established in the PRC. Specified percentage of their payroll is contributed to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

44. 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 Listing Rules.

On 9th January, 2007, the Company entered into conditional agreements with the relevant connected persons in relation to amending and formalizing the terms of certain continuing connected transactions (the "Continuing Connected Transactions"). The Continuing Connected Transactions were approved by the shareholders of the Company at a special general meeting on 1st March, 2007. Details of which are set out in a circular of the Company dated 7th February, 2007.

The transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED AND RELATED PARTIES

Name of company	Nature of transactions/balances	2007 US$'000	2006 US$'000
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)	**1,258**	1,619
	Costs and expenses reimbursed and services fee paid to PCC under the Services Agreement (note b)	**306,674**	319,149
	Tanning facilities and processing services fee paid (note c)	**7,459**	9,147
	Rental expenses under the Rental Agreements (note d)	**1,428**	1,722
	Sales of semi-finished shoe products and other products (note a)	**20,292**	19,469
	Management services income received (note e)	**34,943**	30,805
	Balance due from/to at 30th September and included in:		
	– trade receivables	**3,215**	5,945
	– trade payables	**31,107**	32,605
	– other receivables (note j)	**12,633**	11,900

44. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) CONNECTED AND RELATED PARTIES (Continued)

Name of company	Nature of transactions/balances	2007 US$'000	2006 US$'000
Companies controlled by a substantial shareholder of the Company:			
Golden Brands Developments Limited ("Golden Brands") and its subsidiaries (collectively the "Golden Brands Group")	Management services income received (note e)	3,169	3,000
	Rental received on dormitories (note e)	1,828	2,026
	Sales of packaging box products	5	1,020
	Balance due from/to at 30th September and included in:		
	– trade receivables	–	5,221
	– trade payables	–	21
	– other receivables	3,272	2,998
Company controlled by certain directors:			
Godalming Industries Limited ("Godalming")	Rentals paid on land and buildings (note f)	6,786	7,000

(II) CONNECTED PARTIES

Name of company	Nature of transactions/balances	2007 US$'000	2006 US$'000
Companies controlled by the minority shareholders of subsidiaries:			
Rest Assured Group Limited ("Rest Assured")	Consideration for acquisition of additional interests in subsidiaries (note g)	–	1,861
	Purchase of shoes and sportswear	–	2,146
	Services fee paid	–	1,109
Minority shareholders of subsidiaries	Consideration for acquisition of a retail business (note h)	7,184	–
	Consultancy fee paid	1,007	–
Companies controlled by minority shareholders of a subsidiary	Consideration for acquisition of additional equity interests and shareholders' loans in subsidiaries (note i)	6,022	–

44. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(III) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/balances	2007 US$'000	2006 US$'000
Jointly controlled entities:	Purchase of raw materials	**115,359**	103,430
	Sales of shoe-related products	**4,493**	4,509
	Service income	**6,508**	5,896
	Balance due from/to at 30th September		
	– trade receivables	**587**	13,520
	– trade payables	**17,247**	13,697
	– other receivables (note j)	**3,664**	12,300
Associates:	Purchase of raw materials	**75,299**	57,548
	Sales of shoe-related products	**1,704**	824
	Service income	**2,108**	3,094
	Balance due from/to at 30th September		
	– trade receivables	**1,489**	12,169
	– trade payables	**10,047**	4,249
	– other receivables (note j)	**20,514**	13,400

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors who are also identified as members of key management during both years is set out in note 11.

Notes:

(a) During the year, the Group sold leather, moulds, finished and semi-finished shoe products and packaging boxes to PCC Group. In addition, the Group purchased raw materials, production tools and shoe-related products from the PCC Group. The extent of these connected sales and purchases did not exceed the limit approved by the shareholders of the Company on 1st March, 2007. PCC is owned indirectly through Plantegenet Group Limited as to 11.79% by members of Tsai's family, including certain directors of the Company, Mr. Tsai Chi Neng and David N.F. Tsai and directly as to 6.30% by relatives of Mr. Tsai Chi Neng.

(b) Pursuant to the services agreement dated 22nd February, 1997 and the supplemental services agreement dated 9th January, 2007 entered into between the Company and PCC (collectively 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 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 costs and expenses reimbursed to PCC did not exceed the limit approved by the shareholders of the Company on 1st March, 2007.

44. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

(c) Pursuant to the production agreement dated 24th December, 1996 and the supplemental production agreement dated 9th January, 2007 (collectively the "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 approximately 98.46%. 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; and

(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 and based on valuation report dated 6th March, 2006, 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 Fee paid by Prime Asia TW did not exceed the limit approved by the shareholders of the Company on 1st March, 2007.

(d) On 9th January, 2007, certain subsidiaries of the PCC Group and certain subsidiaries of the Company entered into four lease agreements which took effect from 1st October, 2005 ("Rental Agreements"). Details of the Rental Agreements are as follows:

(i) between PCC as landlord and Pou Chien Chemical Company Limited (a wholly-owned subsidiary of the Company) as tenant;

(ii) between Pou Yuen Technology Co. Ltd (99.05% beneficially owned subsidiary of PCC) as landlord and Yue Dean Technology Corporation (a wholly-owned subsidiary of the Company) as tenant;

(iii) between PCC as landlord and Yue Dean Technology Corporation (a wholly-owned subsidiary of the Company) as tenant; and

(iv) between Pou Yii Development Company Limited (a non-wholly owned subsidiary of PCC) as landlord and Pou Chien Technology Company Limited (a wholly owned subsidiary of the Company) as tenant.

The premises under the Rental Agreements are all located in Taiwan.

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

The aggregate of the rental expenses paid by the Group did not exceed the limit approved by the shareholders of the Company on 1st March, 2007.

(e) On 9th January, 2007, Highmark Services Limited ("Highmark"), a wholly-owned subsidiary of the Company, entered into respective supplemental management service 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 9th January, 2007, 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 94.12% by Mr Tsai Chi Jui, a substantial shareholder of the Company, and PCC is a substantial shareholder of the Company.

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

(i) in respect of common services provided by Highmark, approximately 10% mark up on the aggregate cost incurred by Highmark;

(ii) in respect of the supply of electricity by Highmark, approximately the aggregate of the cost of the oil consumed with 5% mark up and the cost of overheads incurred for the production of electricity incurred by Highmark;

(iii) in respect of supply of water by the Highmark, should be reference to the price charged by the local authority; and

(iv) in respect of rental, the prevailing rent is equivalent to the open market rental value as reviewed and agreed by both parties annually.

The aggregate of the service income and the rental income received by the Group did not exceed the respective limit approved by the shareholders of the Company on 1st March, 2007.

44. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Notes: (Continued)

(f) Godalming is owned by Power Point Developments Limited, a company in which a former 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 dated 8th June, 1992, together with a supplemental tenancy agreement which was entered into between the Group and subsidiaries of Godalming on 9th January , 2007 for a lease term of 3 years from 1st October 2005.

The prevailing rent is equivalent to the open market rental value at 12th May, 2006 as certified by Knight Frank, an independent firm of professional valuers.

The rental expenses paid by the Group did not exceed the respective limit approved by the shareholders of the Company on 1st March, 2007.

(g) On 7th July, 2006, Dedicated Group Limited, a 70% owned subsidiary of the Company, acquired a further 20% equity interests in 廣州寶旭貿易有限公司 ("廣州寶旭") and 20% equity interests in 人海集團有限公司 ("人海集團") for a total consideration of approximately US$1,243,000, from Rest Assured, the minority shareholders which has 20% equity interest in 廣州寶旭 and 20% equity interest in 人海集團.

On 18th July, 2006, Selangor Gold Limited ("Selangor Gold"), a 51% owned subsidiary of the Group, acquired a further 30% equity interests in 寶原興業股份有限公司 ("寶原興業") for a consideration NT$20,000,000 (equivalent to approximately US$618,000), from Rest Assured, a minority shareholder which has 30% equity interest in 寶原興業.

(h) On 1st January, 2007, a non-wholly-owned subsidiary of the Group acquired the business and the relevant assets and liabilities in Yunan, PRC, for consideration of RMB56,100,000 (equivalent to approximately US$7,184,000) from a minority shareholder.

(i) On 29th November, 2006, Manfield Developments Limited, a wholly-owned subsidiary of the Company, entered into a sales and purchase agreement with the minority shareholders of Selangor Gold and Charming Technology Limited ("Charming"), both are 51% owned subsidiaries of the Company, to acquire additional 19% equity interest in, and shareholders' loans to, Selangor Gold and Charming for an aggregate consideration of approximately US$6,022,000.

(j) The amounts due from are unsecured, interest-free and recoverable within one year.

45. POST BALANCE SHEET EVENT

The following significant event took place subsequent to the balance sheet date:

On 12th December, 2007, the Company announced that Pou Sheng International (Holdings) Limited ("Pou Sheng"), a wholly owned subsidiary of the Group, had submitted an advance booking form to the Stock Exchange as an application for the listing of the ordinary shares of Pou Sheng on the Main Board of the Stock Exchange. Details of this are included in an announcement of the Company published on 12th December, 2007.

46. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30th September, 2007 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities*
A-Grade Holdings Limited	British Virgin Islands	US$100	70%	Sales and marketing of footwear and sportswear in the PRC
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
Farquharson Holdings Corp.	British Virgin Islands	US$10,000	100%	Investment holding
Forearn Company Ltd.	British Virgin Islands	US$1	100%	Manufacture of shoe moulds in the PRC
Friendsole Limited	Hong Kong	Ordinary – HK$1,000	100%	Provision of management services
		Non-voting deferred – HK$1,000	100%	

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities*
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
Highfull Developments Limited	British Virgin Islands	US$1	100%	Investment holding
Impressive Developments Limited	British Virgin Islands	US$1,000	100%	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
P.T. Sukespermata Indonusa	Indonesia	Rp3,500,000,000	90%	Manufacture of mould and cutting for shoes

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities*
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

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities*
Prime Asia (S.E. Asia) Leather Corporation	British Virgin Islands	US$1,000	100%	Leather trading in Vietnam
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$9,000,000	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
Wellmax Business Group Limited	British Virgin Islands	US$100	70%	Sales and marketing of footwear and sportswear in the PRC
Wet Blue International Corporation	British Virgin Islands	US$50,000	100%	Wet blue trading in the PRC

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities*
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
Diodite (China) Sports Company Limited	The PRC**	US$12,000,000	100%	Retailing of sportswear
Dragonlight (China) Sports Goods Company Limited	The PRC**	US$36,000,000	100%	Investment holding
Shengdao (Yangzhou) Sports Goods Development Company Limited	The PRC**	US$36,000,000	100%	Property leasing and management
Yunnan Onlong Shibo Commercial Trading Company Limited	The PRC**	RMB56,000,000	51%	Retailing of sportswear

* *The principal activities are carried out in the place of incorporation unless otherwise stated.*
** *These companies established in the PRC are wholly-foreign owned enterprises.*

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 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.

47. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 30th September, 2007 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of issued and fully paid share capital/ registered 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	38.42%	Investment holding and its subsidiaries are engaged in manufacture and trading of sportswear and garments
Farsighted International Limited	British Virgin Islands	30%	Investment holding
Just Lucky Investments Limited	British Virgin Islands	38.30%	Property holding in the PRC
Liberty Bell Investments Limited	British Virgin Islands	49%	Manufacture and sale of chemical for leather use
Luen Thai Holdings Limited ("Luen Thai") (note (ii))	Cayman Islands	8.91%	Manufacturing and trading of apparel
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

47. PRINCIPAL ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operation	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities
Nan Pao Resins (Vietnam) Enterprise Limited	Vietnam	37%	Manufacture of liquid coating/ glues
Natural Options Limited	British Virgin Islands	38.30%	Manufacture of foamed cotton
Oftenrich Holdings Limited	Bermuda	45%	Investment holding and its subsidiaries are engaged in manufacture and sale of safety and casual shoes
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 bags
Rising Sun Associates Limited	British Virgin Islands	37%	Investment holding
San Fang Chemical Industry Co. Ltd. ("San Fang") (note (iii))	Taiwan	44.72%	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

** *The companies established in the PRC are sino-foreign joint venture.*

47. PRINCIPAL ASSOCIATES (Continued)

Notes:

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

(ii) Luen Thai is incorporated in Cayman Islands with its shares listed on the Stock Exchange. The Group can exercise significant influence in Luen Thai since 17th September, 2007 and accordingly, the investment is accounted for as an associate.

(iii) 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.

48. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Details of the Group's principal jointly controlled entities at 30th September, 2007 are as follows:

Name of jointly controlled entity	Place of incorporation/ operation	Proportion of issued and fully paid share capital/ registered 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 Limited	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 holding and its subsidiaries are engaged in manufacture and sale of plastic shoe injection in the PRC and in Indonesia
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

48. PRINCIPAL JOINTLY CONTROLLED ENTITIES (Continued)

Name of jointly controlled entity	Place of incorporation/ operation	Proportion of issued and fully paid share capital/ registered capital held by the Company indirectly	Principal activities
Smart Shine Industries Limited	British Virgin Islands	50%	Investment holding and its subsidiaries are engaged in manufacture and sale of footwear and apparel
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.

Financial Summary

	Year ended 30th September,				
	2003 US$'000	2004 US$'000	2005 US$'000	2006 US$'000	**2007** **US$'000**
RESULTS					
Turnover	2,509,477	2,720,027	3,154,835	3,657,379	**4,114,090**
Profit before taxation	309,476	300,005	307,616	375,604	**386,647**
Income tax expense	(844)	(1,931)	(4,284)	(9,257)	**(17,715)**
Profit for the year	308,632	298,074	303,332	366,347	**368,932**
Attributable to:					
Equity holders of the Company	306,940	293,766	297,912	353,591	**359,432**
Minority interests	1,692	4,308	5,420	12,756	**9,500**
	308,632	298,074	303,332	366,347	**368,932**

	As at 30th September,				
	2003 US$'000	2004 US$'000	2005 US$'000	2006 US$'000	**2007** **US$'000**
ASSETS AND LIABILITIES					
Total assets	2,572,166	2,920,010	3,127,058	3,378,792	**4,120,772**
Total liabilities	(965,959)	(1,123,143)	(1,182,021)	(1,242,223)	**(1,626,968)**
	1,606,207	1,796,867	1,945,037	2,136,569	**2,493,804**
Equity attributable to:					
Equity holders of the Company	1,595,497	1,782,322	1,927,050	2,091,320	**2,419,378**
Minority interests	10,710	14,545	17,987	45,249	**74,426**
	1,606,207	1,796,867	1,945,037	2,136,569	**2,493,804**

Corporate Social Responsibility
企業社會責任

商界展關懷
caringcompany 2007/08
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

The Group has reported 15 consecutive years of sales increases since it listed on the Stock Exchange of Hong Kong Limited. And for 15 years our staff and the communities in which they live have shared in this success through the wide range of initiatives that fall under our Corporate Social Responsibility (CSR) programs. CSR is an integrated part of the Group's operation that is supported at the highest levels of the organization and recognized as helping to maintain the Group's market-leading position. We are committed to keeping abreast of industry best-practice in the area of CSR.

自從在香港聯合交易所有限公司上市以來，本集團已連續十五年錄得銷售增長，而十五年來本集團員工及彼等所身處社區一直透過本集團之企業社會責任計劃各項活動分享此成果。企業社會責任計劃為本集團業務重要一環，獲最高管理層鼎力支持，認為有助維持本集團的市場領導地位。本集團致力緊貼業內於企業社會責任範疇的最佳常規。

In fiscal 2007, the second Group CSR Workshop was held in May in Indonesia. More than 40 staff from our CSR teams throughout our manufacturing factory took part. During the three-day event of presentations and workshops, team members shared their experiences on initiating CSR programs and were briefed on the latest developments and initiatives of the Group in respect of environmental protection, occupational safety and staff wellbeing. Participants were urged to build on the good work to date and to continuously develop their skills and knowledge.

於二零零七財政年度，本集團於五月在印尼舉辦第二屆企業社會責任工作坊。超過40名來自本集團製造工廠之企業社會責任隊伍之員工參加。為期三日之簡報活動及工作坊中，參加活動之成員分享有關推行企業社會責任計劃之經驗，並獲簡述本集團有關環保、職業安全及員工福利方面之最新發展及措施。本集團鼓勵參加者在迄今建立之良好基礎下，繼續發展彼等之技能及知識。

The holding of the Beijing Olympic 2008 presents huge opportunities for the growth of our manufacturing and retail business, and also for our CSR initiatives. We aim to ensure that the products we make for use by those both participating in and watching the Olympics are made by staff who can be content in the knowledge that their safety and wellbeing and the environment in which they work are key considerations for the Group. We know and recognize that staff with a high level of job satisfaction not only means greater production efficiency, it also means high-quality products. And so we remain committed to improving workplace safety, implementing environmental protections measures, and organizing personal development programs on an ongoing basis.

北京二零零八年奧運會的舉行，不單為本集團製造及零售業務帶來龐大增長機會，本集團之企業社會責任活動亦同時受惠。本集團銳意確保奧運會參加者與觀眾所使用之產品乃由擁有豐富知識的員工所製造，而彼等之安全及福利以至工作環境均為本集團之主要考慮因素。本集團知悉及深明高度工作滿足感不僅能促進生產效率，亦能提升產品質素。故此，本集團繼續致力改善工作環境安全、實施環保措施，並持續籌辦多項個人發展計劃。

In fiscal 2007, the Group implemented numerous programs covering areas such as employee personal development, workplace safety, pollution control, and energy conservation. There were also visits from government officials and international independent assessors to audit workplace safety and the health of staff.

於二零零七財政年度，本集團曾推行多項計劃，當中涵蓋僱員個人發展、工作環境安全、污染控制及節約能源等範疇。政府官員及國際獨立評估機構亦曾視察工作環境安全及審核員工健康。

In mainland China, the Group initiatives undertaken during the year included installing new ventilation systems in factories, taking steps to lower machinery noise, and installing energy efficient boilers in several facilities. The greening of factory grounds was achieved through a tree-planting campaign, while a program aimed at upgrading waste-water treatment and related facilities continued to progress. Meanwhile, overall gas emissions were reduced through the utilization of new technology.

年內本集團於中國採取之措施包括於廠房安裝新通風系統、減低機器噪音及於多項設施安裝具能源效益之鍋爐。本集團已透過植樹計劃綠化廠房範圍，而另一項針對提升污水處理及相關設施效益之計劃則繼續進行中。與此同時，本集團透過採用新技術減少整體氣體排放。

Another ongoing program saw new safety and protective devices installed as part of wide-ranging efforts to enhance workplace safety. Regular talks on this issue and personal health were also organized to equip staff with the knowledge they need to play their part in maintaining a safe and healthy working environment. Our health check and clinical services programs were strengthened during the year.

另一項持續進行計劃已完成之工作包括安裝全新安全保護裝置，作為致力全面提升工作環境安全其中一環。本集團亦就此及個人健康定期舉辦講座，向員工灌輸保持工作環境安全健康之重要性。年內集團亦加強保健檢查及診所服務計劃。

At the same time, staff-management communication was supported by the organization of talks, games and social functions. Such programs not only enhance communication, they also provide another channel for staff to air their concerns and for these to be addressed as appropriate.

同時，本集團透過舉辦講座、遊戲及社交活動加強員工與管理層之溝通。有關計劃不僅可促進溝通，亦為員工提供額外渠道，表達意見及於適當情況下解決有關問題。

Our efforts in caring for our staff extended beyond the physical workplace. Activities such as school classes, talent shows, daycare for staff children, movie shows, outings and sports events were organized regularly at all our facilities. In addition, new recreation centers were built to provide staff with facilities to use during their free time. The Group also teamed up with Mari Stopes International, a UK-based charity, to provide staff with comprehensive reproductive health information and advice.

本集團關懷員工之努力更伸展至實質工作環境以外，例如定期於本集團各項設施舉辦學校課程、天才表演、員工子女日間托兒服務、電影播放、戶外活動及運動節目等。此外，本集團亦興建新的文娛中心，可供員工閒時使用。本集團另與英國慈善團體Mari Stopes International合作，為員工提供全面的生育健康資訊及建議。

Food price inflation became a concern for many staff during the year, and in response to this we worked to ensure that our in-house catering services were a viable, quality alternative for them to eating outside.

年內食品價格上漲，成為一眾員工關心的議題，就此，本集團積極確保其內部餐飲服務質優可靠，為員工提供外出用膳以外的選擇。

Meanwhile, as part of our efforts to ensure staff are well informed of workplace practices, lectures were held on the labor law to be implemented in 2008. A handbook was distributed outlining the responsibilities and benefits for staff stemming from the law.

與此同時，為致力確保員工充分瞭解工作環境慣例，本集團已就將於二零零八年實施行之勞動法舉辦講座，並向員工派發手冊，概述員工在該法例下的責任及利益。

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The Group's efforts in fostering the spirit of volunteerism continued to bear fruit, with volunteer teams organized by staff continuing to participate in social events in their local communities.

In Vietnam, our CSR efforts have increased in tandem with our expansion in the country. In terms of workplace safety, efforts have focused on strengthening preventative measures. Fire drills, machine safety audits and safety monitoring classes were held on a regular basis. Meanwhile, environmental initiatives covering waste segregation, waste-water treatment and ventilation were implemented.

The Group has active programs in place to support staff in the areas of financial aid, family counseling and hospital visits. In addition, an onsite maternity service provides expectant mothers with access to professional advice. Our seven-hour workday policy for pregnant staff received high praise from the independent audit organization.

In education, the Group collaborated with a local school to offer staff a formal education program. More than 100 employees signed up for the start of the new term at the night school set up by the Group.

Elsewhere, the Group was active in community work. Among the activities organized was a program of visits to the homes of senior citizens, and a community dental drive. A donation of shoes to schoolchildren and the needy in the areas around one of our facilities was also undertaken. As part of our environmental awareness campaign we participated in a tree-planting event on World Environment Day.

In Indonesia, our CSR team organized a monthly forum at which staff were encouraged to air any concerns or questions they might have. Staff education was also a focus, with training available on a range of subjects, including first aid and hygiene.

本集團大力推廣志願工作之精神繼續取得成果，員工組成之志願隊伍繼續參與當地社群之社區活動。

於越南，本集團之企業社會責任工作隨著於該區擴展工作逐步增加。就工作環境安全方面，本集團已著手加強預防措施，並定期進行防火演習、機器安全檢查及安全監控課程。期間亦推行廢物分隔、污水處理及通風系統等環保措施。

本集團已制定積極計劃，為員工提供財務資助、家庭輔導及住院探訪方面之支援。此外，本集團亦於公司場地內為準母親提供婦科服務，可藉此獲取專業意見。本集團之懷孕員工每天工作七小時政策深得獨立審核機構之高度讚許。

教育方面，本集團與當地一所學校合作，為員工提供正式教育課程。超過一百名員工報名修讀本集團成立之夜校課程新學期。

其他方面，本集團亦積極參與社區工作。其中一項舉辦活動包括長者家居探訪計劃以及社區牙科活動。本集團亦向其中一間廠房附近學童及有需要人士捐贈鞋履。作為提升環保意識計劃其中一環，本集團於世界環保日參加植樹活動。

於印尼，本集團之企業社會責任隊伍每月均會舉辦研討會，鼓勵員工自由發表意見或發問。員工教育亦為重點工作之一，提供一系列不同科目，當中包括急救及衛生。

There were some cases of avian flu in Indonesia, and our factories implemented special measures for staff as a precaution covering food selection and preparation. Meanwhile, special food, services and activities were organized for staff during the Muslim holy month of Ramadan. The celebration of the start of Ramadan is one of the biggest events in the calendar at our facilities in the country.

印尼曾發生多宗禽流感個案，故本集團之廠房已為員工推行有關食物挑選及準備方面之特別預防措施。此外，回教齋戒月內亦為員工安排特備食物、服務及活動。齋戒月開始之慶祝活動更是本集團於印尼廠房每年一度盛事之一。

Environmental efforts included the planting of trees in the industrial park where our facilities are located. Also within the industrial park, separate roads were built for pedestrians and vehicles to prevent accidents. Additional devices were installed to treat waste water and limit the emission of gases from our factories.

本集團推行之環保工作包括於廠房所在之工業園植樹，並於工業園內興建獨立行人及汽車道路以防止意外發生。本集團亦另行安裝設備處理污水及限制廠房所排放氣體。

Our hospital service was expanded for staff, and professional nurses were stationed onsite to provide first aid services if required.

本集團亦為員工提供醫院服務，廠房內有專業護士駐守，於需要時提供急救服務。

In local community initiatives, free medical services were provided by our medical team to senior citizens in the area around our facilities, as were counseling services. Twice during the year, scholarships were handed out to staff children to provide them with formal education opportunities.

當地社區工作方面，除一貫之輔導服務外，本集團之醫療隊伍亦向廠房所在區內長者提供免費醫療服務。年內本集團兩度向員工子女發放獎學金，給予他們接受正式教育的機會。

In Hong Kong, we continued to support EdExchange and its Community Leaders of Tomorrow program. We were also proud to be awarded the Caring Company logo for 2008.

於香港，本集團繼續支持「教融易」及其推行之「今日公益，明日領袖」計劃，更喜獲頒二零零八年「商界展關懷」標誌。

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China 中國

Management training workshops, such as this one in Zhongshan, China, are held on a regular basis.
經常舉辦如上圖所示在中國中山舉行的管理層培訓工作坊。

Staff take time out for some fun as part of the activities on International Labor Day.
員工抽空參與國家勞動節活動，一起同歡。

Meetings on CSR policies and practices ensure the Group's initiatives in this area continue to evolve.
就企業社會責任及慣例舉行會議，確保本集團於此方面之措施不斷改進。

Helping children is just one of the ways staff volunteers in Dongguan, China, serve the local community.
員工義工於中國東莞市幫助區內兒童，是彼等服務社群的其中一環。

A Social Environmental Affairs Workshop was organized in Dongguan as part of ongoing efforts in this area.
於東莞舉辦Social Environmental Affairs Workshop，為於此範疇持續舉辦活動的其中部分。

This summer camp for the children of staff is one of many activities organized throughout the year by the Group for employees' families.
本集團於年內為僱員家屬舉行多項活動，其中包括員工子女夏令營。

Educational talks for staff are held on a regular basis.
定期舉行員工教育講座。

Home visits to the families of staff members are a part of the social fabric in China, and are supported by the Group.
探訪員工家庭為中國社會風俗之一，獲本集團大力支持。

One of the many occupational safety talks organized throughout the year.
年內舉行的多個職業安全講座之一。

This orientation event for new staff was held in Huangjiang, China.
於中國黃江為新員工舉行迎新活動。

NBA star Carmelo visited one of our facilities in Dongguan.
NBA球星卡梅隆參觀本集團於東莞的其中一項設施。

As part of our environmental efforts, energy saving hot water equipment was installed at our facilities in Dongguan.
於東莞設施安裝節能熱水設備，是本集團環保工作的其中一環。

商界展關懷
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香港社會服務聯會頒發

Vietnam 越南

Staff attend the start of the new term at a Group-subsidized High School in Vietnam.
員工出席本集團於越南資助之高校新學期開學儀式。

Staff in Vietnam show their care for the environment by supporting a tree-planting
越南員工透過植樹，展示對環境的關注。

As part of our efforts to support local communities, shoes are donated to schoolchildren in the area around one of our facilities in Vietnam.
本集團向其中一間廠房附近地區學童捐贈鞋履，作為本集團致力支持當地社區其中一環。

Staff volunteers in Vietnam pay a visit to a senior citizens' home.
於越南的員工義工探訪長者家居。

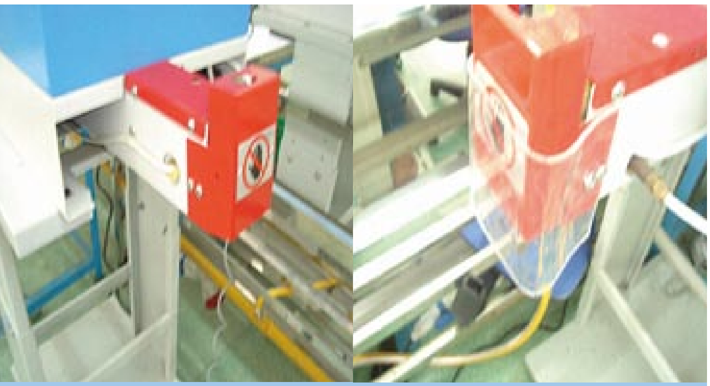
A maternity consulting service for expectant mothers has been established at one of our facilities in Vietnam.
本集團已於越南其中一間廠房為準母親設立婦產科諮詢服務。

A hair-styling competition is just one of the social activities organized for staff.
髮型設計比賽是本集團為員工舉辦之其中一項社交活動。

Indonesia 印尼

A class in Indonesia helps educate staff about hygiene and health.
於印尼舉辦課程，教育員工有關衛生及健康知識。

Noise-reduction equipment has been installed in our facilities in Indonesia to create a better working environment.
本集團印尼廠房已安裝舒減噪音設備，締造更佳工作環境。



Workplace safety is a priority for the Group. Here, a protective device has been installed on a plastic injection machine.
工作環境安全為本集團之要旨，如圖中的注塑機已安裝防護設施。

Celebrating the start of Ramadan in Indonesia is one of the biggest events of the year.
慶祝齋戒月開始是印尼每年的重大盛事之一。

Children enjoy the family day at one of our facilities in Indonesia.
小朋友於本集團其中一間印尼廠房的家庭日暢玩。

Educational opportunities are provided by the Group through the award of scholarships to the children of staff members.
本集團透過向員工子女發放獎學金提供教育機會。

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