裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Stock Code：551

Interim Report 2009

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, 2009

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2009	2008	Percentage increase
Turnover *(US$'000)*	2,545,313	2,320,180	9.7
Profit attributable to equity holders of the Company *(US$'000)*	217,685	209,311	4.0
Basic earnings per share *(US cents)*	13.2	12.6	4.8
Dividend per share – Interim *(HK$)*	0.34	0.34	–

* *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, 2009 with comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2009

	Notes	For the six months ended 31st March, 2009 (unaudited) US$'000	2008 (unaudited) US$'000
Turnover	3	2,545,313	2,320,180
Cost of sales		(1,899,710)	(1,743,367)
Gross profit		645,603	576,813
Other income		68,809	86,373
Selling and distribution expenses		(200,352)	(154,185)
Administrative expenses		(224,308)	(195,266)
Other expenses		(78,631)	(85,296)
Fair value changes on derivative financial instruments	4	17,627	4,757
Finance costs		(30,384)	(34,255)
Share of results of associates		16,132	17,826
Share of results of jointly controlled entities		10,034	9,572
Profit before taxation		224,530	226,339
Income tax expense	5	(8,677)	(10,657)
Profit for the period	6	215,853	215,682
Attributable to:			
Equity holders of the Company		217,685	209,311
Minority interests		(1,832)	6,371
		215,853	215,682
Dividends	7	116,957	113,034
		US cents	US cents
Earnings per share	8		
– Basic		13.2	12.6
– Diluted		11.1	12.4

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2009

	Notes	At 31st March, 2009 (unaudited) *US$'000*	At 30th September, 2008 (audited) *US$'000*
Non-current assets			
Investment properties	*9*	66,296	66,296
Property, plant and equipment	*9*	1,588,180	1,536,824
Deposits paid for acquisition of property, plant and equipment		10,807	22,447
Prepaid lease payments		144,816	133,853
Goodwill		193,086	193,086
Investments in associates		328,670	310,717
Amounts due from associates		21,295	10,335
Investments in jointly controlled entities		310,726	319,370
Amounts due from jointly controlled entities		141,280	136,238
Available-for-sale investments		18,522	29,218
Rental deposits and prepayment		32,266	35,408
Deferred tax assets		3,292	1,908
		2,859,236	2,795,700
Current assets			
Inventories		630,510	728,522
Trade and other receivables	*10*	901,748	897,503
Prepaid lease payments		2,655	2,659
Taxation recoverable		4,028	3,451
Derivative financial instruments	*12*	67,678	74,312
Deposits placed with a financial institution		–	24,000
Pledged bank deposits		–	2,337
Bank balances and cash		664,459	440,191
		2,271,078	2,172,975

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 31st March, 2009 (continued)

	Notes	At 31st March, 2009 (unaudited) *US$'000*	At 30th September, 2008 (audited) *US$'000*
Current liabilities			
Trade and other payables	*11*	651,554	637,749
Taxation payable		16,887	11,514
Derivative financial instruments	*12*	17,472	41,632
Short-term bank borrowings	*13*	539,859	344,278
Convertible bonds	*14*	263,594	262,131
Bank overdrafts		–	188
		1,489,366	1,297,492
Net current assets		781,712	875,483
Total assets less current liabilities		3,640,948	3,671,183
Non-current liabilities			
Convertible bonds	*14*	–	255,479
Long-term bank borrowings	*13*	443,740	296,014
Deferred taxation		11,060	11,141
		454,800	562,634
Net assets		3,186,148	3,108,549
Capital and reserves			
Share capital	*15*	53,211	53,682
Reserves		2,794,261	2,726,215
Equity attributable to equity holders of the Company		2,847,472	2,779,897
Other reserve of a listed subsidiary		3,286	706
Minority interests		335,390	327,946
Total equity		3,186,148	3,108,549

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2009

	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$'000	Other reserve of a listed subsidiary US$'000 (note d)	Total equity US$'000
At 1st October, 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
Loss on fair value changes of investments	-	-	(4,958)	-	-	-	-	-	-	(4,958)	-	-	(4,958)
Net (expense) income 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 (expense) income for the period	-	-	(4,958)	-	-	-	-	22,935	209,311	227,288	11,945	-	239,233
Issue of call option	-	-	-	-	-	25,394	-	-	-	25,394	-	-	25,394
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	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
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	19,864	-	19,864	(1,323)	-	18,541
Loss on fair value changes of investments	-	-	(9,224)	-	-	-	-	-	-	(9,224)	-	-	(9,224)
Net (expense) income recognised directly in equity	-	-	(9,224)	-	-	-	-	19,864	-	10,640	(1,323)	-	9,317
Recognition of impairment loss on available-for-sale investments	-	-	23,264	-	-	-	-	-	-	23,264	-	-	23,264
Reserve released upon deregistration of a jointly controlled entity	-	-	-	-	-	-	-	61	-	61	-	-	61
Profit for the period	-	-	-	-	-	-	-	-	259,353	259,353	15,709	-	275,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2009 (continued)

	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$'000	Other reserve of a listed subsidiary US$'000 (note d)	Total equity US$'000
Total recognised income for the period	-	-	14,040	-	-	-	-	19,925	259,353	293,318	14,386	-	307,704
Recognition of share-based payments	-	-	-	-	-	-	-	-	-	-	-	706	706
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	192	-	192
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,541)	-	(2,541)
Deemed disposal of partial interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	230,106	-	230,106
Dividends	-	-	-	-	-	-	-	-	(72,447)	(72,447)	-	-	(72,447)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(179)	-	(179)
Transfer	-	-	-	-	-	-	4,199	-	(4,199)	-	-	-	-
At 30th September, 2008	53,682	725,431	-	(16,688)	18,118	25,394	13,333	56,711	1,903,916	2,779,897	327,946	706	3,108,549
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	(1,087)	-	(1,087)	(698)	-	(1,785)
Loss on fair value change of investments	-	-	(1,700)	-	-	-	-	-	-	(1,700)	-	-	(1,700)
Net expense recognised directly in equity	-	-	(1,700)	-	-	-	-	(1,087)	-	(2,787)	(698)	-	(3,485)
Profit (loss) for the period	-	-	-	-	-	-	-	-	217,685	217,685	(1,832)	-	215,853
Total recognised (expense) income for the period	-	-	(1,700)	-	-	-	-	(1,087)	217,685	214,898	(2,530)	-	212,368
Recognition of share-based payments	-	-	-	-	-	-	-	-	-	-	-	2,580	2,580
Cancellation upon share repurchase	(471)	(29,895)	-	-	-	-	-	-	-	(30,366)	-	-	(30,366)
Redemption of convertible bonds	-	-	-	-	(18,118)	-	-	-	18,118	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	5,530	-	5,530
Inproportional contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	7,663	-	7,663
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(262)	-	(262)
Dividends	-	-	-	-	-	-	-	-	(116,957)	(116,957)	-	-	(116,957)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,957)	-	(2,957)
Transfer	-	-	-	-	-	-	491	-	(491)	-	-	-	-
At 31st March, 2009	53,211	695,536	(1,700)	(16,688)	-	25,394	13,824	55,624	2,022,271	2,847,472	335,390	3,286	3,186,148

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2009 (continued)

Notes:

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

(b) On 10th March, 2008, in consideration of the receipt by the Company of a cash premium of US$25.4 million, the Company granted an option to a financial institution, pursuant to which the financial institution has the right, from time to time during the period from 14th March, 2008 to 7th November, 2011, to require the Company to issue up to a maximum of 78,504,672 ordinary shares of HK$0.25 each in the Company at an agreed exercise price of approximately US$3.435 per share (the "USD Call Option"). The premium received by the Company is recognised as equity and is presented in reserve as "other reserve".

Up to 31st March, 2009, the holder of the USD Call Option had not exercised any of its right thereof.

(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 the registered capital of respective enterprise. 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.

(d) The amount represents the share-based payment transaction recognised in respect of a non-wholly-owned subsidiary.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March, 2009

	For the six months ended 31st March, 2009 (unaudited) *US$'000*	2008 (unaudited) *US$'000*
Net cash from operating activities	415,152	63,217
Net cash used in investing activities		
Purchase of property, plant and equipment	(128,259)	(156,246)
Advance to jointly controlled entities	(14,053)	(43,406)
Deposits paid for acquisition of property, plant and equipment	(10,776)	(4,822)
Prepaid land leases	(10,457)	(7,431)
Dividends received from jointly controlled entities	15,208	7,125
Proceeds from disposal of property, plant and equipment	8,227	8,999
Dividends received from associates	5,290	3,753
Repayment from jointly controlled entities	3,808	12,109
Cash payments for call option premium	–	(27,994)
Investments in jointly controlled entities	–	(22,664)
Investments in associates	–	(342)
Other investing cash flows	3,592	(2,118)
	(127,420)	(233,037)
Net cash (used in) from financing activities		
Repayment of bank borrowings	(1,370,011)	(1,186,558)
Redemption of convertible bonds	(264,829)	–
Dividends paid	(116,957)	(113,034)
Shares repurchased	(30,366)	–
Finance costs	(20,230)	(20,497)
Dividends paid to minority shareholders of subsidiaries	(2,957)	(1,049)
Bank borrowings raised	1,706,024	1,509,065
Contribution from minority shareholders	8,585	–
Premium received on USD Call Option	–	25,394
	(90,741)	213,321
Net increase in cash and cash equivalents	196,991	43,501
Effect of foreign exchange rate changes	3,465	6,404
Cash and cash equivalents brought forward	464,003	402,200
Cash and cash equivalents carried forward	664,459	452,105
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	664,459	434,478
Bank overdrafts	–	(6,373)
Deposits placed with a financial institution	–	24,000
	664,459	452,105

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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("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 Group for the year ended 30th September, 2008.

In the current interim period, the Group has applied, for the first time, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st October, 2008.

The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. 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.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

2 Effective for annual periods beginning on or after 1st January, 2009, 1st July, 2009 and 1st January, 2010, as appropriate

3 Effective for annual periods beginning on or after 1st January, 2009

4 Effective for annual periods beginning on or after 1st July, 2009

5 Effective for transfers on or after 1st July, 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1st October, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on how the results and financial position of the Group are prepared and presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 results is presented below:

For the six months ended 31st March, 2009

	United States of America	Europe	PRC	Rest of Asia	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
TURNOVER	779,553	592,580	676,492	290,943	205,745	2,545,313
RESULTS						
Segment results	100,982	76,767	31,630	30,300	26,434	266,113
Unallocated income						59,509
Unallocated expenses						(114,501)
Fair value changes on derivative financial instruments						17,627
Finance costs						(30,384)
Share of results of associates						16,132
Share of results of jointly controlled entities						10,034
Profit before taxation						224,530
Income tax expense						(8,677)
Profit for the period						215,853

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

Geographical segments (continued)

For the six months ended 31st March, 2008

	United States of America US$'000	Europe US$'000	PRC US$'000	Rest of Asia US$'000	Others US$'000	Total US$'000
TURNOVER	724,503	561,302	558,134	317,956	158,285	2,320,180
RESULTS						
Segment results	78,831	61,364	55,649	27,159	17,264	240,267
Unallocated income						77,463
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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments

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

	For the six months ended 31st March, 2009 *US$'000*	2008 *US$'000*
Manufacturing and sales of footwear products	2,070,529	1,948,693
Retailing business	470,633	370,586
Others	4,151	901
	2,545,313	2,320,180

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

	For the six months ended 31st March, 2009 *US$'000*	2008 *US$'000*
(Loss) gain on changes in fair value of:		
– HKD Call Option *(Note 12a)*	(6,378)	3,625
– JV Call Options *(Note 12b)*	69	8,011
– Derivatives embedded in convertible bonds *(Note 14 (ii))*	23,302	(7,557)
– Other derivative financial instruments *(Note 12c)*	634	678
	17,627	4,757

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE

	For the six months ended 31st March, 2009	2008
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Profits Tax:		
Hong Kong Profits Tax *(Note i)*	227	485
PRC Enterprise Income Tax ("EIT") *(Note ii)*	2,753	8,193
Overseas taxation *(Note iii)*	6,662	1,979
	9,642	10,657
Deferred tax credit	(965)	–
	8,677	10,657

Notes:

(i) Hong Kong

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced Hong Kong Profits Tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. The tax rate used is 16.5% (2008: 17.5%) for the six months ended 31st March, 2009.

From March 2004 to March 2008, the Hong Kong Inland Revenue Department (the "HKIRD") issued protective profits tax assessments, in aggregate, of approximately HK$1,051,943,000 (equivalent to approximately US$135,729,000) relating to the years of assessment 1997/1998 to 2001/2002, that is, for the financial years ended 30th September, 1997 to 2001, against certain wholly-owned subsidiaries of the Company. The Group lodged objections with the HKIRD against the protective assessments. The HKIRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing the Tax Reserve Certificate ("TRC") of HK$314,526,000 (equivalent to approximately US$40,582,000) for those five years of assessment. These TRC were purchased.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

Notes: (continued)

(i) Hong Kong (continued)

In March 2009, the HKIRD further issued protective profits tax assessments of approximately HK$236,793,000 (equivalent to approximately US$30,553,000) relating to the year of assessment 2002/2003, that is, for the financial year ended 30th September, 2002. The Group lodged objections with the HKIRD against the protective assessments. The HKIRD agreed to hold over the tax claim subject to the purchasing of TRC of HK$118,389,000 (equivalent to approximately US$15,275,000). The Group has not purchased these TRC and, in May 2009, filed an application to High Court for a judicial review of the years of assessment 1997/1998 to 2002/2003. The directors of the Company consider that the judicial review is in the best interest of the Group.

In the opinion of the directors, the subsidiaries involved 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.

While the Group has been advised that it has a good case to argue that the tax claimed is not in fact payable, the fact that the case will be put before a judicial review and/or further legal proceeding carries a certain degree of uncertainty. The directors are also considering alternative approaches in the best interest of the Group to resolve the dispute with the HKIRD. If the dispute with the HKIRD is not resolved and the courts uphold the assessments against the relevant members of the Group, this may affect the Group's financial conditions and results of operations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

Notes: (continued)

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rate rules and regulations in the PRC, 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. These tax holidays and concessions will expire between 2008 and 2010.

(ii) Pursuant to《國家税務局關於落實西部大開發有關税收政策具體實施意見的通知》, 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.

Pursuant to Income Tax Law of the PRC, Yue Sheng (Kunshan) Sports Goods Co. Ltd., a 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 a fiscal year. Continuance of this preferential rate is subject to annual confirmation from the local tax bureau. For the period ended 31st March, 2009, a statutory rate of 25% is used in the calculation of PRC EIT.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax holiday and concession from EIT entitled as set out in (i) above is still applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law") promulgated by Order No. 63 of the President of PRC on 16th March, 2007. The preferential treatment set out in (ii) above will continue on the implementation of the New Law.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

Notes: (continued)

(ii) PRC (continued)

For entities which are still entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

(iii) Overseas

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

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18th October, 1999, certain subsidiaries established in Macau are exempted from Macao Complementary Tax.

6. PROFIT FOR THE PERIOD

	For the six months ended 31st March,	
	2009	**2008**
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	87,938	71,803
Release of prepaid lease payments	1,839	1,150
Research and development expenditure	57,910	61,809
Impairment loss recognised on trade receivables	336	731
Allowance for inventories	24,671	9,583
and after crediting to other income:		
Net exchange gain	3,024	13,914
Cash discounts from suppliers	9,299	8,910
Gain on deemed disposal of partial interest in a subsidiary	922	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

	For the six months ended 31st March,	
	2009	**2008**
	US$'000	*US$'000*
Dividends recognised as distribution during the period:		
2008 Final dividend of HK$0.55 per share (2008: 2007 Final dividend of HK$0.53 per share) *(Note)*	116,957	113,034

Note:

The final dividends for each of the years ended 30th September, 2008 and 2007 of US$116,957,000 and US$113,034,000, respectively, were declared and approved after 30th September, 2008 and 2007, respectively. Under the Group's accounting policy, they were charged in the period in which they were approved.

At a meeting on 19th June, 2009, the directors of the Company declared an interim dividend of HK$0.34 per share for the year ending 30th September, 2009 (2008: interim dividend of HK$0.34 per share). The interim dividend of approximately US$72,337,000 (2008: US$72,447,000) will be paid on 17th July, 2009 to the shareholders on the register of members of the Company on 6th July, 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2009	2008
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to equity holders of the Company for the purpose of basic earnings per share	217,685	209,311
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds *(Note)*	10,154	6,749
Fair value changes on derivative embedded in convertible bonds	(23,302)	–
Profit for the period attributable to equity holders of the Company for the purpose of diluted earnings per share	204,537	216,060

	For the six months ended 31st March, 2009	2008
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	1,653,370,945	1,663,628,986
Effect of dilutive potential ordinary shares:		
USD Call Option	78,504,672	9,489,576
Convertible bonds *(Note)*	108,846,924	65,741,545
Number of ordinary shares for the purpose of diluted earnings per share	1,840,722,541	1,738,860,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE (continued)

Note: The computation of diluted earnings per share for the six months ended 31st March, 2008 does not assume the conversion of the Company's outstanding convertible bonds – CB 2011 (as defined in Note 14(ii)) since the exercise of which 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, 2009 is not materially different from their fair value at that date. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties for the period.

During the period, the Group acquired property, plant and equipment of approximately US$151,264,000 (for the six months ended 31st March, 2008: US$156,246,000).

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period 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 net of allowance for doubtful debts of US$549,949,000 (30th September, 2008: US$588,599,000) and an aged analysis is as follows:

	At 31st March, 2009	**At 30th September, 2008**
	US$'000	*US$'000*
0 to 30 days	355,324	423,127
31 to 90 days	188,281	154,528
Over 90 days	6,344	10,944
	549,949	588,599

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$300,132,000 (30th September, 2008: US$341,041,000) and an aged analysis is as follows:

	At 31st March, 2009	At 30th September, 2008
	US$'000	*US$'000*
0 to 30 days	200,866	243,536
31 to 90 days	76,883	74,054
Over 90 days	22,383	23,451
	300,132	341,041

12. DERIVATIVE FINANCIAL INSTRUMENTS

		At 31st March, 2009		At 30th September, 2008	
		Assets	Liabilities	Assets	Liabilities
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Derivatives:					
HKD Call Option	*(a)*	6,638	–	13,016	–
JV Call Options	*(b)*	59,813	–	59,744	–
Foreign currency derivatives	*(c)*	1,227	1,215	1,552	2,174
Embedded derivatives in convertible bonds	*14(ii)*	–	16,257	–	39,458
		67,678	17,472	74,312	41,632

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS (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 (equivalent to US$269,231,000) 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 the net difference between the market value of one share of the Company and the agreed price of HK$26.75 per 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 the HKD Call Option issuer is required to make a payment to the Company upon exercise of the HKD Call Options when the share price is above the agreed price of HK$26.75. The option will be automatically exercised, if the share price of the Company rises and remains above certain agreed levels for 30 consecutive days from 17th May, 2008 to 17th November, 2011 for a range of share price level from HK$33.319 to HK$36.346. 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 share of the Company 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 Rules 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. Under the mandate as approved at the following general meeting on 27th February, 2009, the Company may repurchase up to 164,892,848 shares of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(a) HKD Call Option (continued)

Up to 31st March, 2009, the HKD Call Option remained unexercised.

At the issue of the HKD Call Option, the initial premium paid of US$27,994,000 was recognised as derivative financial assets. At 31st March, 2009, the HKD Call Option was fair valued at approximately US$6,638,000 (30th September, 2008: US$13,016,000). The change in fair value of approximately US$6,378,000 has been debited to the condensed consolidated income statement for the six months ended 31st March, 2009.

The inputs used in the Monis Model adopted by the management in determining the fair value of the HKD Call Option at the respective dates are as follows:

	At 31st March, 2009	At 30th September, 2008
Share price	HK$17.68	HK$21.00
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	5.0%	4.2%
Volatility	63%	35%

(b) JV Call Options

	At 31st March, 2009	At 30th September, 2008
	US$'000	*US$'000*
Financial assets:		
Call Options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	59,813	59,744

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(b) JV Call Options (continued)

In October, 2007, the Group entered into call option agreements with the shareholders, other than the Group, (the "Relevant Partners") of certain subsidiaries, associates and jointly controlled entities (the "Relevant Companies"), pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Option Premium"), has the right (but not the obligation) exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the Relevant Companies (the "JV Call Options").

The JV Call Options are exercisable within five years commencing from 6th December, 2008, the expiry of the first six months after dealing in the shares of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a non-wholly-owned subsidiary, on the Stock Exchange commenced and upon the mutual agreements between Pou Sheng and the Relevant Partners on certain conditions stipulated in the respective agreements in respect of the performances of the Relevant Companies during the pre-determined evaluation periods. Each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the JV Call Options exercisable period without the Group's prior written consent.

Pursuant to the JV 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 periods and the price earnings ratio of Pou Sheng during a specified period and after certain discount agreed between Pou Sheng and the Relevant Partners. The consideration is to be settled by the issue of Pou Sheng shares at the average price during the same specified period and after deducting the Option Premium paid.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(b) JV Call Options (continued)

The value of each of the JV Call Options at 31st March, 2009 were valued by Savills Valuation and Professional Services Limited, an independent valuer using the Binomial Model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of Pou Sheng at the time of exercise of the options and further details are set out below.

	At 31st March, 2009	At 30th September, 2008
Derivative assets – JV Call Options:		
Expected price earning ratio – Pou Sheng	6	5
Expected volatility – Pou Sheng	64%	48%
Expected volatility – the Relevant Companies	40%	31%
Risk free rate	2.30%	3.53%
Exercisable period	4.7 years	5.0 years
Expected dividend yield	–	–

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of daily share average prices of Pou Sheng and comparable companies with similar business over the past years.

(c) Foreign currency derivatives

(i) Forward contracts

Major terms of foreign currency forward contracts as at 31st March, 2009 are as below:

Aggregate principal amount	Maturity	Forward exchange rates
US$171 million	From April 2009 to December 2009	Sell USD/buy RMB at 6.579 to 7.298

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(c) Foreign currency derivatives (continued)

(i) Forward contracts (continued)

At 31st March, 2009, the fair value of the above forward contracts were determined based on valuations provided by counterparty banks using valuation techniques.

(ii) Currency structured contracts

The Group has entered into certain USD/HKD structured forward contracts which give the Group the opportunities to receive a fixed amount per month if the market exchange rate is at or over 7.745 on the fixing date. However, the Group is obliged to buy USD/sell HKD at a fixed exchange rate of 7.703 to 7.745 if the market exchange rate falls below the level specified under the respective contracts for a maximum of US$4 million to US$7 million per month for each contract for a period of 18 months. As of 31st March, 2009, the remaining tenors of the 3 outstanding contracts were 2 months, 2 months and 7 months respectively.

In addition, the Group has also entered into a one-year non-deliverable USD/RMB structured forward contract which gives the Group the opportunities to sell USD/buy RMB at more favourable exchange rates than the then prevailing market exchange rates. However, if the market exchange rate falls below the level specified in the contract, the Group is obliged to sell US$10 million against RMB for 4 quarterly settlements at a fixed rate of 6.07 to 6.67. As of 31st March, 2009, 1 quarterly settlement due in May 2009 remained outstanding.

At 31st March, 2009, the fair value of the above currency structured contracts were determined based on valuation provided by the counterparty banks using valuation techniques.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of US$1,706 million (2008: US$1,509 million). The proceeds were used to repay existing banking borrowings of US$1,370 million (2008: US$1,187 million) and to finance the daily operation of the Group.

Included in the new bank borrowings of US$1,706 million, US$150 million was obtained with a specific undertaking by Pou Chen Corporation, a substantial shareholder of the Company, and Tsai's family, to maintain control in the Company. Details of which are set out in the announcement dated on 27th November, 2008.

14. CONVERTIBLE BONDS

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

These relate to the convertible bonds issued on 23rd December, 2003 and on 12th January, 2004 which were listed on the Luxembourg Stock Exchange. The CB 2008 did not bear interest.

On 23rd December, 2008, the outstanding balance of CB 2008 was redeemed in full on its maturity date by the Company at an aggregate consideration of US$264,829,000. There is no impact to the condensed consolidation income statement on redemption.

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

On 20th October and 2nd November, 2006, the Company issued CB 2011 with an aggregate principal sum of HK$2,100 million (equivalent to US$270 million) which are listed on the Stock Exchange. The CB 2011 do not bear interest.

The CB 2011 are convertible at the option of the holders into ordinary shares of HK$0.25 each in 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 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. Accordingly, the liability component of CB 2011 is classified as current liabilities as 31st March, 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. CONVERTIBLE BONDS (continued)

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

In addition, all but not some only of the CB 2011 may be redeemed at the option of the bondholders upon (i) a delisting the Company's shares on the Stock Exchange or (ii) the occurrence of a change of control as defined in the CB 2011 agreement.

At 31st March, 2009, the liability component of CB 2011 with a carrying amount of US$263,594,000 (30th September, 2008: US$255,479,000) and principal amount of HK$2,100 million (30th September, 2008: HK$2,100 million), equivalent to approximately US$270 million (30th September, 2008: US$270 million) remained outstanding.

At 31st March, 2009, the fair value based on quoted asked price of the CB 2011 was US$283,205,000 (30th September, 2008: US$267,561,000).

The movement of the liability component of the CB 2008 and CB 2011 for the six months ended 31st March, 2009 is set out below:

	For the six months ended 31st March,			
	2009			2008
	CB 2008	**CB 2011**	**Total**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At the beginning of the period	262,131	255,479	517,610	492,135
Effective interest expenses	2,698	7,456	10,154	13,758
Redemption of CB 2008	(264,829)	–	(264,829)	–
Exchange difference	–	659	659	(472)
At the end of the period	–	263,594	263,594	505,421
Less: amount included in current liabilities	–	(263,594)	(263,594)	(257,541)
Amount due after one year	–	–	–	247,880

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. CONVERTIBLE BONDS (continued)

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

Movement in the derivatives embedded in the CB 2011 during the period is as follows:

	For the six months ended 31st March, 2009	2008
	US$'000	*US$'000*
Derivatives embedded in the CB 2011:		
At the beginning of the period	39,458	23,798
Exchange realignment	101	(47)
Changes in fair value	(23,302)	7,557
At the end of the period	16,257	31,308

The conversion and redemption option derivatives embedded in CB 2011 were fair valued at the balance sheet dates. The change in fair value was recognised in the condensed consolidated income statement. The inputs used in the Monis Model adopted by the management in determining the fair values at the respective dates are as follows:

	At 31st March, 2009	At 30th September, 2008
Share price	HK$17.68	HK$21.00
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	5.0%	4.2%
Volatility	63%	35%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At 30th September, 2008 and 31st March, 2009	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 30th September, 2008	1,663,628,986	415,907
Cancellation upon share repurchase	(14,700,500)	(3,675)
At 31st March, 2009	1,648,928,486	412,232

	US$'000
Shown in the condensed consolidated financial statements as at:	
31st March, 2009	53,211
30th September, 2008	53,682

During the period, the Company repurchased 14,700,500 own shares on the Stock Exchange at an aggregate consideration of approximately HK$236,597,000 (equivalent to approximately US$30,366,000) pursuant to the general mandate granted to the directors at its annual general meeting.

The repurchased shares were subsequently cancelled and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CONTINGENCIES AND COMMITMENTS

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

(I) Contingencies

	At 31st March, 2009	At 30th September, 2008
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) jointly controlled entities		
– amount guaranteed	135,740	150,269
– amount utilised	73,383	103,959
(ii) associates		
– amount guaranteed	32,359	18,918
– amount utilised	8,808	10,205

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CONTINGENCIES AND COMMITMENTS (continued)

(II) Commitments

	At 31st March, 2009 *US$'000*	At 30th September, 2008 *US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	24,547	34,971
– acquisition of property, plant and equipment	7,147	26,195
	31,694	61,166
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– investment in associates	4,850	–
– investment in jointly controlled entities	1,519	–
– investment in available-for-sales investments	3,405	3,708
	9,774	3,708
	41,468	64,874

In January 2009, the Group entered into a sale and purchase agreement for the acquisition of the remaining 70% interest in Farsighted International Limited, not already owned by the Group, for a consideration to be satisfied by cash of US$54,946,000 and issue of 393,584,541 ordinary shares of HK$0.01 each in Pou Sheng at an issue price of HK$0.925 (the "Farsighted Acquisition"). Certain of the conditions precedent to the completion of the acquisition have not yet been fulfilled, the transaction is therefore not completed as of the date of this report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CONTINGENCIES AND COMMITMENTS (continued)

(II) Commitments (continued)

The Group also entered into a share subscription agreement with Pou Sheng for the subscription of 421,621,622 ordinary shares of HK$0.01 each in Pou Sheng at a subscription price of HK$0.925 per share for a total of consideration of HK$390,000,000 (equivalent to approximately US$50,000,000) (the "Yue Yuen Subscription"). Among others, the Yue Yuen Subscription is conditional on the completion of Farsighted Acquisition.

Details of the Farsighted Acquisition and Yue Yuen Subscription are set out in a circular of Pou Sheng dated 4th February, 2009.

In addition, at 31st March, 2009 and 30th September, 2008, the Group may have to make additional cash contributions in respect of its investments in certain associates and jointly controlled entities, depending on the future performance of these entities, details of which are set out in the 2008 annual financial statements.

17. POST BALANCE SHEET EVENTS

In April 2009, the Group obtained a 5-year loan facility of US$500 million which is expected to be used in meeting its funding requirements of CB 2011 and certain syndicated loans.

INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.34 per share for the year ending 30th September, 2009 to shareholders whose names appear on the Register of Members on Monday, 6th July, 2009. The interim dividend will be paid on Friday, 17th July, 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 6th July, 2009 to Thursday, 9th July, 2009, 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, 3rd July, 2009.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover and profit attributable to equity holders of the company increased year-on-year by 9.7% to US$2,545.3 million and 4.0% to US$217.7 million, respectively. Excluding non-recurring operating items, profit attributable to equity holders of the company would have decreased by 2.2% year-on-year to US$200.1 million.

Operations

The business environment was very difficult due to the global economic decline. However, during the period under review, the Group recorded sales growth as a result of stable demand from our major footwear brand customers, further consolidation in the footwear manufacturing industry and sales growth for our Greater China wholesale and retail operations. The total volume of shoes produced rose by 1.7% year-on-year to 129.9 million pairs. The total number of production lines remained at 440 at the end of March 2009.

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 18.5% of the Group's total turnover for the period under review. The revenue from the wholesale and retail operations increased by 27.0% year-on-year to US$470.6 million, which was mainly derived from the Group's 2,062 directly operated retail stores/ counters, as well as the wholesale operations in the Greater China region. In addition, the Group's regional joint venture companies operated about 2,823 directly operated retail stores/counters. This year the Group has been focusing on improving operating efficiency and eliminating low yielding stores/counters. As a result, the total number of directly operated retail outlets in China under the Group and its affiliates stood at about 4,885 by the end of March 2009.

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

Total Turnover by Product Category

Six months ended 31st March	**2009**		**2008**		**y-o-y**
	US$ million	*%*	*US$ million*	*%*	*% change*
Athletic shoes	1,414.3	55.6	1,331.6	57.4	6.2
Casual/Outdoor shoes	387.2	15.2	326.5	14.1	18.6
Sports sandals	54.5	2.1	37.9	1.6	44.0
Retail sales – Shoes and Apparel	470.6	18.5	370.6	16.0	27.0
Soles, Components & Others	218.7	8.6	253.6	10.9	(13.8)
Total turnover	2,545.3	100.0	2,320.2	100.0	9.7

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Operations (continued)

Total Turnover by Geographical Market

Six months ended 31st March	**2009**		**2008**		**y-o-y**
	US$ million	*%*	*US$ million*	*%*	*% change*
U.S.A.	779.6	30.6	724.5	31.2	7.6
Canada	44.9	1.8	37.4	1.6	20.0
Europe	592.6	23.3	561.3	24.2	5.6
South America	96.6	3.8	64.5	2.8	49.8
Asia	967.4	38.0	876.1	37.8	10.4
Other Areas	64.2	2.5	56.4	2.4	14.0
Total turnover	2,545.3	100.0	2,320.2	100.0	9.7

Footwear manufacturing remained the Group's major operation accounting for 72.9% of total sales, whereas soles and components accounted for 8.6% of total sales. Retail sales accounted for 18.5% of total sales, compared to 16.0% last year. Given the size of the retail operations in the Greater China region, Asia has become the largest market for the Group. Now sales in Asia, Europe and South America combined represent 65.1% of the Group's turnover.

Financial Position

The Group maintains a stable financial position. As at 31st March, 2009, the Group had cash and cash equivalents of US$664.5 million (30th September, 2008: US$466.5 million) and total borrowings of US$1,247.2 million including the convertible bonds (30th September, 2008: US$1,158.1 million). The decrease in net debt from US$691.6 million as at 30th September, 2008 to US$582.7 million as at 31st March, 2009 was mainly due to the tighter management of production operations and the retail business resulting in positive movements in working capital. This represents a gearing ratio of 39.1% (30th September, 2008: 37.3%) and a net debt to equity ratio of approximately 18.3% (30th September, 2008: 22.2%). 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.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Corporate Social Responsibility

For the past half year, we have given our Corporate Social Responsibility ("CSR") teams the necessary resources so that further levels of progress can be made with respect to the CSR standards involving areas such as staff welfare, workplace safety, environmental protection and contributions to those local communities where the Group maintains its operations. Meeting CSR standards means that there must be communication and feedback between senior management and factory employees on a periodic basis to effectively address problems on the factory floor, as well as those problems that affect the welfare of employees. The Group also encourages CSR teams from different regions within the Group to share their experiences so as to broaden the knowledge of the entire CSR division and to discover a multiple number of solutions for each problem that may occur. Many channels, both formal and informal, have been established to encourage the flow of communication between senior management and the factory employees. Furthermore, the CSR division of the Group serves as the principal point of contact with the corresponding CSR departments of the various brand name customers. Accordingly both sides on a regular basis, impart to one another their recent problem solving experiences and try to coordinate their activities to be consistent with each other. Also when appropriate, the CSR divisions from both sides will jointly tackle issues confronting the industry.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Corporate Social Responsibility (continued)

The Group's CSR activities revolve around certain key themes. One goal is to manage the factories on an environmentally friendly or "Go Green" basis. Today society expects this of all leading corporations. This is pursued from various fronts. One approach is to recycle factory waste materials wherever possible. Another is to reduce energy consumption by the factory. The Group's CSR teams continuously look for ways to improve in both areas. Another major goal is to enhance the welfare of factory employees. One aspect is to provide good training and implement control procedures to reduce the occurrence of industrial accidents. Another aspect is to identify specific needs e.g. continuing education, health care etc and establish facilities to meet these needs. The last theme is one of crisis preparation/crisis management. Good factory management requires constant vigilance and advance planning to handle unexpected circumstances. When drawing up such contingency plans, the CSR teams try to look after the interests of factory employees, senior management and shareholders in a way that is in line with what would be considered the best practices of CSR standards.

In China, the Group periodically runs programs that help enhance the welfare of the factory workers and focus on areas such as individual health, awareness of contagious diseases, and fostering communication between factory workers and senior staff. One of the more important CSR activities was the completion of the new water sewage treatment plant in Jiangxi, which takes the Group a step further in being environmentally friendly.

In Vietnam, the Group has helped factory workers return to their home countries to celebrate major national holidays such as the Lunar New Year. On such occasions, the Group subsidized the cost of hiring buses to transport the workers back to their homes. Approximately 3,000 workers were able to benefit during each such occasion.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Corporate Social Responsibility (continued)

In Indonesia, the Group has participated in various activities to maintain good labour relations. A scholarship plan has been established by the Group for the children of selected employees. It has also provided assistance to employees seeking further education. Many hundreds of factory workers each year are able to benefit from evening education programs subsidized by the Group to pursue their high school diplomas. Quite a few employees who have completed their high school diploma then go a step further to obtain their college degree.

Looking Forward

In the first two months of the third quarter of Financial Year 2009 (April and May of 2009), the Group's total turnover amounted to approximately US$ 861.1 million, a slight decline of 1.6 % year-on-year. Sales for footwear manufacturing should be stable on the performance of our brand name customers. Sales for the China retail operations should be steady on the back of healthy consumer spending in the PRC.

Given the difficult environment, the Group will continue to carefully manage its shoe production facilities in its three existing bases, China, Vietnam and Indonesia. For the retail operations, management will concentrate on ensuring its inventory balance returns to a normal level and thus set the stage for improved performance in the future.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2009, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long Position

(a) 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 [1]	–	–	–	–	–	–
Kuo Tai Yu	–	–	–	–	–	–
Lu Chin Chu	–	–	–	–	–	–
Kung Sung Yen	–	–	–	–	–	–
Chan Lu Min	45,000	–	–	–	45,000	0.0027%
Li I Nan, Steve	–	–	–	–	–	–
Tsai Pei Chun, Patty	–	–	–	–	–	–
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–
Liu Len Yu	–	–	–	–	–	–
Leung Yee Sik	–	–	–	–	–	–

Note 1: Edward Y. Ku has ceased to be a director since 30th March, 2009.

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

Long Position (continued)

(b) Ordinary shares of HK$0.01 each of Pou Sheng

	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 Pou Sheng
Tsai Chi Neng	–	–	–	–	–	–
David N.F. Tsai	3,037,000	–	–	–	3,037,000	0.09%
Edward Y. Ku [1]	–	–	–	–	–	–
Kuo Tai Yu	–	–	–	–	–	–
Lu Chin Chu	–	–	–	–	–	–
Kung Sung Yen	–	–	–	–	–	–
Chan Lu Min	681,000	–	–	–	681,000	0.02%
Li I Nan, Steve	–	–	–	–	–	–
Tsai Pei Chun, Patty	4,460,000	–	–	–	4,460,000	0.13%
John J.D. Sy	–	–	–	–	–	–
So Kwan Lok	–	–	–	–	–	–
Poon Yiu Kin, Samuel	–	–	–	–	–	–
Liu Len Yu	–	–	–	–	–	–
Leung Yee Sik	–	–	–	–	–	–

Note 1: Edward Y. Ku has ceased to be a director since 30th March, 2009.

Other than the interest disclosed above, none of the directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st March 2009.

SHARE INCENTIVE SCHEMES

(a) Share Option Scheme of the Company

The Company recognizes the importance of attracting talents and retaining employees by providing them with incentives and rewards through granting share-based incentives. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On 27th February 2009, the Company adopted a share option scheme (the "Scheme") under which the Board may at its discretion grant any eligible participant share options, as it may determine appropriate. The Scheme is valid and effective for a period of ten years commencing on 27th February 2009, after which no further options may be offered or granted.

No share options were granted under the Scheme since its adoption.

(b) Share Incentive Schemes of Pou Sheng

Pou Sheng operates a Pre-IPO share subscription plan (the "Plan") and a share option scheme.

No share options were granted under Pou Sheng's share option scheme since its adoption in May 2008.

Details of the subscription right granted and outstanding under the Plan to subscribe for shares in Pou Sheng since its adoption in May 2008 are as follows:

Name	Invitation date	No. of shares (5 years plan) *(Notes i & iii)*	No. of shares (5 years plan) deducted *(Note iv)*	No. of shares (10 years plan) *(Notes ii & iii)*	No. of shares (10 years plan) deducted *(Note iv)*	Total number of shares outstanding as at 31st March, 2009
Employees	23rd May, 2008	71,001,000	7,633,000	53,251,000	7,455,000	109,164,000

SHARE INCENTIVE SCHEMES (continued)

(b) Share Incentive Schemes of Pou Sheng (continued)

Notes:

(i) 20% of the shares shall be subscribed after each anniversary of the date of invitation.

(ii) 10% of the shares shall be subscribed after each anniversary of the date of invitation.

(iii) the subscription price is HK$2.14 per share.

(iv) the number of shares deducted was due to the resignations of eligible employees during the period.

As at 31st March, 2009, no shares have been subscribed under the Plan.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the "Share Incentive Schemes" above, 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, 2009, 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.

SUBSTANTIAL SHAREHOLDERS (continued)

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)	175,851,500	10.66%
Quicksilver Profits Limited ("Quicksilver")	(b)	137,280,822	8.33%
World Future Investments Limited ("World Future")	(c)	175,851,500	10.66%
Mr. Tsai Chi Jui	(c)	176,171,500	10.68%
Merrill Lynch & Co. Inc.	(d)	99,315,703	5.97%

Short Position

Merrill Lynch & Co. Inc.	(d)	109,341,792	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 99.59% owned subsidiary of PCC. Mr. David N.F. Tsai, Mr. Chan Lu Min, Mr. Kung Sung Yen and Mr. Kuo Tai Yu who are directors of the Company are also directors of PCC. Mr. Chan Lu Min, Mr. Kuo Tai Yu, Mr. Kung Sung Yen, Mr. David N.F. Tsai and Ms. Tsai Pei Chun, Patty (who are directors of the Company) are directors of Wealthplus. Mr. Chan Lu Min and Mr. David N.F. Tsai are directors of Win Fortune. Mr. Chan Lu Min and Mr. David N.F. Tsai is also a director of Top Score.

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(b) Of the 175,851,500 ordinary shares beneficially owned by Max Creation, 137,280,822 ordinary shares were held by Quicksilver as listed above, 21,167,440 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. Mr. Tsai Chi Neng and Mr. Li I Nan, Steve who are directors of the Company are also directors of Quicksilver, Red Hot and Moby Dick. Mr. Tsai Chi Neng and Mr. David N. F. Tsai (who are directors of the Company) are directors of Max Creation.

(c) World Future is deemed to be interested in 175,851,500 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 175,851,500 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, namely, 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 for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is 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..

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(d) (continued)

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

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.

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, 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company repurchased 14,700,500 ordinary shares in the Company through the Stock Exchange for a consideration of US$30,366,000 during the six months ended 31st March, 2009. The repurchases were effected by the Directors for the enhancement of shareholders' value.

The shares were cancelled upon repurchase.

Save as disclosed above, 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, 2009.

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 complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 31st March, 2009, 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 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, 2009.

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, Mr. Tsai Chi Neng (Chairman), Mr. David N. F. Tsai (Managing Director), Mr. Kuo Tai Yu, Mr. Lu Chin Chu, Mr. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve, Miss Tsai Pei Chun, Patty and Ms. Kuo Li-Lien are the Executive Directors, Mr. John J. D. Sy is the Non-executive Director, and Mr. So Kwan Lok, Dr. Liu Len Yu and Mr. Leung Yee Sik are the Independent Non-executive Directors.

By Order of the Board
Tsai Chi Neng
Chairman

Hong Kong, 19th June, 2009

Website: www.yueyuen.com