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

Interim Report 2008

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, 2008

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2008	2007	Percentage increase
Turnover (US$'000)	2,320,180	1,904,811	21.8
Profit attributable to equity holders of the Company (US$'000)	209,311	169,585	23.4
Basic earnings per share (US cents)	12.6	10.2	23.5
Dividend per share – Interim (HK$)	0.34	0.31	9.7

* *For identification purposes only*

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") 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, 2008 with comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2008

		For the six months ended 31st March,	
		2008	**2007**
		(unaudited)	**(unaudited)**
	NOTES	*US$'000*	*US$'000*
Turnover	*3*	2,320,180	1,904,811
Cost of sales		(1,743,367)	(1,469,103)
Gross profit		576,813	435,708
Other income		86,373	57,631
Selling and distribution expenses		(154,185)	(83,041)
Administrative expenses		(195,266)	(155,349)
Other expenses		(85,296)	(64,492)
Fair value changes on derivative financial instruments	*4*	4,757	(3,654)
Finance costs		(34,255)	(23,887)
Share of results of associates		17,826	9,319
Share of results of jointly controlled entities		9,572	8,195
Profit before taxation		226,339	180,430
Income tax expense	*5*	(10,657)	(7,018)
Profit for the period	*6*	215,682	173,412
Attributable to:			
Equity holders of the Company		209,311	169,585
Minority interests		6,371	3,827
		215,682	173,412
Dividends	*7*	113,034	108,630
Earnings per share	*8*		
– Basic		US12.6 cents	US10.2 cents
– Diluted		US12.4 cents	US10.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2008

	NOTES	At 31st March, 2008 (unaudited) US$'000	At 30th September, 2007 (audited) US$'000
Non-current assets			
Investment properties	9	61,982	61,982
Property, plant and equipment	9	1,446,811	1,367,743
Deposits for acquisition of property, plant and equipment		4,822	–
Prepaid lease payments		122,540	114,285
Goodwill		190,636	190,636
Interests in associates		310,720	292,179
Amounts due from associates		5,782	2,801
Interests in jointly controlled entities		294,844	261,372
Amounts due from jointly controlled entities		124,521	93,223
Available-for-sale investments		20,624	21,744
Rental deposits and prepayments		26,735	21,797
		2,610,017	2,427,762
Current assets			
Inventories		603,736	498,691
Trade and other receivables	10	992,457	780,692
Prepaid lease payments		2,429	2,079
Taxation recoverable		510	806
Derivative financial instruments	12	108,792	3,125
Deposits placed with a financial institution		24,000	24,000
Pledged bank deposits		3,112	–
Bank balances and cash		434,478	383,617
		2,169,514	1,693,010

CONDENSED CONSOLIDATED BALANCE SHEET (continued)
At 31st March, 2008

	NOTES	At 31st March, 2008 (unaudited) US$'000	At 30th September, 2007 (audited) US$'000
Current liabilities			
Trade and other payables	*11*	702,984	622,227
Taxation payable		16,162	11,400
Derivative financial instruments	*12*	36,182	24,032
Option premium payables	*12*	60,719	–
Short-term bank borrowings	*13*	499,081	148,769
Convertible bonds	*14*	257,541	–
Bank overdrafts		6,373	5,417
		1,579,042	811,845
Net current assets		590,472	881,165
Total assets less current liabilities		3,200,489	3,308,927
Non-current liabilities			
Convertible bonds	*14*	247,880	492,135
Long-term bank borrowings	*13*	299,451	314,838
Deferred taxation		8,150	8,150
		555,481	815,123
		2,645,008	2,493,804
Capital and reserves			
Share capital	*15*	53,682	53,682
Reserves		2,505,344	2,365,696
Equity attributable to equity holders of the Company		2,559,026	2,419,378
Minority interests		85,982	74,426
Total equity		2,645,008	2,493,804

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2008

	Attributable to equity holders of the Company											
	Share capital *US$'000*	**Share premium** *US$'000*	**Investments revaluation reserve** *US$'000*	**Special reserve** *US$'000* *(note a)*	**Convertible bonds reserve** *US$'000*	**Other reserve** *US$'000* *(note b)*	**Non-distributable reserve fund** *US$'000* *(note c)*	**Translation reserve** *US$'000*	**Retained profits** *US$'000*	**Total** *US$'000*	**Minority interests** *US$'000*	**Total equity** *US$'000*
At 1st October, 2006	52,274	598,557	(10,451)	(16,688)	18,118	–	–	244	1,449,266	2,091,320	45,249	2,136,569
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	195	–	195	–	195
Fair value changes of investments	–	–	505	–	–	–	–	–	–	505	–	505
Total 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 new shares	1,408	128,465	–	–	–	–	–	–	–	129,873	–	129,873
Cost of issue new shares	–	(1,591)	–	–	–	–	–	–	–	(1,591)	–	(1,591)
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	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
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	13,412	–	13,412	1,586	14,998
Fair value changes of investments	–	–	864	–	–	–	–	–	–	864	–	864
Total income recognised directly in equity	–	–	864	–	–	–	–	13,412	–	14,276	1,586	15,862
Profit for the period	–	–	–	–	–	–	–	–	189,847	189,847	5,673	195,520
Total recognised income for the period	–	–	864	–	–	–	–	13,412	189,847	204,123	7,259	211,382
Acquisition of business	–	–	–	–	–	–	–	–	–	–	4,883	4,883
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	2,389	2,389
Dividends	–	–	–	–	–	–	–	–	(66,002)	(66,002)	–	(66,002)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(653)	(653)
Transfer	–	–	–	–	–	–	6,454	–	(6,454)	–	–	–

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 31st March, 2008

	Attributable to equity holders of the Company											
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Convertible bonds reserve	Other reserve	Non-distributable reserve fund	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*	*US$'000*	*US$'000*
				(note a)		*(note b)*	*(note c)*					
At 30th September, 2007	53,682	725,431	(9,082)	(16,688)	18,118	–	6,454	13,851	1,627,612	2,419,378	74,426	2,493,804
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	22,935	–	22,935	5,574	28,509
Fair value changes of investments	–	–	(4,958)	–	–	–	–	–	–	(4,958)	–	(4,958)
Total income (expense) recognised directly in equity	–	–	(4,958)	–	–	–	–	22,935	–	17,977	5,574	23,551
Profit for the period	–	–	–	–	–	–	–	–	209,311	209,311	6,371	215,682
Total recognised income (expense) for the period	–	–	(4,958)	–	–	–	–	22,935	209,311	227,288	11,945	239,233
Issue of call option *(note b)*	–	–	–	–	–	25,394	–	–	–	25,394	–	25,394
Contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	660	660
Dividends	–	–	–	–	–	–	–	–	(113,034)	(113,034)	–	(113,034)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(1,049)	(1,049)
Transfer	–	–	–	–	–	–	2,680	–	(2,680)	–	–	–
At 31st March, 2008	53,682	725,431	(14,040)	(16,688)	18,118	25,394	9,134	36,786	1,721,209	2,559,026	85,982	2,645,008

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(continued)
For the six months ended 31st March, 2008

Notes:

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

(b) On 10th March, 2008, the Company entered into a derivative contract with an independent third party (the "USD Call Option Holder") for a physically settled call option under which the USD Call Option Holder has the right from time to time to require the Company to issue 78,504,672 ordinary shares of HK$0.25 each in the Company at an agreed price of approximately US$3.435 per share (the "USD Call Option"), and the Company receives a premium in cash of approximately US$25.4 million. The USD Call Option Holder can exercise, in whole or in part, at any time on or after 14th March, 2008 up to 7th November, 2011. On the exercise of the USD Call Option by the USD Call Option Holder, in whole, the Company will issue 78,504,672 ordinary shares for a total proceeds of approximately US$269.6 million.

At 31st March, 2008, the USD Call Option with 78,504,672 ordinary shares of the Company remained outstanding.

The USD Call Option is recognised as equity and is presented in reserve as "other reserve".

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March, 2008

	For the six months ended 31st March, 2008 (unaudited) *US$'000*	2007 (unaudited) *US$'000*
Net cash from operating activities	63,217	123,145
Net cash used in investing activities		
Purchase of property, plant and equipment	(156,246)	(118,730)
Advance to jointly controlled entities	(43,406)	(1,020)
Premium paid for a call option	(27,994)	–
Investments in jointly controlled entities	(22,664)	(15,019)
Prepaid land leases	(7,431)	(1,946)
Deposits for acquisition of property, plant and equipment	(4,822)	–
Investments in associates	(342)	(6,411)
Repayment from jointly controlled entities	12,109	–
Proceeds from disposal of property, plant and equipment	8,999	8,234
Dividends received from jointly controlled entities	7,125	4,023
Dividends received from associates	3,753	3,544
Other investing cash flows	(2,118)	1,537
	(233,037)	(125,788)
Net cash from financing activities		
Bank borrowings raised	1,509,065	898,201
Proceeds from issue of a call option	25,394	–
Issuance of convertible bonds	–	266,619
Net proceed from placing new shares	–	128,282
Contribution from minority shareholders of subsidiaries	–	15,794
Repayment of bank borrowings	(1,186,558)	(1,016,050)
Dividends paid	(113,034)	(108,630)
Finance cost	(20,497)	(12,556)
Dividends paid to minority shareholders of subsidiaries	(1,049)	(1,706)
	213,321	169,954
Net increase in cash and cash equivalents	43,501	167,311
Effect of foreign exchange rate changes	6,404	–
Cash and cash equivalents brought forward	402,200	234,506
Cash and cash equivalents carried forward	452,105	401,817
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	434,478	377,817
Bank overdrafts	(6,373)	–
Deposits placed with a financial institution	24,000	24,000
	452,105	401,817

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" 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.

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, 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments, and interpretations (the "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st October, 2007.

The adoption of these new HKFRSs has had no material effect on how the results and financial position of the Group 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 12	Service Concession Arrangements[3]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after 1st January, 2009
[2] Effective for accounting periods beginning on or after 1st July, 2009
[3] Effective for accounting periods beginning on or after 1st January, 2008
[4] Effective for accounting periods beginning on or after 1st July, 2008

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. TURNOVER AND SEGMENTAL INFORMATION

Geographical segments

The Group reports its primary segment information based on geographical location of its customers, irrespective of the origin of the goods and an analysis of the Group's turnover and contribution and operating result is presented below:

For the six months ended 31st March, 2008

	United States of America	**Europe**	**PRC**	**Rest of Asia**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
TURNOVER	724,503	561,302	558,134	317,956	158,285	2,320,180
RESULTS						
Segment results	76,205	59,342	53,417	25,701	16,692	231,357
Other income						86,373
Unallocated expenses						(89,291)
Fair value changes on derivative financial instruments						4,757
Finance costs						(34,255)
Share of results of associates						17,826
Share of results of jointly controlled entities						9,572
Profit before taxation						226,339
Income tax expense						(10,657)
Profit for the period						215,682

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

For the six months ended 31st March, 2007

	United States of America *US$'000*	Europe *US$'000*	PRC *US$'000*	Rest of Asia *US$'000*	Others *US$'000*	Total *US$'000*
TURNOVER	681,220	467,486	346,362	266,766	142,977	1,904,811
RESULTS						
Segment results	84,649	58,183	24,486	20,612	17,711	205,641
Other income						57,631
Unallocated expenses						(72,815)
Fair value changes on derivative financial instruments						(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

Business segments

For management purposes, the Group is currently organised into three divisions in (i) manufacturing and sales of footwear products, (ii) retailing business and (iii) others, including property leasing management business. These divisions are the basis on which the Group reports its secondary segment information. The following table provides an analysis of the Group's turnover by business segments:

	For the six months ended 31st March, 2008 *US$'000*	2007 *US$'000*
Manufacturing and sales of footwear products	1,948,693	1,700,604
Retailing business	370,586	204,207
Others	901	–
	2,320,180	1,904,811

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

	For the six months ended 31st March, 2008	2007
	US$'000	*US$'000*
Fair value changes on a HKD Call Option *(note 12a)*	3,625	–
Fair value changes on call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities *(note 12b)*	8,011	–
Fair value changes on derivatives embedded in convertible bonds *(note 14)*	(7,557)	(4,031)
Fair value changes on other derivative financial instruments	678	377
	4,757	(3,654)

5. INCOME TAX EXPENSE

	For the six months ended 31st March, 2008	2007
	US$'000	*US$'000*
Tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	485	50
PRC Enterprise Income Tax	8,193	6,024
Overseas taxation	1,979	944
	10,657	7,018

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)

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single income tax rate of 25% for all the enterprises from 1st January, 2008, except for the followings:

(i) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. The tax holidays and concessions will expire between 2008 and 2010.

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

(iii) Pursuant to Income Tax Law of the PRC, Yusheng (Kunshan) Sports Goods Company Limited, a principal subsidiary of the Company operating in an approved economic and technology development zone of the PRC, is entitled to a preferential income tax rate of 15% and is exempted from 3% local income tax, when the annual revenue from manufacturing business amounted to over 50% of its total revenue in respective fiscal years. A five year-transitional period with a progressive tax rate from 15% to 25% has been granted from 1st January, 2008. The preferential rate is subjected to further annual confirmation to be obtained from the local tax bureau.

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

From March 2004 to March 2007, the Hong Kong Inland Revenue Department ("IRD") issued protective profits tax assessments, in aggregate, of approximately HK$825,433,000 (equivalent to approximately US$106,089,000) relating to the years of assessment from 1997/98 to 2000/01, that is, for the financial years ended 30th September, 1997, 1998, 1999 and 2000, 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$246,526,000 (equivalent to approximately US$31,685,000) for those years of assessment. These TRCs were purchased by the subsidiaries of the Group.

5. INCOME TAX EXPENSE (continued)

In March 2008, IRD further issued protective profits tax assessments of approximately HK$226,510,000 (equivalent to approximately US$29,112,000) relating to the year of assessment 2001/2002, that is, for the financial year ended 30th September, 2001. The IRD agreed to hold over the tax claim subject to the purchasing of TRC of HK$68,000,000 (equivalent to approximately US$8,740,000). The TRC will be purchased by the Group by the end of June, 2008.

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

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

6. PROFIT FOR THE PERIOD

	For the six months ended 31st March,	
	2008	**2007**
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	71,803	65,857
Release of prepaid lease payment	1,150	970
Research and development expenditure	61,809	53,333
Impairment loss recognised on trade receivables	731	628
Allowance for inventories	9,583	4,837

7. DIVIDENDS

	For the six months ended 31st March, 2008	2007
	US$'000	*US$'000*
2007 Final dividend of HK$0.53 per share (2007: 2006 Final dividend of HK$0.51 per share) *(note (i))*	113,034	108,630
2008 Interim dividend of HK$0.34 per share (2007: 2007 Interim dividend of HK$0.31 per share) *(note (ii))*	72,698	66,002

Notes:

(i) The final dividends for each of the years ended 30th September, 2007 and 2006 of US$113,034,000 and US$108,630,000, 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 20th June, 2008, the directors of the Company declared an interim dividend of HK$0.34 per share for the year ending 30th September, 2008 (2007: interim dividend of HK$0.31 per share). The interim dividend will be payable on 18th July, 2008 to the shareholders on the register of members of the Company on 7th July, 2008.

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,	
	2008	**2007**
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to equity holders of the Company for the purpose of basic earnings per share	209,311	169,585
Effect of dilutive potential ordinary shares:		
Finance costs on CB 2008 *(as defined in note 14)*	6,749	6,400
Profit for the period attributable to equity holders of the Company for the purpose of diluted earnings per share	216,060	175,985

	For the six months ended 31st March,	
	2008	**2007**
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,663,628,986	1,658,324,810
Effect of dilutive potential ordinary shares:		
USD Call Option	9,489,576	N/A
CB 2008	65,741,545	65,741,545
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,738,860,107	1,724,066,355

The computation of diluted earnings per share for the six months ended 31st March, 2007 and 2008 did not assume the conversion of the outstanding convertible bonds of CB 2011 (as defined in note 14) 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, 2008 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$156,246,000 (for the six months ended 31st March, 2007: US$118,730,000).

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$638,059,000 (30th September, 2007: US$497,269,000) and an aged analysis is presented as follows:

	At 31st March, 2008 *US$'000*	**At 30th September, 2007** *US$'000*
0 to 30 days	375,736	349,321
31 to 90 days	238,629	137,794
Over 90 days	23,694	10,154
	638,059	497,269

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$339,129,000 (30th September, 2007: US$306,277,000) and an aged analysis is presented as follows:

	At 31st March, 2008 *US$'000*	**At 30th September, 2007** *US$'000*
0 to 30 days	225,593	205,783
31 to 90 days	99,636	74,385
Over 90 days	13,900	26,109
	339,129	306,277

12. DERIVATIVE FINANCIAL INSTRUMENTS AND OPTION PREMIUM PAYABLES

	At 31st March, 2008		**At 30th September, 2007**	
	Assets *US$'000*	**Liabilities** *US$'000*	**Assets** *US$'000*	**Liabilities** *US$'000*
Derivatives:				
HKD Call Option *(note a)*	31,619	–	–	–
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities *(note b)*	68,730	–	–	–
Embedded derivatives in convertible bonds *(note 14)*	–	31,308	–	23,798
Foreign currency forward contracts	8,443	4,874	3,125	234
	108,792	36,182	3,125	24,032
Financial liabilities:				
Option premium payables *(note b)*	–	60,719	–	–

12. DERIVATIVE FINANCIAL INSTRUMENTS AND OPTION PREMIUM PAYABLES (continued)

Notes:

(a) HKD Call Option

On 10th March, 2008, the Company entered into a derivative contract with an independent third party (the "HKD Call Option Issuer") to purchase the cash-settled call option for the notional amount of approximately HK$2,100 million, under which the Company has the right, but not the obligation, from time to time on or after 14th March, 2008 up to 7th November, 2011, to settle in United States Dollar ("USD") the net difference between the market value of one share of the Company and the agreed price of HK$26.75 per Yue Yuen share for each option exercised ("HKD Call Option"). The total number of HKD Call Option that can be exercised by the Company is equivalent to 78,504,672 ordinary shares of HK$0.25 each in the Company. The Company paid a premium of US$27,994,000 for the HKD Call Option.

The HKD Call Option is not an option to acquire or dispose of shares of the Company but a financial arrangement in which one party may be required to make a payment to the other. The option will be automatically exercised, if the share price of the Company rises and remains above certain agreed levels for 30 consecutive days. In such circumstance, the Company will automatically settle in USD the net difference between the market value of one share of the Company and the agreed price of HK$26.75 per Yue Yuen share for all the entirety of outstanding notional of the HKD Call Option.

The Company may choose, or may be required by the HKD Call Option Issuer, in connection with the HKD Call Option, to repurchase the shares of the Company, subject to the restrictions in the Listing Rulers and the Hong Kong Code on Share Repurchases and any such repurchase will be made pursuant to the mandate to repurchase up to 166,362,898 shares of the Company granted to the directors of the Company at its annual general meeting on 3rd March, 2008, on the exercise of the HKD Call option by the Company.

At the issue of the HKD Call Option, the initial premium paid of US$27,994,000 was recognised as derivative financial assets. At the balance sheet date, the HKD Call Option was fair valued by the HKD Call Option Issuer at approximately US$31,619,000. The change in fair value of approximately US$3,625,000 has been credited to the condensed consolidated income statement for the six months ended 31st March, 2008.

The inputs used in the Monte-Carlo Simulation adopted by the management in determining the fair values at the respective dates were as follows:

	At date of issue	**At 31st March, 2008**
Share price	HK$23.20	HK$24.40
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.2%	3.2%
Volatility	48%	51%

12. DERIVATIVE FINANCIAL INSTRUMENTS AND OPTION PREMIUM PAYABLES (continued)

Notes: (continued)

(b) Call Options and Option Premium Payables

During the period, subsidiaries of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a subsidiary of the Company, entered into call option agreements with the shareholders of certain associates, jointly controlled entities and subsidiaries (the "Relevant Partners"), other than the Group pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Option Premium Payables"), has the right (but not the obligation) exercisable solely at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the relevant associates, jointly controlled entities and subsidiaries (the "Relevant Companies") not held by the Group (the "Call Options").

The Call Options are exercisable after the end of each profit evaluation period within five years commencing from the expiry of the first six months after dealing in the shares of Pou Sheng on the Stock Exchange commences. Each of the Relevant Partners has agreed not to transfer or dispose of its equity interest in the Relevant Companies during the Call Options exercisable period without the Group's prior written consent.

Pursuant to the Call Options agreements, the consideration for acquiring the Relevant Equity Interests is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation period and the prevailing price earnings ratio of Pou Sheng at the time the Call Options are exercised and after certain discount agreed between Pou Sheng and the Relevant Partners. The consideration is to be settled by the issue of shares in Pou Sheng at market price on the date the Call Options are exercised and after deducting the Option Premium Payables paid.

The Option Premium Payables are to be determined with reference to 15% of the agreed estimated consideration for the acquisition of the Relevant Equity Interests at the date of the Call Options agreement. The Option Premium Payables are to be settled by the issue of the shares in Pou Sheng and the numbers of the shares to be issued is to be determined with reference to the offering price upon the global offering of the Pou Sheng's shares on the Stock Exchange. Pursuant to the supplemental agreements entered into by certain of the Relevant Partners, some of these partners have agreed to accept cash in lieu of the shares for part or in some cases, all of the Option Premium Payables that Pou Sheng agreed with each of them. The Option Premium Payables paid will not be refundable if the Group does not exercise the Call Options before expiry of the exercisable period.

12. DERIVATIVE FINANCIAL INSTRUMENTS AND OPTION PREMIUM PAYABLES (continued)

Notes: (continued)

(b) Call Options and Option Premium Payables (continued)

The breakdown of the fair value of the Call Options and the financial liabilities related to the Option Premium Payables are as follows:

	Call Options			
	Subsidiaries *US$'000*	**Associates** *US$'000*	**Jointly-controlled entities** *US$'000*	**Total** *US$'000*
Derivative assets:				
At initial recognition	540	13,053	50,189	63,782
At 31st March, 2008	476	15,643	52,611	68,730

	Option Premium Payables			
	Subsidiaries *US$'000*	**Associates** *US$'000*	**Jointly-controlled entities** *US$'000*	**Total** *US$'000*
Financial liabilities:				
At initial recognition	540	13,053	50,189	63,782
At 31st March, 2008	536	12,497	47,686	60,719

The value of each of (i) the Call Options and (ii) the Option Premium Payables were valued by Savills Valuation and Professional Services Limited, an independent valuer, at the issue date and at 31st March, 2008 using (i) the Binomial Model and (ii) estimated earnings of the Relevant Companies and estimated price earning ratio of Pou Sheng respectively.

12. DERIVATIVE FINANCIAL INSTRUMENTS AND OPTION PREMIUM PAYABLES (continued)

Notes: (continued)

(b) Call Options and Option Premium Payables (continued)

The inputs into the Binomial Model were as follows:

	At date of issue	**At 31st March, 2008**
Derivative assets – Call Options:		
Expected price earning ratio	30	28
Expected volatility – Pou Sheng	44%	44%
Expected volatility – Profit of the Relevant Companies	28%	28%
Risk free rate	4.13%	3.85%
Expected exercise period	5 years	5 years
Expected dividend yield	Nil	Nil
Financial liabilities – Option Premium Payables:		
Expected price earning ratio	30	28
Risk free rate	4.13%	3.90%
Expected IPO date	31st March, 2008	31st May, 2008

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of daily share average prices of comparable companies with similar business over the past years immediately preceding the grant dates. The expected exercise period of the Call Options used in the model represents management's best estimate, taking into account of non-transferability, exercise restrictions and behavioral consideration.

13. BANK BORROWINGS

During the period, the Group obtained bank borrowings for a sum of US$1,509 million. The borrowings bear interest at market rates. The proceeds were used to repay existing banking borrowings for a sum of US$1,187 million and finance the daily operation of the Group.

14. CONVERTIBLE BONDS

(i) Convertible bonds

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

On 23rd December, 2003, the Company issued US$300 million of CB 2008 which are listed on the Luxembourg Stock Exchange. The CB 2008 are convertible, at the option of their holders, into ordinary shares of HK$0.25 each of the Company at an initial conversion price of US$3.52 (i.e. HK$27.33 per share with a fixed rate of exchange applicable on conversion of the CB 2008 of HK$7.7622 to US$1.00), subject to anti-dilutive adjustments, at any time on or after 22nd January, 2004 up to and including the close of business on the business day seven days prior to 23rd December, 2008.

On 12th January, 2004, notice was given to the Company by the arranger of the CB 2008 to exercise in part of the over-allotment option in the aggregate principal amount of US$17 million (out of the possible maximum of US$50 million).

The CB 2008 do not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2008 will be redeemed by the Company at 98.76 per cent of their principal amount on 23rd December, 2008. All or some of 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 was at least 120 per cent of the conversion price for each of any 20 trading days during a 30 consecutive trading day period or (ii) at any time providing at least 90% of the principal amount of the CB 2008 has been converted, redeemed or purchased and cancelled and (in either case) prior to 16th December, 2008 at an early redemption amount as stated in the agreement of CB 2008.

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

As a result, the Exercised Bonds with 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 (continued)

(i) Convertible bonds (continued)

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

At 31st March, 2008, CB 2008 with a carrying amount of US$257,541,000 (principal of US$231,470,000) remained outstanding.

At 31st March, 2008 and 30th September, 2007, there was no quoted market value of the CB 2008.

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

On 20th October, 2006, the Company entered into a bond subscription agreement with an arranger in connection with the issue of 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) which are listed on the Stock Exchange of Hong Kong Limited. The Company has granted to the arranger an option to require the Company to issue a further HK$300 million (equivalent to approximately US$39 million) CB 2011 on the same terms. The net proceeds, after arrangement fee of US$3 million, from these transactions were used for general working capital, capital expenditure, business expansion and repayment of existing debt.

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

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

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

14. CONVERTIBLE BONDS (continued)

(i) Convertible bonds (continued)

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

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

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

At 31st March, 2008, CB 2011 with a carrying amount of US$247,880,000 (principal amount of HK$2,100 million, equivalent to approximately US$270 million) remained outstanding.

At 31st March, 2008, the quoted market value of the CB 2011 is US$297,753,000 (30th September, 2007: US$281,346,000).

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

	For the six months ended 31st March,			
	2008			2007
	CB 2008	CB 2011	Total	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of the period	250,792	241,343	492,135	237,837
Issue of CB 2011	–	–	–	228,868
Effective interest expense	6,749	7,009	13,758	11,331
Exchange difference	–	(472)	(472)	(781)
At the end of the period	257,541	247,880	505,421	477,255
Less: amount included in current liabilities	(257,541)	–	(257,541)	–
Amount due after one year	–	247,880	247,880	477,255

14. CONVERTIBLE BONDS (continued)

(ii) Derivative financial instruments

	For the six months ended 31st March, 2008	2007
	US$'000	*US$'000*
Derivatives embedded in the CB 2011:		
At the beginning of the period	23,798	–
Issue of CB 2011	–	37,751
Exchange realignment	(47)	–
Changes in fair value	7,557	4,031
At the end of the period	31,308	41,782

The derivatives embedded in CB 2011 were fair valued by the arranger at the balance sheet dates. The change in fair value of approximately US$7,557,000 have been charged to the condensed consolidated income statement for the six months ended 31st March, 2008.

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

	At 31st March, 2008	At 30th September, 2007
Share price	HK$24.40	HK$23.25
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.2%	3.2%
Volatility	51%	31%

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2007 and 31st March, 2008	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 30th September, 2007 and 31st March, 2008	1,663,628,986	415,907
		US$'000
Shown in the condensed consolidated financial statements as at 30th September, 2007 and 31st March, 2008		53,682

16. CONTINGENCIES AND COMMITMENTS

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

(I) Contingencies

	At 31st March, 2008 *US$'000*	At 30th September, 2007 *US$'000*
Guarantees given to banks in respect of banking facilities utilised by:		
– associates	12,090	6,455
– jointly controlled entities	59,650	66,020
	71,740	72,475

(II) Commitments

	At 31st March, 2008 *US$'000*	At 30th September, 2007 *US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	36,081	22,164
– acquisition of property, plant and equipment	2,206	10,872
	38,287	33,036
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– investment in associates	5,439	5,414
– investment in jointly controlled entities	1,911	6,875
– investment in available-for-sales investments	7,344	6,983
	14,694	19,272
	52,981	52,308

16. CONTINGENCIES AND COMMITMENTS (continued)

(II) Commitments (continued)

Share Swap Arrangement

On 8th January, 2008, the Group entered into a share swap arrangement ("the Share Swap Arrangement") with the minority shareholder of a subsidiary of the Group in which the Group has a 90% equity interest. Pursuant to this arrangement, the Group has the right of contractual to acquire the remaining 10% equity interest in the subsidiary on the condition of the listing of Pou Sheng's shares on the Stock Exchange (the "Listing") by issuing shares in Pou Sheng as consideration. The consideration is determined based on the pre-determined formula involving a number of variables at the date of the agreement and it shall be settled by the issue of shares in Pou Sheng and the number of shares to be issued is to be determined with reference to the price upon the global offering. The Share Swap Arrangement was completed on 5th June, 2008.

17. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2008, the following significant events took place:

(a) On 9th April, 2008, the Group entered into three additional call option agreements with the shareholders of the Group's subsidiaries and a jointly controlled entity. Details of these arrangements are similar to those set out in note 12b.

(b) On 5th June, 2008, Pou Sheng issued 94,978,000 ordinary shares for settlement of the financial liabilities related to the Call Option Premium and Share Swap Arrangement (as defined in note 16), and the remaining consideration of US$17,315,000 are to be settled by cash.

(c) On 6th June, 2008, Pou Sheng's shares were listed on the Main Board of the Stock Exchange. Details of this spin-off are included in the circular of the Company dated 6th May, 2008 and the announcement of the Company dated 30th May, 2008.

INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.34 per share for the year ending 30th September, 2008 to shareholders whose names appear on the Register of Members on Monday, 7th July, 2008. The interim dividend will be paid on Friday, 18th July, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 7th July, 2008 to Thursday, 10th July, 2008, 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, Tricor 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, 4th July, 2008.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover and profit attributable to equity holders of the Company increased year-on-year by 21.8% to US$2,320.2 million and 23.4% to US$209.3 million, respectively.

Operations

During the period under review, the Group recorded sales growth as a result of the ongoing consolidation in the footwear manufacturing industry and the solid performance of our Greater China wholesale and retail operations. The total volume of shoes produced rose by 15.1% year-on-year to 127.8 million pairs, thanks to the support of our existing customers and orders from new customers. To supplement the business growth, the Group has added 32 new production lines over the last six months bringing the total number of lines to 430 by the end of March 2008. The Group relentlessly looks for change that improves production efficiency and further enhance our relationships with customers to manage the challenges coming from rising input prices.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Operations (continued)

The sales contributions from the wholesale and retail operations in the Greater China region continued to increase and accounted for about 16% of the Group's total turnover for the period under review. The turnover from the wholesale and retail operations jumped 81.5% year-on-year to US$370.6 million, which was mainly derived from the Group's 1,694 directly operated retail stores/counters, as well as the wholesale operations in the Greater China region. In addition, the Group's associated companies operated about 2,187 directly operated retail stores/counters. The Group has accelerated investment in the operations through organic growth and strategic acquisitions. As a result, the total number of directly operated retail outlets in the Greater China under the Group and its affiliates stood at about 3,881 by the end of March 2008.

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

Total Turnover by Product Category
Six months ended 31st March

	2008		**2007**		**y-o-y**
	US$ million	*%*	*US$ million*	*%*	*% change*
Athletic shoes	1,331.6	57.4	1,099.7	57.8	21.1
Casual/Outdoor shoes	326.5	14.1	331.8	17.4	(1.6)
Sports sandals	37.9	1.6	42.3	2.2	(10.4)
Retail sales – Shoes and Apparel	370.6	16.0	204.2	10.7	81.5
Soles, Components & Others	253.6	10.9	226.8	11.9	11.8
Total Turnover	**2,320.2**	**100.0**	**1,904.8**	**100.0**	**21.8**

Operations (continued)

Total Turnover by Geographical Market

Six months ended 31st March

	2008		2007		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
U.S.A.	724.5	31.2	681.2	35.8	6.4
Canada	37.4	1.6	34.6	1.8	8.1
Europe	561.3	24.2	467.5	24.5	20.1
South America	64.5	2.8	52.6	2.8	22.6
Asia	876.1	37.8	613.1	32.2	42.9
Other Areas	56.4	2.4	55.8	2.9	1.1
Total Turnover	**2,320.2**	**100.0**	**1,904.8**	**100.0**	**21.8**

Footwear manufacturing remained the Group's major operation accounting for 73.1% of total sales, whereas soles, components and others accounted for 10.9% of total sales. Retail sales accounted for 16% of total sales, compared to 10.7% last year. With the surge in retail sales, Asia has become the largest market for the Group and the turnover distribution among three major markets, the USA, Europe and Asia, has become more balanced. Now sales in Asia, Europe and South America combined represent more than 50% of the Group's turnover.

Financial Position

The Group maintains a stable financial position. As at 31st March, 2008, the Group had cash and cash equivalents of US$461.5 million (30th September, 2007: US$408 million) and total borrowings of US$1,310.3 million including the convertible bonds (30th September, 2007: US$961 million). The increase was mainly due to the expansion of production facilities and the retail business. This represents a gearing ratio of 50% (30th September, 2007: 39%) and a net debt to equity ratio of approximately 32% (30th September, 2007: 22%). 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. Our international brand name customers are constantly reminded by various constituencies of the need to meet CSR obligations for the benefit of the global society. These constituencies have asked that our customers constantly attain higher levels of achievement in fulfilling their CSR obligations. Since we are a faithful partner to our customers, we also take an active role in meeting CSR obligations and provide them with the necessary support for their actions. We stand together with them to be recognized as good international corporate citizens.

For the past half year, we have continued to actively deploy resources with our CSR team so that further levels of progress can be made for the CSR standards involving areas such as staff welfare, workplace safety, environmental protection and contributions to the local communities where the Group maintains its operations. The CSR team continues to search for ways to enhance the monitoring and reporting systems that give management the information needed to improve CSR standards. The Group continues to channel resources to upgrade facilities involving environmental protection, staff dormitories and workplace protection. The Group periodically runs programs and classes promoting the health, personal development and welfare of the staff. These programs include: awareness of contagious diseases, language proficiency, occupational health, and staff and management communication skills. The Group undertakes donations to the local communities and encourages staff to participate in volunteer programs.

In China, the Group has committed resources to help those Chinese citizens affected by the May 12th earthquake that occurred in the Sichuan Province. It donated RMB13.5 million to aid those families made homeless by the earthquake. The Group has been very fortunate in that only minor damages were sustained by some retail operations and that no manufacturing operations were impacted. The Group has also been actively assisting those employees whose families have been hurt by the earthquake. Some of the other key activities during the period were: 1) the Group assisted its strategic customers in educating various component and raw material suppliers to bring their factory management practices in line with the customers' CSR obligations; 2) it invested RMB15 million to upgrade existing fire safety equipment; and 3) the Group built a new 4,000 square metre fully equiped employee recreation centre as part of its ongoing labour relations program.

Corporate Social Responsibility (continued)

In Vietnam, the Group has remained vigilant of the macro economic factors affecting the well being of employees. It has taken action to understand the arising challenges impacting the employees. In certain instances, measures have been taken to assist employees in avoiding the price volatility observed with basic food staples. The Group has also been involved in various activities to enhance relations with employees such as participating in labour union elections, establishing an insurance scheme and provided transportation assistance during peak times of congestion.

In Indonesia, the Group has participated in various activities to maintain good labour relations. It has assisted with the hosting of religious festivals and in certain occasions senior management have also had a direct participation. The Group has also established on a scholarship plan for the children of selected employees. During certain peak congestion times it has also provided transportation assistance to workers.

Looking Forward

In the first two months of the third quarter of FY2008 (April and May of 2008), the Group's total turnover amounted to approximately US$875.2 million, an increase of 22.6% year-on-year. Sales growth for the footwear manufacturing and China retail operations should continue to benefit from consolidation in manufacturing activities and consumer spending in China.

Given this sales growth, the Group will continue to expand production facilities in its three existing production bases, China, Vietnam and Indonesia. Effective 6th June, 2008, the Group has listed on The Stock Exchange of Hong Kong Limited its Greater China wholesale and retail operations under the name of Pou Sheng International (Holdings) Limited (stock code: 3813 HK). These operations are expected to perform well given the strength of consumption in China.

The Group continues to satisfy the needs of its brand name customers despite the challenging environment. Its investment in China wholesale and retail operations should continue to be rewarding in the times ahead.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2008, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange 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 position in the shares or underlying shares of the Company as at 31st March, 2008.

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, 2008, 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%
Merrill Lynch & Co. Inc.	*(d)*	99,315,703	5.97%
		109,341,792*(e)*	6.57%

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.

SUBSTANTIAL SHAREHOLDERS (continued)

Long Position (continued)

Notes: (continued)

(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.

(d) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through various subsidiaries. Princeton Services, Inc., Princeton Administrators, L.P. Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P. which are all 99% owned by Merrill Lynch & Co. Inc. except that Princeton Services, Inc. which is wholly-owned by Merrill Lynch Group, Inc. and that Merrill Lynch Group, Inc. which is wholly-owned by Merrill Lynch & Co. Inc., are also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International through six wholly-owned subsidiaries, namely Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings.

SUBSTANTIAL SHAREHOLDERS (continued)

Long Position (continued)

(e) Short position

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31st March, 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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, 2008.

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 Practice (the "Code") set out in Appendix 14 to the Listing Rules throughout the six months ended 31st March, 2008, 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, 2008.

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, 20th June, 2008

website: www.yueyuen.com