裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited
(Stock Code: 551)

Aiming for a Greater Horizon
— Persistence of Improvement

Interim Report 2006

YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業（集團）有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2006

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2006	2005	Percentage increase
Turnover (US$'000)	1,722,234	1,477,897	16.5%
Profit attributable to equity holders of the Company (US$'000)	168,251	146,230	15.1%
Basic earnings per share (US cents)	10.4	9.0	15.6%
Dividend per share – Interim (HK$)	0.29	0.27	7.4%

* *For identification only*

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31st March, 2006 with comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2006

		For the six months ended 31st March,	
		2006	**2005**
		(unaudited)	**(unaudited and restated)**
	NOTES	*US$'000*	*US$'000*
Turnover	*4*	1,722,234	1,477,897
Cost of sales		(1,319,928)	(1,121,024)
Gross profit		402,306	356,873
Other income		63,276	48,297
Selling and distribution expenses		(71,744)	(60,574)
Administrative expenses		(153,505)	(120,824)
Other expenses		(83,993)	(78,334)
Net gain on derivative financial instruments and convertible bonds	*5*	10,182	–
Impairment loss on amount due from an associate		(2,600)	–
Finance costs		(18,594)	(12,082)
Share of results of associates		15,019	6,950
Share of results of jointly controlled entities		14,451	9,690
Profit before taxation	*6*	174,798	149,996
Income tax expense	*8*	(4,069)	(2,194)
Profit for the period		170,729	147,802
Attributable to:			
Equity holders of the Company		168,251	146,230
Minority interests		2,478	1,572
		170,729	147,802
Dividends	*9*	100,191	95,529
Earnings per share	*10*		
– Basic		10.4 cents	9.0 cents
– Diluted		10.3 cents	8.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2006

	NOTES	At 31st March, 2006 (unaudited) US$'000	At 30th September, 2005 (audited and restated) US$'000
Non-current assets			
Investment properties	11	35,700	35,700
Property, plant and equipment	11	1,106,382	1,051,617
Prepaid lease payments		118,621	114,232
Deposits made for acquisition of properties		–	6,147
Goodwill		188,106	188,106
Investments in associates		229,454	172,110
Amounts due from associates		5,102	5,304
Investments in jointly controlled entities		207,179	117,177
Amounts due from jointly controlled entities		36,000	34,779
Available-for-sale investments		33,960	–
Investment securities		–	38,381
		1,960,504	1,763,553
Current assets			
Inventories		428,784	407,766
Trade and other receivables	12	573,079	530,355
Prepaid lease payments		2,356	2,221
Recoverable tax		17,305	17,305
Other investments		–	465
Derivative financial instruments	14	400	–
Deposits placed with a financial institution		24,000	24,877
Bank balances and cash		235,017	380,516
		1,280,941	1,363,505

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 31st March, 2006

	NOTES	At 31st March, 2006 (unaudited) US$'000	At 30th September, 2005 (audited and restated) US$'000
Current liabilities			
Trade and other payables	13	472,918	424,130
Taxation payable		5,439	2,522
Short-term bank borrowings	15	234,855	158,561
		713,212	585,213
Net current assets		567,729	778,292
Total assets less current liabilities		2,528,233	2,541,845
Non-current liabilities			
Convertible bonds	14	231,556	302,157
Long-term bank borrowings	15	283,064	283,728
Loans from minority shareholders of subsidiaries		3,698	4,045
Deferred taxation		6,799	6,878
		525,117	596,808
Net Assets		2,003,116	1,945,037
Capital and reserves			
Share capital	16	52,274	52,274
Reserves		1,919,800	1,874,776
Equity attributable to equity holders of the Company		1,972,074	1,927,050
Minority interests		31,042	17,987
Total Equity		2,003,116	1,945,037

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2006

	Attributable to equity holders of the Company										
	Share capital	Share premium	Investment properties revaluation reserve	Investments revaluation reserve	Goodwill reserve	Special reserve	Convertible bonds reserve	Retained profits	Total	Minority interests	Total Equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1st October, 2004, as originally stated	52,274	598,557	11,398	–	(150,120)	(16,688)	–	1,272,604	1,768,025	–	1,768,025
Effect of changes in accounting policies *(note 3)*	–	–	(3,761)	–	–	–	30,560	(12,502)	14,297	14,545	28,842
At 1st October, 2004, as restated	52,274	598,557	7,637	–	(150,120)	(16,688)	30,560	1,260,102	1,782,322	14,545	1,796,867
Profit for the period and total recognised income	–	–	–	–	–	–	–	146,230	146,230	1,572	147,802
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	60	60
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(76)	(76)
Dividends	–	–	–	–	–	–	–	(95,529)	(95,529)	–	(95,529)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(1,919)	(1,919)
At 31st March, 2005	52,274	598,557	7,637	–	(150,120)	(16,688)	30,560	1,310,803	1,833,023	14,182	1,847,205
Revaluation decrease on investment properties	–	–	(2,123)	–	–	–	–	–	(2,123)	–	(2,123)
Reversal of deferred tax liabilities arising on revaluation of properties	–	–	700	–	–	–	–	–	700	–	700
Net expense, recognised directly in equity	–	–	(1,423)	–	–	–	–	–	(1,423)	–	(1,423)
Profit for the period	–	–	–	–	–	–	–	151,682	151,682	3,848	155,530
Total recognised income and expenses for the period	–	–	(1,423)	–	–	–	–	151,682	150,259	3,848	154,107
Dividends	–	–	–	–	–	–	–	(56,232)	(56,232)	–	(56,232)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(43)	(43)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 31st March, 2006

	Attributable to equity holders of the Company										
	Share capital	Share premium	Investment properties revaluation reserve	Investments revaluation reserve	Goodwill reserve	Special reserve	Convertible bonds reserve	Retained profits	Total	Minority interests	Total Equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 30th September, 2005	52,274	598,557	6,214	–	(150,120)	(16,688)	30,560	1,406,253	1,927,050	17,987	1,945,037
Effect of changes in accounting policies *(note 3)*	–	–	(6,214)	(7,549)	150,120	–	–	(149,870)	(13,513)	–	(13,513)
At 1st October, 2005, as restated	52,274	598,557	–	(7,549)	–	(16,688)	30,560	1,256,383	1,913,537	17,987	1,931,524
Revaluation increase on investments not recognised directly in equity	–	–	–	2,919	–	–	–	–	2,919	–	2,919
Profit for the period	–	–	–	–	–	–	–	168,251	168,251	2,478	170,729
Total recognised income for the period	–	–	–	2,919	–	–	–	168,251	171,170	2,478	173,648
Redemption of convertible bonds by the Company	–	–	–	–	–	–	(12,442)	–	(12,442)	–	(12,442)
Contribution from minority shareholders	–	–	–	–	–	–	–	–	–	11,621	11,621
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	750	750
Dividends	–	–	–	–	–	–	–	(100,191)	(100,191)	–	(100,191)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(1,794)	(1,794)
At 31st March, 2006	52,274	598,557	–	(4,630)	–	(16,688)	18,118	1,324,443	1,972,074	31,042	2,003,116

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March, 2006

	For the six months ended 31st March, 2006 (unaudited) *US$'000*	2005 (unaudited) *US$'000*
Net cash from operating activities	215,670	125,028
Net cash used in investing activities		
Acquisition of property, plant and equipment	(137,990)	(90,028)
Prepaid lease payments	(3,207)	(1,099)
Investments in associates	(40,897)	(11,048)
Investments in jointly controlled entities	(81,205)	(1,750)
Dividends received from jointly controlled entities	5,634	4,527
Dividends received from associates	4,194	2,948
Other investing cash flows	3,270	(23,591)
	(250,201)	(120,041)
Net cash used in financing activities		
Dividends paid	(100,191)	(95,529)
Redemption of convertible bonds	(85,102)	–
Dividend paid to minority shareholders	(1,794)	(1,919)
Advances from bank borrowings	963,059	818,371
Repayment to bank borrowings	(887,429)	(792,419)
Other financing cash flows	(388)	(6,616)
	(111,845)	(78,112)
Net decrease in cash and cash equivalents	(146,376)	(73,125)
Cash and cash equivalents brought forward	405,393	465,856
Cash and cash equivalents carried forward	259,017	392,731
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	235,017	392,731
Deposits placed with a financial institution	24,000	–
	259,017	392,731

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st March, 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" which is one of the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical costs basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th September, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are presented:

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st October, 2001 was held in reserves, and goodwill arising on acquisitions after 1st October, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in goodwill reserves of US$151.4 million has been transferred to the Group's retained earnings on 1st October, 2005. With respect to goodwill on acquisition of subsidiaries, previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st October, 2005 onwards and goodwill will be tested for impairment at least annually or whenever there is an indication of impairment. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill on acquisition of subsidiaries, associates and jointly controlled entities has been charged in the current period. Comparative figures for 2005 have not been restated. (See Note 3 for the financial impact).

In the current period, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st October, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st October, 2001 was held in goodwill reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st October, 2005 (of which negative goodwill of US$1.3 million was previously recorded in reserves), with a corresponding increase to retained profits. (See Note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

The principal impact of HKAS 32 on the Group is in relation to requiring an issuer of a compound financial instrument to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Previously, convertible bonds were classified as liabilities on the balance sheet. HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The Group has applied HKAS 32 on the convertible bonds issued by the Company retrospectively and HKAS 39 on the embedded derivatives on the convertible bonds prospectively. (See Note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

By 30th September, 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" ("SSAP 24") issued by the HKICPA. Under SSAP 24, investments in equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st October, 2005 onwards, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st October, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. An adjustment of US$7.5 million to the previous carrying amounts of assets at 1st October, 2005 has been made to the Group's retained profits. (See Note 3 for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st October, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity investments". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The adoption of this new HKFRS has had no material effect on how the results for the current and prior accounting periods are prepared and presented.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivatives and hedging

From 1st October, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provision in HKAS 39. The Group has, from 1st October, 2005 onwards, deemed all the derivatives as held for trading and it has no material effect on the financial position of the Group at 1st October, 2005. The adoption of this new HKFRS has resulted in the increase in profit for the period of US$33.3 million. (See Note 3 for the financial impact).

Hotel Properties

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at costs and were not subject to depreciation. Hong Kong Interpretation 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in Hong Kong Interpretation 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st October, 2005 onwards. The amount held in investment property revaluation reserve at 1st October, 2005 of US$6.2 million has been transferred to the Group's retained profits (see Note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended 31st March,	
	2006	**2005**
	US$'000	*US$'000*
Non-amortisation of goodwill	7,161	–
Increase in effective interest expense on liability component on convertible bonds	(5,877)	(5,391)
Net gain on derivative financial instruments and convertible bonds *(see Note 5)*	10,182	–
Amortisation of arrangement fee written back	–	317
Release of discount on redemption of convertible bonds written back	–	(393)
Depreciation of self-operated hotel properties	(552)	(640)
Increase (decrease) in profit for the period	10,914	(6,107)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

Analysis of increase (decrease) in profit for the period by line items presented according to their function.

	Six months ended 31st March, 2006	2005
	US$'000	*US$'000*
Increase in finance costs	(5,877)	(5,467)
Decrease (increase) in other expenses	4,981	(640)
Increase (decrease) in share of results of associates	1,064	(544)
Decrease in share of results of jointly controlled entities	(168)	(337)
Decrease in income tax expense	732	881
Increase in net gain on derivative financial instruments and convertible bonds	10,182	–
Increase (decrease) in profit for the period	10,914	(6,107)

The cumulative effects of the application of the new HKFRSs as at 30th September, 2005 and 1st October, 2005 are summarised below:

	As at 30th September, 2005 (originally stated)	Effect of HKAS 1	Effect of HKAS 17	Effect of HKAS 32	Effect of HK(SIC)–INT 2	Effect of HK(SIC)–INT 21	As at 30th September, 2005 (restated)	Effect of HKFRS 3	Effect of HKAS 39	Effect of HKAS 40	As at 1st October, 2005 (restated)
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance sheet items											
Property, plant and equipment	1,173,620	–	(116,453)	–	(5,550)	–	1,051,617	–	–	–	1,051,617
Prepaid lease payments	–	–	116,453	–	–	–	116,453	–	–	–	116,453
Derivatives financial instruments	–	–	–	–	–	–	–	–	(32,892)	–	(32,892)
Investments securities	38,381	–	–	–	–	–	38,381	–	(38,381)	–	–
Other investments	465	–	–	–	–	–	465	–	(465)	–	–
Available-for-sale investments	–	–	–	–	–	–	–	–	31,297	–	31,297
Convertible bonds	(313,551)	–	–	11,394	–	–	(302,157)	–	26,928	–	(275,229)
Deferred taxation	(3,817)	–	–	–	–	(3,061)	(6,878)	–	–	–	(6,878)
Other assets and liabilities	1,047,156	–	–	–	–	–	1,047,156	–	–	–	1,047,156
Total effects on assets and liabilities	1,942,254	–	–	11,394	(5,550)	(3,061)	1,945,037	–	(13,513)	–	1,931,524
Share capital and other reserves	634,143	–	–	–	–	–	634,143	–	–	–	634,143
Investment property revaluation reserve	9,275	–	–	–	–	(3,061)	6,214	–	–	(6,214)	–
Investment revaluation reserve	–	–	–	–	–	–	–	–	(7,549)	–	(7,549)
Goodwill reserve	(150,120)	–	–	–	–	–	(150,120)	150,120	–	–	–
Convertible bonds reserve	–	–	–	30,560	–	–	30,560	–	–	–	30,560
Retained profits	1,430,969	–	–	(19,166)	(5,550)	–	1,406,253	(150,120)	(5,964)	6,214	1,256,383
Minority interests	–	17,987	–	–	–	–	17,987	–	–	–	17,987
Total effects on equity	1,924,267	17,987	–	11,394	(5,550)	(3,061)	1,945,037	–	(13,513)	–	1,931,524
Minority interests	17,987	(17,987)	–	–	–	–	–	–	–	–	–
	1,942,254	–	–	11,394	(5,550)	(3,061)	1,945,037	–	(13,513)	–	1,931,524

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The financial effects of the application of the new HKFRSs to the Group's equity on 1st October, 2004 are summarised below:

	As originally stated	**Adjustments**	**As restated**
	US$'000	*US$'000*	*US$'000*
Investment properties revaluation reserve	11,398	(3,761)	7,637
Convertible bonds reserve	–	30,560	30,560
Retained profits	1,272,604	(12,502)	1,260,102
Minority interests	–	14,545	14,545
Total effects on equity	1,284,002	28,842	1,312,844

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group:

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS – INT 4	Determining whether an arrangement contains a lease[2]
HKFRS – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HKFRS – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HKFRS – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HKFRS – INT 8	Scope of HKFRS 2[5]
HKFRS – INT 9	Reassessment of embedded derivatives[6]

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.

4. SEGMENT INFORMATION

Business segments

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

4. SEGMENT INFORMATION (continued)

Geographical segments

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

For the six months ended 31st March, 2006

	United States of America *US$'000*	Europe *US$'000*	Asia *US$'000*	Others *US$'000*	Total *US$'000*
TURNOVER	648,658	448,349	502,871	122,356	1,722,234
RESULTS					
Segment results	47,062	32,522	28,975	8,875	117,434
Other income					63,276
Unallocated expenses					(24,370)
Net gain on derivative financial instruments and convertible bonds					10,182
Impairment loss on amount due from an associate					(2,600)
Finance costs					(18,594)
Share of results of associates					15,019
Share of results of jointly controlled entities					14,451
Profit before taxation					174,798
Income tax expense					(4,069)
Profit for the period					170,729

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

For the six months ended 31st March, 2005

	United States of America	Europe	Asia	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000* (As restated)
TURNOVER	595,293	399,711	389,596	93,297	1,477,897
RESULTS					
Segment results	52,471	35,204	18,077	8,221	113,973
Other income					48,297
Unallocated expenses					(16,832)
Finance costs					(12,082)
Share of results of associates					6,950
Share of results of jointly controlled entities					9,690
Profit before taxation					149,996
Income tax expense					(2,194)
Profit for the period					147,802

5. NET GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS AND CONVERTIBLE BONDS

	For the six months ended 31st March, 2006	2005
	US$'000	*US$'000*
Fair value changes on derivative financial instruments	33,292	–
Loss on modification of convertible bonds	(25,399)	–
Gain on redemption of convertible bonds	2,289	–
	10,182	–

6. PROFIT BEFORE TAXATION

	For the six months ended 31st March, 2006	2005
	US$'000	*US$'000*
Profit before taxation has been arrived at after charging:		
Amortisation of goodwill	–	5,533
Impairment loss on trade receivables	187	744
Research and development expenditure	48,489	46,786
Share of taxation of associates (included in share of results of associates)	542	544
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	190	337

7. DEPRECIATION AND AMORTISATION

During the period, charged against profit before taxation was depreciation and amortisation of approximately US$64,477,000 (2005: approximately US$58,690,000) in respect of the Group's property, plant and equipment and prepaid lease payments.

8. INCOME TAX EXPENSE

	For the six months ended 31st March, 2006 US$'000	2005 US$'000 (As restated)
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	45	35
Overseas taxation	4,024	2,159
Taxation attributable to the Company and its subsidiaries	4,069	2,194

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

In March 2004 and 2005, Hong Kong Inland Revenue Department ("IRD") issued protective profits tax assessments of approximately HK$407,000,000 (equivalent to approximately US$52,228,000) relating to the years of assessment 1997/98 and 1998/99, that is, for the financial years ended 30th September, 1997 and 1998 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") in the amount of HK$110,526,000 (equivalent to approximately US$14,170,000) for those years of assessments. These TRC have been purchased by the Group.

In March 2006, IRD further issued protective profits tax assessments of approximately HK$217,000,000 (equivalent to approximately US$27,936,000) relating to the year of assessment 1999/2000, that is, for the financial year ended 30th September, 1999. The IRD agreed to hold over the tax claim subject to the purchasing of TRC of HK$71,000,000 (equivalent to approximately US$9,149,000). The TRC was purchased by the Group on 25th May, 2006.

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

9. DIVIDENDS

	For the six months ended 31st March, 2006 *US$'000*	2005 *US$'000*
2005 Final dividend of HK$0.48 per share (2005: 2004 Final dividend of HK$0.46 per share) *(note (i))*	100,191	95,529
2006 Interim dividend of HK$0.29 per share (2005: 2005 Interim dividend of HK$0.27 per share *(note (ii))*	60,221	56,068

Notes:

(i) The final dividend of the year ended 30th September, 2005 and 2004 of US$100,191,000 and US$95,529,000, respectively, were approved after the balance sheet date. Under the Group's accounting policy, they were charged in the period in which they were approved.

(ii) At a meeting on 19th June, 2006, the directors of the Company declared an interim dividend of HK$0.29 for the year ending 30th September, 2006 (2005: interim dividend of HK$0.27) per share. The interim dividend will be payable on 14th July, 2006 to the shareholders on the register of members of the Company on Tuesday, 11th July, 2006.

10. EARNINGS PER SHARE

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

	For the six months ended 31st March, 2006 *US$*	2005 *US$* (restated)
Earnings:		
Profit for the purpose of basic earnings per share attributable to equity holders of the Company	168,251,000	146,230,000
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds	5,877,000	5,467,000
Profit for the purpose of diluted earnings per share attributable to equity holders of the Company	174,128,000	151,697,000
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	1,619,748,986	1,619,748,986
Effect of dilutive potential ordinary shares:		
Convertible bonds	71,330,195	90,033,568
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,691,079,181	1,709,782,554

10. EARNINGS PER SHARE (continued)

The following table summarises the impact on both basic and diluted earnings per share as a result of:

	Impact on basic earnings per share For the six months ended 31st March,		Impact on diluted earnings per share For the six months ended 31st March,	
	2006	**2005**	**2006**	**2005**
	US$	*US$*	*US$*	*US$*
Reported figures before adjustments	9.7 cents	9.4 cents	9.3 cents	8.9 cents
Adjustments arising from change in accounting policies *(see Note 3)*	0.7 cents	(0.4) cents	1.0 cents	–
Restated	10.4 cents	9.0 cents	10.3 cents	8.9 cents

11. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors are of the opinion that the carrying value of the Group's investment properties as at 31st March, 2006 is not materially different from the fair value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group acquired property, plant and equipment for an amount of approximately US$137,990,000 (For the six months ended 31st March, 2005: US$90,028,000).

12. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade and bills receivables of US$386,770,000 (30th September, 2005: US$376,145,000) and an aged analysis is as follows:

	At 31st March, 2006 *US$'000*	**At 30th September, 2005** *US$'000*
0 to 30 days	261,294	269,999
31 to 90 days	117,107	94,338
Over 90 days	8,369	11,808
	386,770	376,145

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$255,903,000 (30th September, 2005: US$218,116,000) and an aged analysis is as follows:

	At 31st March, 2006 *US$'000*	**At 30th September, 2005** *US$'000*
0 to 30 days	165,040	152,961
31 to 90 days	62,877	45,287
Over 90 days	27,986	19,868
	255,903	218,116

14. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(i) Convertible bonds

On 23rd December, 2003, the Company issued US$300 million zero coupon convertible bonds due 2008 ("CB 2008"). The CB 2008 are listed on the Luxembourg Stock Exchange. They are convertible, at the option of their holders, into ordinary shares of HK$0.25 each of the Company at 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) 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 these bonds may be redeemed at the option of the Company, in whole or in part, from time to time, (i) on or after 23rd December, 2005 when the closing price of the Company's shares on the Stock Exchange shall have been at least 120 per cent of the conversion price for each of any 20 trading days during a 30 consecutive trading day period or (ii) at any time providing at least 90% in principal amount of the CB 2008 has been converted, redeemed or purchased and cancelled and (in either case) prior to 16th December, 2008 at an early redemption amount as stated in the CB 2008.

The bondholders may, at their option, require the Company to redeem all or some of the bonds on 23rd December, 2005 ("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 or to the order of the Financial Institution on maturity of the Exercised Bonds.

As a result, the Exercised Bonds with 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.

14. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(i) Convertible bonds (continued)

CB 2008 with the principal amount of US$231,470,000 remained outstanding at 31st March, 2006.

The movement of the liability component of the convertible bonds for the six months ended 31st March, 2006 is set out below:

	2006	**2005**
	US$'000	*US$'000*
Liability component at 1st October, 2005/2004	275,229	264,495
Finance costs	5,877	5,467
Redemption	(74,949)	–
Modification on the terms for CB 2008 pursuant to the Put Release Agreements	25,399	–
Liability component at 31st March, 2006/2005	231,556	269,962

(ii) Derivative financial instruments

	US$'000
Derivatives embedded in the convertible bonds at 1st October, 2005, as restated	(32,892)
Change in fair value	33,292
Derivatives at 31st March, 2006	400

On 1st October, 2005, the Group adopted HKAS 39 and accounted for derivatives and embedded derivatives at fair value at each balance sheet date.

The Put Option were fair valued by the management on 1st October, 2005 and Put Option Date at approximately US$32,892,000 and Nil, respectively. The change in fair value of approximately US$32,892,000 has been credited to the consolidated income statement during the six months ended 31st March, 2006. The Put Option were expired on the Put Option Date.

In addition, the Group also has interests in other derivative financial instruments, including interest rate swaps and foreign currency forward contracts, which are carried at fair value at the balance sheet date. The change in fair value of approximately US$400,000 has been credited to the consolidated income statement.

15. BANK BORROWINGS

During the period, the Group obtained bank borrowings for a sum of US$963.1 million. The borrowings bear interest at market rates. The proceeds were used to repay existing bank borrowings for a sum of US$887.4 million and finance the daily operation of the Group.

16. SHARE CAPITAL

	Number of shares	Amounts
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2005 and 31st March, 2006	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2005 and 31st March, 2006	1,619,748,986	404,937
		US$'000
Shown in the financial statements as at 30th September, 2005 and 31st March, 2006		52,274

17. CONTINGENCIES AND COMMITMENTS

	At 31st March, 2006	At 30th September, 2005
	US$'000	*US$'000*
Guarantees given to banks in respect of credit facilities extended to:		
– associates	3,242	1,284
– jointly controlled entities	25,548	20,689
	28,790	21,973
Capital expenditure contracted for but not provided in the financial statements in respect of		
– construction of buildings	22,455	2,721
– acquisition of property, plant and equipment	12,751	5,495
	35,206	8,216

INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.29 per share for the year ending 30th September, 2006 to shareholders whose names appear on the Register of Members on Tuesday, 11th July, 2006. The interim dividends will be paid on Friday, 14th July, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 6th July, 2006 to Tuesday, 11th July, 2006, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration of not later than 4.00 p.m. on Wednesday, 5th July, 2006.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

For the period under review, the Group's turnover surged year-on-year by 16.5% to US$1,722.2 million and net profit increased by 15.1% year-on-year to US$168.3 million. Upon adopting the new Hong Kong Financial Reporting Standards ("HKFRs"), there was an aggregate one-time gain of approximately US$10.2 million related to the derivative financial instruments and convertible bonds issued in 2003. Excluding this gain, net profit would have increased by 8.1% year-on-year to US$158.1 million.

The tables below show the total turnover by product category and geographical market.

Total Turnover by Product Category

Six months ended 31st March	2006		2005		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
Athletic Shoes	1,017.7	59.1	919.4	62.2	10.7
Casual/Outdoor shoes	293.9	17.1	254.0	17.2	15.7
Sports Sandals	34.4	2.0	31.5	2.1	9.2
Soles & components	213.9	12.4	193.9	13.1	10.3
Retail sales – shoes and apparel	138.0	8.0	65.5	4.5	110.7
Others	24.3	1.4	13.6	0.9	78.7
Total turnover	1,722.2	100.0	1,477.9	100.0	16.5

Total Turnover by Geographical Market

Six months ended 31st March	2006		2005		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
U.S.A.	648.7	37.7	595.3	40.3	9.0
Canada	34.4	2.0	26.2	1.8	31.3
Europe	448.3	26.0	399.7	27.0	12.2
South America	39.3	2.3	29.3	2.0	34.1
Asia	502.9	29.2	389.6	26.4	29.1
Other Areas	48.6	2.8	37.8	2.5	28.6
Total turnover	1,722.2	100.0	1,477.9	100.0	16.5

Operations

For the period under review, the Group has continued to record steady sales growth in the footwear manufacturing operation and strong growth momentum in the Greater China wholesale and retail contributions. The Group has produced a total of 96.6 million pairs of shoes, an increment of 6.9% compared with last year. By the end of March 2006, the Group was operating about 359 production lines, an addition of 17 lines over the last six months. In light of soaring fuel costs and increasing labor expenses, the operating environment has been volatile. The Group's gross profit margin still faced pressure, declining year-on-year by 0.8 percentage point to 23.4% during the period under review. However, the Group continues to work very closely with customers and suppliers to cope with the impact of rising production and input costs.

The Group had experienced a stable growth in the core athletic and casual/outdoor shoes segments. Turnover from wholesale and retail operations rose year-on-year by 110.7% to US$138.0 million, underpinned the Group's overall sales growth. By the end of March 2006, the Group was managing about 600 self-run and 200 franchised shops/counters in mainland China. Also, the Group has maintained about 1,800 distributors for the three licensee brands, Converse, Hush Puppies and Wolverine in the greater China region.

As a continuous effort to expand horizontally into different footwear product categories, sports apparel and accessories manufacturing, the contributions from associates and jointly controlled entities started to kick in with a total contribution of US$29.5 million compared to US$16.6 million in the corresponding period last year.

Sales from athletic shoes accounted for 59.1% of total sales, compared to 62.2% last year. The decline in contribution from the core manufacturing operation was mainly due to accelerating sales from wholesale and retail operations, which accounted for 8% of total sales, up from 4.5% last year. There were also encouraging growth in the sole and components and others (mainly sports apparel manufacturing) categories during the period under review. Turnover distribution among three major markets, the USA, Europe and Asia has also become more balanced.

Financial Position

The Group maintains a healthy financial position. As at 31st March, 2006, the Group had cash and cash equivalent of US$259 million (30th September, 2005: US$405 million) and total borrowings of US$749 million including the convertible bonds (30th September, 2005: US$744 million). This represents a gearing ratio of 37% (30th September, 2005: 38%) and a net debt-to-equity ratio of approximately 24% (30th September, 2005: 17%). The gearing ratio is based on total borrowings to shareholders' equity and the net debt-to-equity ratio is based on total borrowings net of cash and cash equivalent to shareholders' equity.

Corporate Social Responsibility

The Group considers Corporate Social Responsibility (CSR) program as an important and indispensable element of its overall business development strategy. We believe continuous improvement in employees' benefit, workplace safety as well as environment protection will enhance the Group's long-term growth and can also contribute to the communities that our production facilities are based. Major efforts that our CSR team has put in during the period under review are listed as the follows:

In China, the Group has consistently invested in upgrading the workplace safety providing a safer and more pleasant environment for the employees. There was a large-scale renovation of dormitories and installation of advanced ventilation system in the factories. Efforts have been made to improve wastewater treatment system and energy saving measures. The Group always believes workplace and machinery operation safety is of the utmost priority when the factory is implementing the LEAN operation system to enhance the production efficiency. Talks and lectures were organized to improve communication between employees and factory managers and to develop the Yue Yuen corporate culture.

In Hong Kong, the Group continued to sponsor the Slam Dunk program for the youth together with Nike Hong Kong and Changing Young Lives Foundation. Also, the Group participated in the School-Business Partnership Program organized by the Education and Manpower Bureau of the Hong Kong SAR Government.

Corporate Social Responsibility (continued)

In Vietnam, the Group has built a new recreational centre for employees and organized a cultural night show for over 10,000 employees during the Chinese New year period. The factory located in Dongnai has been awarded the best merit for its effort in improving health and safety conditions at worksite. The Group was also one of the sponsors for the development of a football stadium for the public in Dongnai Province.

In Indonesia, the Group has upgraded the facilities of the clinics, installing advanced computer system linked to the factory floor directly. The Group also launched programs to educate employees on the potential threat of the bird flu and there were corresponding measures in the factory cafeterias on food treatment. The Group has set up an emergent operation unit to cope with the potential impact from the bird flu.

Looking Forward

Following a 16.5% year-on-year growth in sales in the first half of FY2006, the momentum of the sales growth continued to be resilient in the first two months of the third quarter of FY2006 (April and May of 2006). Total turnover for April and May 2006 amounted to about US$669.7 million, an increase of 20% year-on-year. Healthy growth in the core manufacturing and the wholesale and retail operations is expected to strengthen the Group's sales growth in the second half of FY2006.

The Group is committed to further expand its production capacity to accommodate customers' expansion plans. However, mounting pressure from rising material costs and labor expenses is still expected. The Group will continue to quest for improvement in production efficiency and flexibility to mitigate the impact from rising production costs and the trade dispute.

The Group has maintained a healthy growth in sales amid a competitive environment. It is well positioned to further expand the business horizon, aiming for persistent improvement in its business operations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2006, the interests of the Company's directors, chief executives and their associates in the 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 Part XV 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 Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Long Position

1. Ordinary shares of HK$0.25 each of the Company

	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	–	–	–	–	–	–
Li I Nan, Steve	–	–	–	–	–	–
Tsai Pei Chun, Patty	–	–	–	–	–	–
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	1,600 *(Note)*	1,600 *(Note)*	–	–	1,600	0.0001
Liu Len Yu	–	–	–	–	–	–

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

Long Position (continued)

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

	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 PCC
Tsai Chi Neng	12,052,409	70,167	–	–	12,122,576	0.53
David N. F. Tsai	7,969,450	–	–	–	7,969,450	0.35
Edward Y. Ku	28,553	449,228	–	–	477,781	0.02
Kuo Tai Yu	1,827,956	3,480	–	–	1,831,436	0.08
Lu Chin Chu	1,443,810	157,577	–	–	1,601,387	0.07
Kung Sung Yen	1,727,738	451,920	–	–	2,179,658	0.09
Chan Lu Min	1,256,285	–	–	–	1,256,285	0.05
Li I Nan, Steve	165,379	–	–	–	165,379	0.01
Tsai Pei Chun, Patty	1,840,827	–	–	–	1,840,827	0.08
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–
Liu Len Yu	–	–	–	–	–	–

Save as disclosed above, none of the directors, the chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO as at 31st March, 2006; or were required, pursuant to Model Code for Securities Transactions by Directors of the Listed Companies, to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

1. Share option scheme of the Company

The Company's Executive Share Option Scheme (the "Scheme") adopted on 9th June, 1992 expired on 8th June, 2002 and no new share option scheme has been adopted by the Company since then.

All the outstanding share options under the Scheme were exercised before 30th September, 2004.

2. Share option scheme of PCC

The following table discloses movement of the directors and chief executives in the share options granted under the share option scheme of PCC during the period:

			Number of share options		
Name of director	**Date of grant**	**Exercise price per share** *NT$*	**Outstanding at 1.10.2005**	**Exercised during the period** *(Note)*	**Outstanding at 31.03.2006**
David N. F. Tsai	6.8.2002	12.00	1,000,000	–	1,000,000
Kuo Tai Yu	6.8.2002	12.00	660,000	(160,000)	500,000
Lu Chin Chu	6.8.2002	12.00	700,000	–	700,000
Kung Sung Yen	6.8.2002	12.00	800,000	(267,000)	533,000
Chan Lu Min	6.8.2002	12.00	800,000	–	800,000

Note: The closing prices of PCC's ordinary shares immediately before the dates on which the 160,000 and 267,000 share options exercised were NT$22.45 and NT$21.60 respectively.

Share options can be exercised every year up to one-third of the granted options, no earlier than two years from the date of grant. After four years from the date of grant, the option holders are eligible to exercise all the options granted.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save for the share options disclosed above, at no time during the period was the Company, or any of its holding companies, fellow subsidiaries and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows 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 the issued capital of the Company.

Long Position

Ordinary shares of HK$0.25 each of the Company

Name of shareholder	*Notes*	**Number of ordinary shares beneficially held**	**Percentage of the issued share capital of the Company**
PCC	*(a)*	824,143,835	50.88
Wealthplus Holdings Limited ("Wealthplus")	*(a)*	767,707,605	47.40
Max Creation Industrial Limited ("Max Creation")	*(b)*	269,365,500	16.63
Quicksilver Profits Limited ("Quicksilver")	*(b)*	149,494,822	9.23
Red Hot Investments Limited ("Red Hot")	*(b)*	102,467,440	6.33
World Future Investments Limited ("World Future")	*(c)*	269,365,500	16.63
Mr. Tsai Chi Jui	*(c)*	269,687,100	16.65

SUBSTANTIAL SHAREHOLDERS (continued)

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 98.42% owned subsidiary of PCC.

(b) Of the 269,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver, 102,467,440 ordinary shares were held by Red Hot (both are listed above) and 17,403,238 ordinary shares were held by Moby Dick Enterprises Limited ("Moby Dick"). Quicksilver, Red Hot and Moby Dick are wholly-owned subsidiaries of Max Creation.

(c) World Future is deemed to be interested in 269,365,500 ordinary shares by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, brother of Mr. Tsai Chi Neng, is also deemed to be interested in 269,365,500 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui also held 321,600 ordinary shares directly.

Other than the interests disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO discloses no person as having notifiable interests or short positions in the shares and underlying shares of the Company as at 31st March, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st March, 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practice (the "Code") set out in Appendix 14 to the Listing Rules during the period ended 31st March, 2006, with deviation from Code provisions A4.1 and A4.2.

Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Directors are not required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 87, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third), other than the Director holding office of Chairman or Managing Director, shall retire from office by rotation. The Board will ensure the retirement of each Director, other than the one who holds the office of Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Board considered that the continuity of office of the Chairman and Managing Director is necessary to provide the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of listed companies contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transaction by the directors of the Company. Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards of dealings as set out therein during the six months ended 31st March, 2006.

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

DIRECTORS

As at the date of this report, Tsai Chi Neng (Chairman), David N. F. Tsai (Managing Director), Edward Y. Ku, Kuo Tai Yu, Lu Chin Chu, Kung Sung Yen, Chan Lu Min, Li I Nan, Steve and Tsai Pei Chun, Patty are the Executive Directors, John J. D. Sy is the Non-executive Director, and So Kwan Lok, Poon Yiu Kin, Samuel and Liu Len Yu are the Independent Non-executive Directors.

By Order of the Board
Tsai Chi Neng
Chairman

Hong Kong, 19th June, 2006

website: www.yueyuen.com