



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,		Percentage increase (decrease)
	2008	2007	
Turnover (<i>US\$'000</i>)	2,320,180	1,904,811	21.8
Profit attributable to equity holders of the Company (<i>US\$'000</i>)	209,311	169,585	23.4
Basic earnings per share (<i>US cents</i>)	12.6	10.2	23.5
Dividend per share – Interim (<i>HK\$</i>)	0.34	0.31	9.7

* for identification purposes 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, 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)
	<u>NOTES</u>	US\$'000	US\$'000
Turnover	3	2,320,180	1,904,811
Cost of sales		<u>(1,743,367)</u>	<u>(1,469,103)</u>
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		<u>9,572</u>	<u>8,195</u>
Profit before taxation		226,339	180,430
Income tax expense	5	<u>(10,657)</u>	<u>(7,018)</u>
Profit for the period	6	<u>215,682</u>	<u>173,412</u>
Attributable to:			
Equity holders of the Company		209,311	169,585
Minority interests		<u>6,371</u>	<u>3,827</u>
		<u>215,682</u>	<u>173,412</u>
Dividends	7	<u>113,034</u>	<u>108,630</u>
Earnings per share	8		
– Basic		<u>US12.6 cents</u>	<u>US10.2 cents</u>
– Diluted		<u>US12.4 cents</u>	<u>US10.2 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2008

	<u>NOTES</u>	At 31st March, 2008 (unaudited) US\$'000	At 30th September, 2007 (audited) US\$'000
Non-current assets			
Investment properties		61,982	61,982
Property, plant and equipment		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
		<u>2,610,017</u>	<u>2,427,762</u>
Current assets			
Inventories		603,736	498,691
Trade and other receivables	9	992,457	780,692
Prepaid lease payments		2,429	2,079
Taxation recoverable		510	806
Derivative financial instruments		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
		<u>2,169,514</u>	<u>1,693,010</u>
Current liabilities			
Trade and other payables	10	702,984	622,227
Taxation payable		16,162	11,400
Derivative financial instruments		36,182	24,032
Option premium payables		60,719	–
Short-term bank borrowings		499,081	148,769
Convertible bonds		257,541	–
Bank overdrafts		6,373	5,417
		<u>1,579,042</u>	<u>811,845</u>
Net current assets		<u>590,472</u>	<u>881,165</u>
Total assets less current liabilities		<u>3,200,489</u>	<u>3,308,927</u>

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

	At 31st March, 2008 (unaudited) <i>US\$'000</i>	At 30th September, 2007 (audited) <i>US\$'000</i>
Non-current liabilities		
Convertible bonds	247,880	492,135
Long-term bank borrowings	299,451	314,838
Deferred taxation	8,150	8,150
	<hr/>	<hr/>
	555,481	815,123
	<hr/>	<hr/>
	2,645,008	2,493,804
	<hr/>	<hr/>
Capital and reserves		
Share capital	53,682	53,682
Reserves	2,505,344	2,365,696
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Equity attributable to equity holders of the Company	2,559,026	2,419,378
Minority interests	85,982	74,426
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Total equity	2,645,008	2,493,804
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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 revalued amounts or fair values, 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, 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 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

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 <i>US\$'000</i>	Europe <i>US\$'000</i>	PRC <i>US\$'000</i>	Rest of Asia <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
TURNOVER	<u>724,503</u>	<u>561,302</u>	<u>558,134</u>	<u>317,956</u>	<u>158,285</u>	<u>2,320,180</u>
RESULTS						
Segment results	<u>76,205</u>	<u>59,342</u>	<u>53,417</u>	<u>25,701</u>	<u>16,692</u>	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						<u>9,572</u>
Profit before taxation						226,339
Income tax expense						<u>(10,657)</u>
Profit for the period						<u>215,682</u>

For the six months ended 31st March, 2007

	United States of America <i>US\$'000</i>	Europe <i>US\$'000</i>	PRC <i>US\$'000</i>	Rest of Asia <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
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 <i>US\$'000</i>	2007 <i>US\$'000</i>
Manufacturing and sales of footwear products	1,948,693	1,700,604
Retailing business	370,586	204,207
Others	901	–
	<u>2,320,180</u>	<u>1,904,811</u>

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

5. INCOME TAX EXPENSE

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

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.

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.

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
	<i>US\$’000</i>	<i>US\$’000</i>
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	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	<u>65,741,545</u>	<u>65,741,545</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,738,860,107</u>	<u>1,724,066,355</u>

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 of the Company since their exercise would result in an increase in earnings per share.

9. 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	At 30th September, 2007
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	375,736	349,321
31 to 90 days	238,629	137,794
Over 90 days	<u>23,694</u>	<u>10,154</u>
	<u>638,059</u>	<u>497,269</u>

10. 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	At 30th September, 2007
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	225,593	205,783
31 to 90 days	99,636	74,385
Over 90 days	<u>13,900</u>	<u>26,109</u>
	<u>339,129</u>	<u>306,277</u>

11. CONTINGENCIES

	At 31st March, 2008	At 30th September, 2007
	US\$'000	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
	<hr/>	<hr/>
	71,740	72,475
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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.

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 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 % change
	US\$ million	%	US\$ million	%	
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

Total Turnover by Geographical Market
Six months ended 31st March

	2008		2007		y-o-y % change
	US\$ million	%	US\$ million	%	
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 equipped employee recreation centre as part of its ongoing labour relations program.

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.

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.

As at the date of this announcement, 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