裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Stock Code: 551

Interim Report 2007

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, 2007

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2007	2006	Percentage increase (decrease)
Turnover (US$'000)	1,904,811	1,722,234	10.6
Profit attributable to equity holders of the Company (US$'000)	169,585	168,251	0.8
Basic earnings per share (US cents)	10.2	10.4	(1.9)
Dividend per share – Interim (HK$)	0.31	0.29	6.9

* *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, 2007 with comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2007

		For the six months ended 31st March,	
		2007	**2006**
		(unaudited)	**(unaudited)**
	NOTES	*US$'000*	*US$'000*
Turnover	*3*	1,904,811	1,722,234
Cost of sales		(1,469,103)	(1,319,928)
Gross profit		435,708	402,306
Other income		75,424	63,276
Selling and distribution expenses		(83,041)	(71,744)
Administrative expenses		(155,349)	(153,505)
Other expenses		(82,285)	(83,993)
Net (loss) gain on derivative financial instruments and convertible bonds	*4*	(3,654)	10,182
Impairment loss on amount due from an associate		–	(2,600)
Finance costs		(23,887)	(18,594)
Share of results of associates		9,319	15,019
Share of results of jointly controlled entities		8,195	14,451
Profit before taxation		180,430	174,798
Income tax expense	*5*	(7,018)	(4,069)
Profit for the period	*6*	173,412	170,729
Attributable to:			
Equity holders of the Company		169,585	168,251
Minority interests		3,827	2,478
		173,412	170,729
Dividends	*7*	108,630	100,191
Earnings per share	*8*		
– Basic		US10.2 cents	US10.4 cents
– Diluted		N/A	US10.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2007

	NOTES	At 31st March, 2007 (unaudited) US$'000	At 30th September, 2006 (audited) US$'000
Non-current assets			
Investment properties	9	57,169	57,169
Property, plant and equipment	9	1,236,661	1,194,409
Prepaid lease payments		106,943	106,332
Goodwill		188,535	188,535
Investments in associates		264,481	246,717
Amounts due from associates		2,651	6,999
Investments in jointly controlled entities		241,233	225,009
Amounts due from jointly controlled entities		41,077	37,273
Available-for-sale investments		33,059	31,151
		2,171,809	2,093,594
Current assets			
Inventories		465,440	419,581
Trade and other receivables	10	696,699	620,692
Prepaid lease payments		2,131	1,766
Taxation recoverable		8,169	8,253
Derivative financial instruments		740	400
Deposits placed with a financial institution		24,000	24,000
Bank balances and cash		377,817	210,506
		1,574,996	1,285,198

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 31st March, 2007

	NOTES	At 31st March, 2007 (unaudited) US$'000	At 30th September, 2006 (audited) US$'000
Current liabilities			
Trade and other payables	*11*	502,635	506,597
Taxation payable		9,161	5,795
Derivative financial instruments		42,683	815
Short-term bank borrowings	*12*	72,867	193,163
		627,346	706,370
Net current assets		947,650	578,828
Total assets less current liabilities		3,119,459	2,672,422
Non-current liabilities			
Convertible bonds	*13*	477,255	237,837
Long-term bank borrowings	*12*	292,940	290,493
Deferred taxation		7,459	7,523
		777,654	535,853
Net assets		2,341,805	2,136,569
Capital and reserves			
Share capital	*14*	53,682	52,274
Reserves		2,227,575	2,039,046
Equity attributable to equity holders of the Company		2,281,257	2,091,320
Minority interests		60,548	45,249
Total equity		2,341,805	2,136,569

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Convertible bonds reserve	Translation 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*
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 increase on investments 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 of subsidiaries	–	–	–	–	–	–	–	–	(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
Revaluation decrease on investments	–	–	(11,821)	–	–	–	–	(11,821)	–	(11,821)
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	–	–	(11,821)	–	–	244	–	(11,577)	–	(11,577)
Impairment loss on available-for-sale investments	–	–	6,000	–	–	–	–	6,000	–	6,000
Profit for the period	–	–	–	–	–	–	185,340	185,340	10,278	195,618
Total recognised income and expense for the period	–	–	(5,821)	–	–	244	185,340	179,763	10,278	190,041
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	6,091	6,091
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	603	603
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(2,301)	(2,301)
Dividends	–	–	–	–	–	–	(60,517)	(60,517)	–	(60,517)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(464)	(464)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 31st March, 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*	Convertible bonds reserve *US$'000*	Translation reserve *US$'000*	Retained profits *US$'000*	Total *US$'000*	Minority interests *US$'000*	Total equity *US$'000*
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
Revaluation increase on investments	–	–	505	–	–	–	–	505	–	505
Share of reserves of associates	–	–	–	–	–	195	–	195	–	195
Net income recognised directly in equity	–	–	505	–	–	195	–	700	–	700
Profit for the period	–	–	–	–	–	–	169,585	169,585	3,827	173,412
Total recognised income for the period	–	–	505	–	–	195	169,585	170,285	3,827	174,112
Issue of subscription shares	1,408	126,874	–	–	–	–	–	128,282	–	128,282
Contribution from minority shareholders	–	–	–	–	–	–	–	–	17,896	17,896
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(4,718)	(4,718)
Dividends	–	–	–	–	–	–	(108,630)	(108,630)	–	(108,630)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(1,706)	(1,706)
At 31st March, 2007	53,682	725,431	(9,946)	(16,688)	18,118	439	1,510,221	2,281,257	60,548	2,341,805

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, 2007

	For the six months ended 31st March, 2007 (unaudited) *US$'000*	2006 (unaudited) *US$'000*
Net cash from operating activities	123,145	215,670
Net cash used in investing activities		
Purchase of property, plant and equipment	(118,730)	(137,990)
Investments in jointly controlled entities	(15,019)	(81,205)
Investments in associates	(6,411)	(40,897)
Prepaid land leases	(1,946)	(3,207)
Dividends received from jointly controlled entities	4,023	5,634
Dividends received from associates	3,544	4,194
Other investing cash flows	8,751	3,270
	(125,788)	(250,201)
Net cash from (used in) financing activities		
Bank borrowings raised	898,201	963,059
Issuance (redemption) of convertible bonds	266,619	(85,102)
Net proceed from placing of new shares	128,282	–
Repayment of bank borrowings	(1,016,050)	(887,429)
Dividends paid	(108,630)	(100,191)
Dividend paid to minority shareholders of subsidiaries	(1,706)	(1,794)
Other financing cash flows	3,238	(388)
	169,954	(111,845)
Net increase (decrease) in cash and cash equivalents	167,311	(146,376)
Cash and cash equivalents brought forward	234,506	405,393
Cash and cash equivalents carried forward	401,817	259,017
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	377,817	235,017
Deposits placed with a financial institution	24,000	24,000
	401,817	259,017

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st March, 2007

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 (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 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 (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on 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 annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 30th September, 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments, and interpretations (collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006, 1st March, 2006, 1st May, 2006 and 1st June, 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 standards, amendment, interpretations that have been issued but are not yet effective. 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. 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 financial statements are presented.

HKAS 1 (Amendment)	Capital Disclosures[1]
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]

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

3. TURNOVER AND SEGMENTAL INFORMATION

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

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.

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, 2007

	United States of America *US$'000*	**Europe** *US$'000*	**Asia** *US$'000*	**Others** *US$'000*	**Total** *US$'000*
TURNOVER	681,220	467,486	613,128	142,977	1,904,811
RESULTS					
Segment results	56,351	38,749	32,285	11,779	139,164
Other income					75,424
Unallocated expenses					(24,131)
Net loss on derivative financial instruments and convertible bonds					(3,654)
Finance costs					(23,887)
Share of results of associates					9,319
Share of results of jointly controlled entities					8,195
Profit before taxation					180,430
Income tax expense					(7,018)
Profit for the period					173,412

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

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. NET (LOSS) GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS AND CONVERTIBLE BONDS

	For the six months ended 31st March, 2007	2006
	US$'000	*US$'000*
Fair value changes on derivatives embedded in convertible bonds	(4,031)	32,892
Fair value changes on other derivative financial instruments	377	400
Loss on modification of convertible bonds	–	(25,399)
Gain on redemption of convertible bonds	–	2,289
	(3,654)	10,182

5. INCOME TAX EXPENSE

	For the six months ended 31st March, 2007	2006
	US$'000	*US$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	50	45
Overseas taxation	6,968	4,024
Taxation attributable to the Company and its subsidiaries	7,018	4,069

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.

5. INCOME TAX EXPENSE (continued)

From March 2004 to March 2006, the Inland Revenue Department ("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 have been purchased by the subsidiaries of the Group.

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 Group 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. Together with the advice from the Company's legal adviser, the directors of the Company believe that no profits tax is in fact payable by the Group for these years of assessment and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

Whilst the Company has been advised that it has a strong case that the tax claimed is not in fact payable, bearing in mind the uncertainty, costs and management time and efforts required to conduct litigation, the directors are considering whether it is in the interest of the Group to resolve the dispute with the IRD without legal proceedings. 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.

6. PROFIT FOR THE PERIOD

	For the six months ended 31st March, 2007	**2006**
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Amortisation of prepaid lease payment	970	1,086
Depreciation of property, plant and equipment	65,857	63,391
Impairment loss on trade receivables	628	187
Research and development expenditure	53,333	48,489
Share of taxation of associates (included in share of results of associates)	684	542
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	272	190

7. DIVIDENDS

	For the six months ended 31st March, 2007	**2006**
	US$'000	*US$'000*
2006 Final dividend of HK$0.51 per share (2006: 2005 Final dividend of HK$0.48 per share) *(note (i))*	108,630	100,191
2007 Interim dividend of HK$0.31 per share (2006: 2006 Interim dividend of HK$0.29 per share) *(note (ii))*	66,002	60,221

Notes:

(i) The final dividends of the year ended 30th September, 2006 and 2005 of US$108,630,000 and US$100,191,000, 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 21st June, 2007, the directors of the Company declared an interim dividend of HK$0.31 per share for the year ending 30th September, 2007 (2006: interim dividend of HK$0.29 per share). The interim dividend will be payable on 19th July, 2007 to the shareholders on the register of members of the Company on 9th July, 2007.

8. 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,	
	2007	**2006**
	US$	*US$*
Earnings:		
Profit for the period attributable to equity holders of the Company for the purpose of basic earnings per share	169,585,000	168,251,000
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds	N/A	5,877,000
Profit for the period attributable to equity holders of the Company for the purpose of diluted earnings per share	N/A	174,128,000
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	1,658,324,810	1,619,748,986
Effect of dilutive potential ordinary shares:		
Convertible bonds	N/A	71,330,195
Number of ordinary shares for the purpose of diluted earnings per share	N/A	1,691,079,181

The computation of diluted loss per share for the six months ended 31st March, 2007 does not assume the conversion of the outstanding convertible bonds of the Company since their exercise would result in an increase in earnings per share.

9. 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, 2007 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 during the period.

During the period, the Group acquired property, plant and equipment of approximately US$118,730,000 (for the six months ended 31st March, 2006: US$137,990,000).

10. 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$453,826,000 (30th September, 2006: US$428,133,000) and an aged analysis is as follows:

	At 31st March, 2007	**At 30th September, 2006**
	US$'000	*US$'000*
0 to 30 days	301,902	309,856
31 to 90 days	137,941	109,035
Over 90 days	13,983	9,242
	453,826	428,133

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$247,817,000 (30th September, 2006: US$246,643,000) and an aged analysis is as follows:

	At 31st March, 2007	**At 30th September, 2006**
	US$'000	*US$'000*
0 to 30 days	175,010	171,522
31 to 90 days	52,862	49,906
Over 90 days	19,945	25,215
	247,817	246,643

12. BANK BORROWINGS

During the period, the Group obtained bank borrowings for a sum of US$898 million. The borrowings bear interest at market rates. The proceeds were used to repay existing banking borrowings for a sum of US$1,016 million and finance the daily operation of the Group.

13. CONVERTIBLE BONDS

(i) Convertible bonds

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

On 23rd December, 2003, the Company issued US$300 million zero coupon convertible bonds. 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).

13. CONVERTIBLE BONDS (continued)

(i) Convertible bonds (continued)

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

The CB 2008 do not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2008 will be redeemed by the Company at 98.76 per cent of their principal amount on 23rd December, 2008. All or some of these bonds may be redeemed at the option of the Company, in whole or in part, from time to time, (i) on or after 23rd December, 2005 when the closing price of the Company'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% 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 Convertible Bond 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.

CB 2008 with the carrying amount of US$244,237,000 remained outstanding at 31st March, 2007.

13. CONVERTIBLE BONDS (continued)

(i) Convertible bonds (continued)

Zero Coupon Convertible Bonds due 2011 ("CB 2011")

On 20th October, 2006, the Company entered into a bond subscription agreement with the arranger in connection with the issue of zero coupon convertible bonds due 2011 by the Company with an aggregate principal amount of HK$1,800 million (equivalent to approximately US$231 million). The Company has granted to the arranger the option to require the Company to issue a further HK$300 million (equivalent to approximately US$39 million) optional bonds on the same terms. The net proceeds, after arrangement fee of US$3 million, from these transactions would be 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 in such that the aggregate principal amount of CB 2011 is HK$2,100 million (equivalent to approximately US$270 million).

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 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 Convertible Bond 2011.

The bondholders may, at their option, require the Company to redeem all or some of the bonds 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.

13. CONVERTIBLE BONDS (continued)

(i) Convertible bonds (continued)

Zero Coupon Convertible Bonds due 2011 ("CB 2011") (continued)

CB 2011 with the carrying amount of US$233,018,000 remained outstanding at 31st March, 2007

The movement of the liability component of the CB 2008 and CB 2011 for the six months ended 31st March, 2007 is set out below:

	2007	**2006**
	US$'000	*US$'000*
Liability component at 1st October, 2006/2005	237,837	275,229
Issue of CB 2011	228,868	–
Effective interest expense	11,331	5,877
Redemption	–	(74,949)
Modification on the terms for CB 2008 pursuant to the Put Release Agreement	–	25,399
Exchange difference	(781)	–
Liability component at 31st March, 2007/2006	477,255	231,556

(ii) Derivatives embedded in convertible bonds

	2007	**2006**
	US$'000	*US$'000*
Derivatives embedded in the CB 2008 at 1st October, 2006/2005	–	(32,892)
Derivatives embedded in the CB 2011	37,751	–
Changes in fair value	4,031	32,892
Embedded derivatives at 31st March, 2007/2006	41,782	–

The derivatives embedded in CB2011 were fair valued by the independent valuer on 20th October, 2006 and 31st March, 2007 at approximately US$37,751,000 and US$41,782,000, respectively. The change in fair value of approximately US$4,031,000 have been charged to the consolidated income statement for the six months ended 31st March, 2007.

14. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2006 and 31st March, 2007	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2006	1,619,748,986	404,937
Issue of Subscription Shares	43,880,000	10,970
At 31st March, 2007	1,663,628,986	415,907
		US$'000
Shown in the financial statements as at		
31st March, 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 period rank pari passu with the then existing shares in issue in all respects.

15. CONTINGENCIES AND COMMITMENTS

Other than as disclosed in note 5, the Group had the following contingencies and commitments:

	At 31st March, 2007 *US$'000*	**At 30th September, 2006** *US$'000*
Guarantees given to banks in respect of credit facilities extended to:		
– associates	2,734	2,655
– jointly controlled entities	48,673	41,300
	51,407	43,955
Capital expenditure contracted for but not provided in the financial statements in respect of		
– construction of buildings	35,082	28,115
– acquisition of property, plant and equipment	10,596	2,688
	45,678	30,803

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK$0.31 per share for the year ending 30th September, 2007 to shareholders whose names appear on the Register of Members on Monday, 9th July, 2007. The interim dividend will be paid on Thursday, 19th July, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 9th July, 2007 to Thursday, 12th July, 2007, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, 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 4:30 p.m. on Friday, 6th July, 2007.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover and profit attributable to equity holders of the company increased year-on-year by 10.6% to US$1,904.8 million and 0.8% to US$169.6 million, respectively. Stripping off the accounting adjustments on the two outstanding convertible bonds, profit attributable to equity holders of the company would have increased by 9.6% year-on-year to US$173.6 million.

Operations

During the period under review, the Group recorded stable sales growth for the footwear manufacturing operation whereas the growth momentum of the Greater China wholesale and retail operations remained strong. The total volume of shoes produced rose by 14.9% year-on-year to 111 million pairs, thanks to the support of our existing customers and orders from new customers. To supplement the business growth, the Group has added 14 new production lines over the last six months bringing the total number of lines to 387 by the end of March 2007. The Group is committed to improve production efficiency in light of the challenges from increase in wages and currency fluctuations.

The sales contributions from the wholesale and retail operations in the Greater China region continued to increase and accounted for about 10% of the Group's total turnover for the period under review. The revenue from the wholesale and retail operations jumped 37% year-on-year to US$189.0 million, which was mainly derived from the Group's 820 self-run and 430 franchised stores/counters, respectively, as well as the wholesale operations in the Greater China region. In addition, the Group's associated companies operated about 950 self-run and franchised stores/counters. The Group has accelerated investment in the operations through organic growth and strategic acquisitions. As a result, the total number of self-run and franchised stores/counters in China under the Group and its affiliates stood at about 2,200 by the end of March 2007.

Operations (continued)

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

Total Turnover by Product Category

Six months ended 31st March	2007		2006		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
Athletic shoes	1,099.7	57.8	1,017.7	59.1	8.1
Casual/Outdoor shoes	331.8	17.4	293.9	17.1	12.9
Sports sandals	42.3	2.2	34.4	2.0	23.0
Sole & components	224.5	11.8	213.9	12.4	5.0
Retail sales – shoes and apparel	189.0	9.9	138.0	8.0	37.0
Others	17.5	0.9	24.3	1.4	(28.0)
Total turnover	1,904.8	100.0	1,722.2	100.0	10.6

Total Turnover by Geographical Market

Six months ended 31st March	2007		2006		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
U.S.A.	681.2	35.8	648.7	37.7	5.0
Canada	34.6	1.8	34.4	2.0	0.6
Europe	467.5	24.5	448.3	26.0	4.3
South America	52.6	2.8	39.3	2.3	33.7
Asia	613.1	32.2	502.9	29.2	21.9
Other Areas	55.8	2.9	48.6	2.8	14.7
Total turnover	1,904.8	100.0	1,722.2	100.0	10.6

Footwear manufacturing remained the Group's major operation accounting for 77.4% of total sales, whereas soles and components accounted for 11.8% of total sales. Retail sales accounted for 9.9% of total sales, compared to 8% last year. With the surge in retail sales, Asia has become the second largest market for the Group and turnover distribution among three major markets, the USA, Europe and Asia has also become more balanced.

Financial Position

The Group maintains a stable financial position. As at 31st March, 2007, the Group had cash and cash equivalents of US$402 million (30th September 2006: US$235 million) and total borrowings of US$843 million including the convertible bonds (30th September, 2006: US$722 million). This represents a gearing ratio of 36% (30th September, 2006: 34%) and a net debt to equity ratio of approximately 19% (30th September, 2006: 23%). The gearing ratio is based on total borrowings to total equity and the net debt to equity ratio is based on total borrowings net of cash and cash equivalents to total equity.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) remains as one of the indispensable elements for the group's long-term growth strategy. We are fully aware that sustained growth will hinge on the well being of our staff and the implementation of necessary environmental protection measures. Being a major footwear supplier for international brand names, the Group is committed to act as a good international corporate citizen.

During the period under review, a well-trained CSR team has been in place to improve the CSR standard covering areas such as staff welfare, workplace safety, environmental protection and contributions to the communities in where the Group maintains its operations. In the first place, the CSR team has strengthened the monitoring and reporting systems facilitating the management to address quickly in improving CSR standard. Secondly, the Group has further invested to upgrade facilities in environmental protection, staff dormitories condition and workplace protective measures. Thirdly, it has been a regular agenda for the Group to organize various programs and classes promoting the welfare, health and personal development of the staff. The programs include: occupational health, staff and management communication skill, language proficiency and awareness of contagious diseases. The Group has also extended the scope to serve the wider community in the form of making donations to the local communities and encouraging staff to participate in volunteering works too.

Corporate Social Responsibility (continued)

In China, special efforts have been put in to upgrade environmental protection measures such as addition of new facilities in the wastewater treatment plants. Special devices in reducing sulphur particles have been installed to improve the air emission quality. On enhancing personal development, an innovation program in the form of day camp has been implemented to promote the staff and management communication. Dormitories have been gradually revamped to improve the living condition.

In Vietnam, classes on computer usage and Chinese language proficiency have attracted the enrollment of over 200 people. The Group also teamed up with Mario-Stopes Institute to launch a four-year program to strengthen the knowledge of female staff in gynaecology and childcare. The Group organized a volunteering team to refurbish a primary school in the nearby, which has been warmly received by the students.

In Indonesia, effective measures have been implemented in food safety in light of the prevailing avian flu. The successful launch of occupational safety measures has also lowered the occupation-related medical treatment cases. To provide a greenery environment for the workers, more trees have been planted. Finally, workers have appraised a new layout in road system with separated lane for cars and pedestrians.

Looking Forward

In the first two months of the third quarter of FY2007 (April and May of 2007), the Group's total turnover amounted to approximately US$713.8 million, an increase of 6.6% year-on-year. For the remainder of the year, the sales growth for the footwear and China retail operations will remain on track.

In tandem with the business growth, the Group will continue to expand production facilities in its three existing production bases, China, Vietnam and Indonesia. Also the Group will spearhead the investment in the China wholesale and retail operations and the contributions from these operations will become more significant.

The Group has demonstrated flexibility in production amid the current rapidly changing environment and its commitment in China wholesale and retail operations will bode well for further growth.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2007, the interests or short positions of the Company's directors, chief executives and their associates in the shares or underlying shares of the Company or its associated corporation (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 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 of Hong Kong Limited (the "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, the Company has not been notified of any relevant interests or short positions in the shares or underlying shares of the Company as at 31st March, 2007.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company or any of 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 31st March, 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%

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 98.46% 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 interest 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 share or underlying shares of the Company as at 31st March, 2007.

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, 2007.

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.

CORPORATE GOVERNANCE

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 during the six months ended 31st March, 2007, with deviation from Code provision A.4.1.

The Company has not yet adopted Code provision A.4.1. Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. 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 practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 31st March, 2007.

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, 21st June, 2007

website: www.yueyuen.com