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

INTERIM REPORT 2010

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, 2010

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2010	2009	Percentage increase (decrease)
Turnover *(US$'000)*	2,654,565	2,545,313	4.3%
Profit attributable to owners of the Company *(US$'000)*	210,795	217,685	(3.2%)
Basic earnings per share *(US cents)*	12.8	13.2	(3.0%)
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, 2010 with comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2010

	Notes	For the six months ended 31st March, 2010 (unaudited) US$'000	2009 (unaudited) US$'000
Turnover	3	2,654,565	2,545,313
Cost of sales		(1,977,269)	(1,899,710)
Gross profit		677,296	645,603
Other income		50,670	68,809
Fair value changes on derivative financial instruments	4	3,770	17,627
Selling and distribution expenses		(219,100)	(200,352)
Administrative expenses		(212,886)	(221,728)
Other expenses		(75,200)	(78,631)
Equity-settled share-based payments of a listed subsidiary		(413)	(2,580)
Impairment loss on investments in jointly controlled entities		(2,480)	–
Finance costs		(22,286)	(30,384)
Share of results of associates		17,110	16,132
Share of results of jointly controlled entities		31,538	10,034
Profit before taxation		248,019	224,530
Income tax expense	5	(31,281)	(8,677)
Profit for the period	6	216,738	215,853
Attributable to:			
Owners of the Company		210,795	217,685
Non-controlling interests		5,943	(1,832)
		216,738	215,853
		US cents	*US cents*
Earnings per share	8		
– Basic		12.8	13.2
– Diluted		12.2	11.1

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31st March, 2010

	For the six months ended 31st March, 2010 (unaudited) *US$'000*	2009 (unaudited) *US$'000*
Profit for the period	216,738	215,853
Other comprehensive income (expense)		
Exchange difference arising on the translation of foreign operations	2,270	(1,785)
Fair value gain (loss) on available-for-sale investments	3,802	(1,700)
Other comprehensive income (expense) for the period	6,072	(3,485)
Total comprehensive income for the period	222,810	212,368
Total comprehensive income (expense) attributable to:		
Owners of the Company	216,594	214,898
Non-controlling interests	6,216	(2,530)
	222,810	212,368

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March, 2010

	Notes	At 31st March, 2010 (unaudited) US$'000	At 30th September, 2009 (audited) US$'000
Non-current assets			
Investment properties	9	59,103	59,103
Property, plant and equipment	9	1,606,753	1,592,418
Deposits paid for acquisition of property, plant and equipment		350	4,436
Prepaid lease payments		169,750	168,040
Intangible assets		71,470	73,756
Goodwill		218,607	218,607
Investments in associates		326,679	335,076
Amounts due from associates		24,328	10,728
Investments in jointly controlled entities		342,847	316,607
Amounts due from jointly controlled entities		155,041	159,739
Available-for-sale investments		19,459	15,481
Rental deposits and prepayments		25,780	29,455
Derivative financial instruments	10	54,595	55,321
Deferred tax assets		1,252	1,252
		3,076,014	3,040,019
Current assets			
Inventories		676,351	668,356
Trade and other receivables	11	841,054	792,771
Prepaid lease payments		4,636	3,806
Taxation recoverable		4,390	4,510
Derivative financial instruments	10	34,483	13,950
Structured bank deposit		40,091	39,824
Bank balances and cash		1,183,852	1,195,566
		2,784,857	2,718,783
Asset classified as held for sale	12	5,479	–
		2,790,336	2,718,783
Current liabilities			
Trade and other payables	13	735,447	758,256
Taxation payable		42,964	16,965
Derivative financial instruments	10	26,620	11,302
Short-term bank borrowings	14	526,713	570,201
Convertible bonds	15	–	271,337
		1,331,744	1,628,061
Net current assets		1,458,592	1,090,722
Total assets less current liabilities		4,534,606	4,130,741

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31st March, 2010 (continued)

	Notes	At 31st March, 2010 (unaudited) US$'000	At 30th September, 2009 (audited) US$'000
Non-current liabilities			
Convertible bonds	15	260,922	–
Long-term bank borrowings	14	721,833	680,207
Deferred tax liabilities		28,583	29,154
		1,011,338	709,361
Net assets		3,523,268	3,421,380
Capital and reserves			
Share capital	16	53,211	53,211
Reserves		3,083,854	2,984,016
Equity attributable to owners of the Company		3,137,065	3,037,227
Non-controlling interests		386,203	384,153
Total equity		3,523,268	3,421,380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2010

	Equity attributable to owners of the Company											Non-controlling interests		
	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)	Other revaluation reserve US$'000 (note c)	Non-distributable reserve fund US$'000 (note d)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Interests attributable to shares held in subsidiaries US$'000	Share options reserve of a listed subsidiary US$'000 (note e)	Total equity US$'000
At 1st October, 2008 (audited)	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 changes of investments	–	–	(1,700)	–	–	–	–	–	–	–	(1,700)	–	–	(1,700)
Profit (loss) for the period	–	–	–	–	–	–	–	–	–	217,685	217,685	(1,832)	–	215,853
Total comprehensive income for the period	–	–	(1,700)	–	–	–	–	–	(1,087)	217,685	214,898	(2,530)	–	212,368
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	–	–	2,580	2,580
Shares repurchased and cancelled	(471)	(29,895)	–	–	–	–	–	–	–	–	(30,366)	–	–	(30,366)
Redemption of convertible bonds	–	–	–	–	(18,118)	–	–	–	–	18,118	–	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	5,530	–	5,530
Deemed disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	7,663	–	7,663
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(262)	–	(262)
Dividends	–	–	–	–	–	–	–	–	–	(116,957)	(116,957)	–	–	(116,957)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(2,957)	–	(2,957)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	491	–	(491)	–	–	–	–
At 31st March, 2009 (unaudited)	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
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	(753)	–	(753)	439	–	(314)
Gain on fair value changes of investments	–	–	3,825	–	–	–	–	–	–	–	3,825	–	–	3,825
Revaluation increase upon acquisition of a subsidiary	–	–	–	–	–	–	4,551	–	–	–	4,551	3,557	–	8,108
Profit (loss) for the period	–	–	–	–	–	–	–	–	–	247,045	247,045	(936)	–	246,109

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2010 (continued)

	Equity attributable to owners of the Company											Non-controlling interests		
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Convertible bonds reserve	Other reserve	Other revaluation reserve	Non-distributable reserve fund	Translation reserve	Retained profits	Total	Interests attributable to shares held in subsidiaries	Share options reserve of a listed subsidiary	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(note a)		*(note b)*	*(note c)*	*(note d)*					*(note e)*	
Total comprehensive income for the period	–	–	3,825	–	–	–	4,551	–	(753)	247,045	254,668	3,060	–	257,728
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	–	–	9,941	9,941
Cancellation of Pre-IPO Share Subscription Plan	–	–	–	–	–	–	–	–	–	7,424	7,424	5,803	(13,227)	–
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(313)	–	(313)
Arising from Farsighted Acquisition and Yuen Yuen Subscription (refer to 2009 annual report Note 41)	–	–	–	–	–	–	–	–	–	–	–	37,596	–	37,596
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	371	–	371
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	2,246	–	2,246
Dividends	–	–	–	–	–	–	–	–	–	(72,337)	(72,337)	–	–	(72,337)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	1,451	–	(1,451)	–	–	–	–
At 30th September, 2009 (audited)	53,211	695,536	2,125	(16,688)	–	25,394	4,551	15,275	54,871	2,202,952	3,037,227	384,153	–	3,421,380
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	1,997	–	1,997	273	–	2,270
Gain on fair value changes of investments	–	–	3,802	–	–	–	–	–	–	–	3,802	–	–	3,802
Profit for the period	–	–	–	–	–	–	–	–	–	210,795	210,795	5,943	–	216,738
Total comprehensive income for the period	–	–	3,802	–	–	–	–	–	1,997	210,795	216,594	6,216	–	222,810
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	–	–	413	413
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(123)	–	(123)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(858)	–	(858)
Dividends	–	–	–	–	–	–	–	–	–	(116,756)	(116,756)	–	–	(116,756)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(3,598)	–	(3,598)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	2,008	–	(2,008)	–	–	–	–
At 31st March, 2010 (unaudited)	53,211	695,536	5,927	(16,688)	–	25,394	4,551	17,283	56,868	2,294,983	3,137,065	385,790	413	3,523,268

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2010 (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, 2010, the holder of the USD Call Option had not exercised any of its right thereof.

(c) The other revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the other revaluation reserve will be transferred to retained profits upon disposals of these subsidiaries or the relevant assets, whichever is earlier.

(d) 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 profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.

(e) This reserve represents the amounts recognised in respect of share options granted under share-based payment arrangement of a non-wholly owned subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st March, 2010

	For the six months ended 31st March, 2010 (unaudited) *US$'000*	2009 (unaudited) *US$'000*
Net cash from operating activities	239,134	415,152
Net cash used in investing activities		
Purchase of property, plant and equipment	(112,129)	(128,259)
Advances to jointly controlled entities	(11,993)	(14,053)
Investments in jointly controlled entities	(10,339)	–
Purchases of available-for-sales investments	(6,652)	–
Prepaid land leases	(5,992)	(10,457)
Deposits paid for acquisition of property, plant and equipment	(350)	(10,776)
Dividends received from associates	20,863	5,290
Proceeds from disposal of property, plant and equipment	9,288	8,227
Dividends received from jointly controlled entities	8,800	15,208
Proceeds from disposal of available-for-sales investments	6,501	–
Refund of investment cost in a jointly controlled entity	3,100	–
Repayment from jointly controlled entities	1,750	3,808
Other investing cash flows	3,467	3,592
	(93,686)	(127,420)
Net cash used in financing activities		
Repayment of bank borrowings	(552,472)	(1,370,011)
Dividends paid	(116,756)	(116,957)
Redemption of convertible bonds	(18,684)	(264,829)
Finance costs	(14,768)	(20,230)
Dividends paid to non-controlling interests of subsidiaries	(3,598)	(2,957)
Bank borrowings raised	550,533	1,706,024
Shares repurchased	–	(30,366)
Contribution from non-controlling interests	–	8,585
	(155,745)	(90,741)
Net (decrease) increase in cash and cash equivalents	(10,297)	196,991
Effect of foreign exchange rate changes	(1,417)	3,465
Cash and cash equivalents brought forward	1,195,566	464,003
Cash and cash equivalents carried forward, represented by bank balances and cash	1,183,852	664,459

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 the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") 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 preparation of 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, 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st October, 2009.

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a change of the Group's reporting of segment information as compared with the segment reporting provided in prior years in accordance with HKAS 14 "Segment Reporting" (see note 3).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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)	Amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 as part of Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time adoptors[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1st January, 2010
2 Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate
3 Effective for annual periods beginning on or after 1st January, 2011
4 Effective for annual periods beginning on or after 1st February, 2010
5 Effective for annual periods beginning on or after 1st July, 2010
6 Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1st January, 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. TURNOVER AND SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st October, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the board of directors of the Company, in order to allocate resources to segments and to assess their performance.

In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (geographical and business) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments by location of customers.

Information reported to the board of directors of the Company, for the purposes of resources allocation and performance assessment, focuses more specifically on the category of business. The principal categories of business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear products ("Retailing Business").

The board of directors, being the chief operating decision maker of the Group, regularly reviews information which provide revenue analysis by business and the profit of the Group as a whole for the purposes of performance assessment and making decisions about the resources allocation. Accordingly, the directors of the Company have determined that the Group does not have more than one operating segment, as defined in HKFRS 8. Only information regarding turnover derived from the businesses described above is reported below.

	For the six months ended 31st March,	
	2010	**2009**
	US$'000	*US$'000*
Turnover		
Manufacturing Business	2,059,739	2,070,529
Retailing Business	589,951	470,633
Other businesses	4,875	4,151
Total turnover	2,654,565	2,545,313

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

	For the six months ended 31st March, 2010	2009
	US$'000	*US$'000*
Gain (loss) on changes in fair value of:		
– JV Call Options *(defined in Note 10a)*	217	69
– HKD Call Option *(defined in Note 10b)*	20,253	(6,378)
– Derivatives embedded in convertible bonds *(Note 15)*	(15,219)	23,302
– Derivative embedded in structured bank deposit	(196)	–
– Other derivative financial instruments	(1,285)	634
	3,770	17,627

5. INCOME TAX EXPENSE

	For the six months ended 31st March, 2010	2009
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Profits Tax:		
Hong Kong Profits Tax *(note i)*	25,297	227
PRC Enterprise Income Tax ("EIT") *(note ii)*	5,506	2,753
Overseas taxation *(note iii)*	1,049	6,662
	31,852	9,642
Deferred tax credit	(571)	(965)
	31,281	8,677

notes:

(i) Hong Kong

	For the six months ended 31st March, 2010	2009
	US$'000	*US$'000*
Hong Kong Profits Tax		
– current tax	297	227
– prior years	25,000	–
	25,297	227

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

notes: (continued)

(i) Hong Kong (continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

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$135,742,000) 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 these 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$40,586,000) for those years of assessment. These TRC were purchased.

In March 2009, the HKIRD further issued protective profits tax assessments of approximately HK$236,777,000 (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 these protective assessments. The HKIRD agreed to hold over the tax claimed subject to the purchasing of TRC of HK$118,389,000 (equivalent to approximately US$15,277,000). The Group has not purchased these TRC and, in May 2009, filed an application to High Court of Hong Kong for a judicial review on the protective assessments and holdover notices relating to the years of assessment 1997/1998 to 2002/2003.

In March 2010, the HKIRD further issued protective profits tax assessments of approximately HK$291,597,000 (equivalent to approximately US$37,563,000) relating to the year of assessment 2003/2004, that is, for the financial year ended 30th September, 2003. The Group again lodged objections with the HKIRD against these protective assessments. On 11th March, 2010, the judicial review was heard in the High Court. After the hearing, the High Court handed down the judgment, in which the judge made certain orders on the HKIRD.

In the opinion of the directors, the Group does not conduct any sales or manufacturing activities in Hong Kong, no Hong Kong Profits Tax should be payable by the aforesaid wholly-owned subsidiaries. Based on the assessment of the Group's legal adviser on the merit of the case, the directors believe that no Hong Kong Profits Tax is in fact payable by the aforesaid wholly owned subsidiaries. However, in view of the risk associated with the legal proceedings, time and resources the Group has incurred in the case and for the future business development of the Group, the directors decided to take an alternative means other than court process, specifically a compromised settlement approach to resolve the dispute with the HKIRD. The directors believe that this is in the best interest of the Group.

Against this background and following subsequent negotiations with the HKIRD, a compromised settlement has been reached with the HKIRD in early June 2010 at a sum of US$25 million as a full and final settlement of the whole case for the years of assessment 1997/1998 to 2008/2009, that is, for the financial years ended 30th September, 1997 to 2008. This sum payable has been charged to the condensed consolidated income statement for the period ended 31st March, 2010.

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:

(a) 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.

(b) Pursuant to《國家稅務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》, 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 a specific encouraged industry are subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeds 70% of its total revenue in a fiscal year.

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 holidays and concessions from PRC EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law"). The preferential treatment set out in (b) above continues on the implementation of the New Law.

For entities which were still entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments and the tax holidays have commenced, 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

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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROFIT FOR THE PERIOD

	For the six months ended 31st March, 2010 US$'000	2009 US$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	88,769	87,938
Release of prepaid lease payments	3,482	1,839
Amortisation of intangible assets	2,310	–
Research and development expenditure	64,119	57,910
Allowance for inventories	11,959	24,671
Impairment loss on investment in a jointly controlled entity (other than the investment classified as held for sale)	800	–
Impairment loss recognised on trade receivables	–	336
and after crediting to other income:		
Net exchange gain	3,066	3,024
Write back of impairment loss on trade receivables	294	–
Cash discounts from suppliers	10,385	9,299
Gain on deemed disposal of partial interest in a subsidiary	–	922

7. DIVIDENDS

	For the six months ended 31st March, 2010 US$'000	2009 US$'000
Dividends recognised as distribution during the period:		
2009 Final dividend of HK$0.55 per share (2009: 2008 Final dividend of HK$0.55 per share) *(note)*	116,756	116,957

note:

The final dividends for each of the years ended 30th September, 2009 and 2008 of US$116,756,000 and US$116,957,000, respectively, were declared and approved after 30th September, 2009 and 2008, respectively. Under the Group's accounting policy, they were recognised as distribution in the period in which they were declared.

At a meeting on 15th June, 2010, the directors of the Company declared an interim dividend of HK$0.34 per share for the year ending 30th September, 2010 (2009: interim dividend of HK$0.34 per share). The interim dividend of approximately US$72,221,000 (2009: US$72,337,000) will be paid on 16th July, 2010 to the shareholders on the register of members of the Company on 5th July, 2010.

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, 2010 *US$'000*	2009 *US$'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	210,795	217,685
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds *(note)*	–	10,154
Fair value changes on derivative embedded in convertible bonds *(note)*	–	(23,302)
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	210,795	204,537

	For the six months ended 31st March, 2010	2009
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,648,928,486	1,653,370,945
Effect of dilutive potential ordinary shares:		
USD Call Option	78,504,672	78,504,672
Convertible bonds *(note)*	–	108,846,924
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,727,433,158	1,840,722,541

note: The computation of diluted earnings per share for the six months ended 31st March, 2010 does not assume the conversion of the Company's outstanding convertible bonds – CB 2011 (as defined in Note 15(ii)) because the assumed exercise of the conversion options 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, 2010 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$116,450,000 (for the six months ended 31st March, 2009: US$151,264,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS

		At 31st March, 2010		At 30th September, 2009	
		Assets	Liabilities	Assets	Liabilities
	notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Derivatives:					
Non-current:					
JV Call Options	(a)	54,595	–	55,321	–
Current:					
JV Call Options	(a)	943	–	–	–
HKD Call Option	(b)	32,400	–	12,147	–
Foreign currency derivatives		999	1,552	1,466	734
Embedded derivative in structured bank deposit		141	–	337	–
Embedded derivatives in convertible bonds *(Note 15)*		–	25,068	–	10,568
		34,483	26,620	13,950	11,302
		89,078	26,620	69,271	11,302

notes:

(a) JV Call Options

	At 31st March, 2010	At 30th September, 2009
	US$'000	*US$'000*
Derivative financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	55,538	55,321
Analysed for reporting purposes:		
Non-current assets	54,595	55,321
Current assets	943	–
	55,538	55,321

In October, 2007, the Group entered into call option agreements with the other shareholders (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").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(a) JV Call Options (continued)

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") 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 performance of the Relevant Companies during the pre-determined evaluation periods. As at the end of reporting period, the conditions for the JV Call Options to be exercisable were not yet fulfilled. 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 shares in Pou Sheng at the average price during the same specified period and after deducting the Option Premium paid.

Included in the balance at 31st March, 2010 was an amount of US$943,000 relating to the JV Call Options in respect of a jointly controlled entity which was classified as held for sale (see Note 12). The fair value of the options is determined based on the expected consideration receivable arising from its anticipated disposal in the foreseeable future.

The values of other JV Call Options at 31st March, 2010 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, 2010	At 30th September, 2009
Derivative financial assets - JV Call Options:		
Expected price earning ratio - Pou Sheng	36	35
Expected volatility - Pou Sheng	54%	56%
Expected volatility - the Relevant Companies	35%	37%
Risk free rate	2.45%	2.73%
Exercisable period	3.7 years	4.2 years
Expected dividend yield	–	–

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(b) HKD Call Option

At the issue of the HKD Call Option, the initial premium paid of US$27,994,000 was recognised as derivative financial asset. At 31st March, 2010, the HKD Call Option was fair valued at approximately US$32,400,000 (30th September, 2009: US$12,147,000). The change in fair value of approximately US$20,253,000 has been credited to the condensed consolidated income statement for the six months ended 31st March, 2010.

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

	At 31st March, 2010	At 30th September, 2009
Share price	HK$27.00	HK$21.50
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.3%	4.1%
Volatility	32%	39%

11. TRADE AND OTHER RECEIVABLES

The Group allows a 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$540,482,000 (30th September, 2009: US$491,561,000) and an aged analysis based on the invoice date is as follows:

	At 31st March, 2010 *US$'000*	At 30th September, 2009 *US$'000*
0 to 30 days	397,619	381,314
31 to 90 days	131,940	101,244
Over 90 days	10,923	9,003
	540,482	491,561

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ASSET CLASSIFIED AS HELD FOR SALE

	At 31st March, 2010 *US$'000*
Amount comprises:	
Investment in a jointly controlled entity	5,479

On 11th March, 2010, the Group entered into agreement with the joint venture partner of a jointly controlled entity, pursuant to which the parties agreed to, amongst other matters, the disposal of the Group's investment in the jointly controlled entity. The disposal has resulted in an impairment loss of approximately US$1,680,000 for the six months ended 31st March, 2010 which was calculated between the carrying value of the Group's interest in the jointly controlled entity at 31st March, 2010 and the estimated consideration receivable.

Further details of the transaction are set out in Pou Sheng's circular dated 31st March, 2010. At the date of this report, the transaction has not yet been completed.

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$347,320,000 (30th September, 2009: US$349,415,000) and an aged analysis based on the invoice date is as follows:

	At 31st March, 2010 *US$'000*	At 30th September, 2009 *US$'000*
0 to 30 days	262,867	272,993
31 to 90 days	67,086	64,251
Over 90 days	17,367	12,171
	347,320	349,415

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of US$551 million (2009: US$1,706 million). The borrowings bear interest at market rates. The proceeds were used to repay existing bank borrowings US$552 million (2009: US$1,370 million) and to finance the daily operation of the Group.

15. 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 was no impact to the condensed consolidated 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 approximately US$270 million) which is listed on the Stock Exchange. The CB 2011 does not bear interest.

The CB 2011 is 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 was classified as current liabilities as at 30th September, 2009. On 17th November, 2009, an aggregate principal sum of HK$134,400,000 (equivalent to approximately US$17,343,000) was redeemed by the Company upon the request of the bondholders at an aggregate consideration of HK$144,800,000 (equivalent to approximately US$18,684,000). A loss of US$460,000 was charged to the condensed consolidated income statement on the partial redemption.

Unless previously redeemed, converted or purchased, the CB 2011 will be redeemed by the Company at 113.227 per cent of the principal amount on 17th November, 2011.

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, 2010, the liability component of CB 2011 with a carrying amount of US$260,922,000 (30th September, 2009: US$271,337,000) and principal amount of approximately HK$1,966 million (30th September, 2009: HK$2,100 million), equivalent to approximately US$253 million (30th September, 2009: US$270 million) remained outstanding.

At 31st March, 2010, the fair value of the CB 2011 based on quoted ask price was US$300,937,000 (30th September, 2009: US$297,240,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. CONVERTIBLE BONDS (continued)

The movement of the liability component of the convertible bonds for the six months ended 31st March, 2010 is set out below:

	For the six months ended 31st March,	
	2010	**2009**
	US$'000	*US$'000*
At the beginning of the period	271,337	517,610
Effective interest expenses	7,518	10,154
Redemption of CB 2008	–	(264,829)
Partial redemption of CB 2011	(17,496)	–
Exchange difference	(437)	659
At the end of the period	260,922	263,594
Less: amount included in current liabilities	–	(263,594)
Amount due after one year	260,922	–

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

	For the six months ended 31st March,	
	2010	**2009**
	US$'000	*US$'000*
At the beginning of the period	10,568	39,458
Partial redemption of CB 2011	(728)	–
Exchange realignment	9	101
Changes in fair value	15,219	(23,302)
At the end of the period	25,068	16,257

The conversion and redemption option derivatives embedded in CB 2011 were fair valued at the end of reporting period. The change in fair value was recognised in the condensed consolidated income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. CONVERTIBLE BONDS (continued)

The inputs used in the Monis Model adopted by the management in determining the fair values of the derivatives embedded in the CB2011 at the end of reporting period are as follows:

	At 31st March, 2010	At 30th September, 2009
Share price	HK$27.00	HK$21.50
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.3%	4.1%
Volatility	32%	39%

16. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.25 each:		
At 1st October, 2008, 31st March, 2009, 30th September, 2009 and 31st March, 2010	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 1st October, 2008	1,663,628,986	415,907
Cancellation upon shares repurchase	(14,700,500)	(3,675)
At 31st March, 2009, 30th September, 2009 and 31st March, 2010	1,648,928,486	412,232
		US$'000
Shown in the condensed consolidated financial statements as at:		
1st October, 2008		53,682
31st March, 2009, 30th September, 2009 and 31st March, 2010		53,211

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. CONTINGENCIES AND COMMITMENTS

The Group had the following contingencies and commitments:

(I) CONTINGENCIES

	At 31st March, 2010 *US$'000*	At 30th September, 2009 *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) jointly controlled entities		
– amount guaranteed	118,220	119,798
– amount utilised	69,697	72,871
(ii) associates		
– amount guaranteed	32,434	31,269
– amount utilised	18,877	19,477

(II) COMMITMENTS

	At 31st March, 2010 *US$'000*	At 30th September, 2009 *US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	27,798	30,863
– acquisition of property, plant and equipment	5,478	8,646
	33,276	39,509
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– investments in available-for-sales investments	3,467	3,772
– capital injection in jointly controlled entities	1,523	1,523
	4,990	5,295
	38,266	44,804

In addition, the Group has contingent commitments in respect of further investments in jointly controlled entities. Details are set out in Note 22 of the 2009 Annual Report. At the end of the reporting period, the fair value of the relevant commitments is not material.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EVENTS AFTER REPORTING PERIOD

(i) Pursuant to an option agreement dated 31st March, 2010, subject to the approvals obtained from certain authorities, 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 10th May, 2010 to 31st March, 2015, to require the Company to issue up to a maximum of 92,247,920 ordinary shares of HK$0.25 each in the Company at an agreed exercise price of US$4.21 per share.

On 20th April, 2010, the conditions were fulfilled and the Company received a cash premium of US$18.3 million upon the completion of the issuance of the option. In the opinion of the directors, the fair value of the option at 31st March, 2010 was insignificant as the cash premium represented market rate of premium.

(ii) On 14th June 2010, the Company drew a three years loan equivalent to US$300 million in total. The loan agreement contains specific performance obligations on Pou Chen Corporation ("PCC"), a substantial shareholder of the Company, requiring PCC together with members of the family of Tsai to maintain control in the Company. Under these obligations, the Company shall be (a) controlled by PCC together with members of the family of Tsai; or (b) an entity being consolidated in the consolidated accounts of PCC. The loan was raised to repay part of the existing bank debt, which is at higher funding costs.

INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.34 per share for the year ending 30th September, 2010 to shareholders whose names appear on the Register of Members on Monday, 5th July, 2010. The interim dividend will be paid on Friday, 16th July, 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 5th July, 2010 to Thursday, 8th July, 2010, 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, 2nd July, 2010.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover increased marginally year-on-year by 4.3% to US$2,654.6 million. Profit attributable to owners of the Company fell slightly by 3.2% to US$210.8 million.

Operations

The business outlook has improved somewhat compared to a year ago. For the period under review, the Group experienced a small increase in sales on the back of: i) dependable orders from its brand name footwear customers; ii) the action of leading brand name customers to concentrate their sourcing needs with the most reliable manufacturers; and iii) sales growth for the Greater China wholesale and retail operations. The total volume of shoes produced rose by 4.7% year-on-year to 136.1 million pairs, as a result of the sturdy order flow from our existing customers and new customers. The total number of production lines grew by 5.2% to 445 lines by the end of March 2010.

The revenue contributions from the wholesale and retail operations in the Greater China region continued to increase and accounted for about 22.2% of the Group's total turnover for the period under review. The revenue from the wholesale and retail operations grew by 25.4% year-on-year to US$590.0 million, which was mainly derived from the Group's 2,272 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 directly operated about 2,039 retail stores/counters. This year the retail division has been focusing its attention on improving inventory management and operating efficiency. Some underperforming stores were restructured. As a result, there were 4,311 directly operated retail outlets in China under the Group and its affiliates at the end of March 2010.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Operations (continued)

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

Total Turnover by Product Category

Six months ended 31st March	2010		2009		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
Athletic shoes	1,424.8	53.7	1,414.3	55.6	0.7
Casual/Outdoor shoes	370.9	14.0	387.2	15.2	(4.2)
Sports Sandals	43.5	1.6	54.5	2.1	(20.2)
Retail Sales – Shoes and Apparel	590.0	22.2	470.6	18.5	25.4
Soles, Components & Others	225.4	8.5	218.7	8.6	3.1
Total turnover	**2,654.6**	**100.0**	**2,545.3**	**100.0**	**4.3**

Total Turnover by Geographical Market

Six months ended 31st March	2010		2009		y-o-y
	US$ million	*%*	*US$ million*	*%*	*% change*
U.S.A.	793.9	29.9	779.6	30.6	1.8
Canada	41.0	1.5	44.9	1.8	(8.7)
Europe	553.4	20.9	592.6	23.3	(6.6)
South America	83.3	3.1	96.6	3.8	(13.8)
Asia	1,113.3	42.0	967.4	38.0	15.1
Other Areas	69.7	2.6	64.2	2.5	8.6
Total turnover	**2,654.6**	**100.0**	**2,545.3**	**100.0**	**4.3**

Footwear manufacturing remained the Group's major operation accounting for 69.3% of total sales, whereas soles and components accounted for 8.5% of total sales. Retail sales accounted for 22.2% of total sales, compared to 18.5% last year. With the increase in retail sales, Asia has become the largest market for the Group and the turnover from the three major markets, Asia, the USA and Europe comprises 92.8% of the Group's Sales.

Financial Position

The Group maintains a stable financial position. As at 31st March, 2010, the Group had cash and cash equivalents of US$1,183.9 million (30th September, 2009: US$1,195.6 million) and total borrowings of US$1,509.5 million, including the convertible bonds, (30th September, 2009: US$1,521.7 million). Net debt was US$325.6 million as at 31st March 2010 compared to US$326.2 million as at 30th September 2009 as the Group continued to benefit from the tight management of working capital in both the production operations and the retail business. The gearing ratio stood at 43% (30th September, 2009: 44%) and the net debt to equity ratio was 9% (30th September, 2009: 10%). 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 many years, the Group has committed resources to its Corporate Social Responsibility ("CSR") Department so that it can design and implement businesses practices that are consistent with sustainable development. The CSR Department also deploys teams at the various Group factories to ensure these policies for sustainable development are adhered to at the operating level. Certain key principles embedded in the work performed by the CSR Department, among others, include that (i) employees rights and benefits and even their grievances are properly addressed from various aspects; (ii) the health and safety of the employees are duly considered and taken care of; (iii) effective and smooth communications between management and employees help raise harmonious industrial relations in worksites; (iv) environment requirements are incorporated into the factory operations; and (v) workers leisure activities and enrichment programs are enhanced.

In China, the Group has been working closely with its brand customers to ensure it follows the customers' CSR standards. In all cases, the Group factories met the standards and in a few occasions, they won awards for exceeding these standards. Such awards provide much satisfaction to the Group's CSR team. Certain customers have developed new methodologies for adhering to CSR standards and the Group has participated in the various work group sessions to integrate these methodologies into the manufacturing process. Certain customers have also invited the Group to participate in exchange programs to learn about the latest practices in labour management, energy efficiency and environmental protection. Besides participating directly in factory operations, the CSR teams have also arranged various activities for the factory workers. Some of these activities are to celebrate national festivals and thus promote better understanding between the workers and factory management. Some activities help factory workers to develop the skills that contribute to their personal well being both emotionally and physically. A category of activities have been created that provide workers with education to maintain good health and to prevent the occurrence of illness. On a few occasions activities were organized to provide community care to the handicapped and the elderly. The Group has also donated about RMB2.5 million to charitable activities that help rebuild villages affected by natural disasters such as earthquakes and floods.

In Vietnam, the Group recently expanded the capacity of waste water plants which will be operational in the near future. These plants are environmentally friendly as they will produce recycled water that can be used for temperature control and sanitary purposes. The CSR team participated in two special projects to provide relief to villages struck by severe storms. These projects involved administering medical care as well as donating supplies to help the livelihood of the villages. Also the CSR team has consistently been involved in charitable activities to help a school, a shelter for the handicapped and a home for the elderly. These activities involve donating goods and time to improve the quality of life of those less privileged.

In Indonesia, the Group has been involved in building new factory premises that are environmentally friendly. Concepts such as using natural sunlight, enhancing natural ventilation and systematic control of electrical devices to save power were incorporated into the building plans. The CSR team in this location was also involved in a charitable project to bring basic necessities and supplies to a village that was affected by a violent rain storm.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Looking Forward

In the first two months of the third quarter of Financial Year 2010 (April and May of 2010), the Group's total turnover amounted to approximately US$1,008.0 million, an increase of 17.6% year-on-year. Sales for footwear manufacturing should be firm on the back of the 2010 World Cup advertising activities of our brand name customers. In the long term, the outlook for the Group's China retail operations should be promising given the strength of the PRC economy and the rising incomes of consumers.

In light of the trend of rising input costs, the Group will tactically use its production facilities spread across China, Vietnam and Indonesia, and its product development capability, to manufacture the highest quality products for its customers. The Group will work closely with its brand name customers. On the retail side, the Group is preparing to further reap the benefits of economic growth in the PRC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2010, 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
Chan Lu Min	45,000	–	–	–	45,000	0.0027%

(b) Ordinary shares of HK$0.01 each in Pou Sheng, a non-wholly owned subsidiary 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 Pou Sheng
David N.F. Tsai	3,037,000	–	–	–	3,037,000	0.07%
Chan Lu Min	681,000	–	–	–	681,000	0.01%
Tsai Pei Chun, Patty	4,460,000	–	–	–	4,460,000	0.10%

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

Long Position (continued)

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 2010.

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 Option Scheme of Pou Sheng

Pou Sheng adopted a share option scheme (the "Pou Sheng Scheme") on 14th May, 2008. The Pou Sheng Scheme is valid and effective for a period of ten years commencing on 14th May, 2008, after which no further options may be offered or granted.

During the period under review, a total of 64,500,000 options were granted to eligible participants of the Pou Sheng group.

Movements of the options, which were granted under the Pou Sheng Scheme, during the period under review were listed below:

Category	Number of options held as at 01/10/2009	Date of grant	Number of Options granted during the period	Number of options exercised during the period	Number of options cancelled/ lapsed during the period	Number of options held as at 31/03/2010	Exercise price *(HK$)*	Exercise period
Employees	0	21/01/ 2010	64,500,000	0	750,000	63,750,000	1.62	21/01/2011 to 20/01/2018

SHARE INCENTIVE SCHEMES (continued)

(b) Share Option Scheme of Pou Sheng (continued)

The closing price immediately before the date of which the options were granted was HK$1.70 and the fair value, vesting schedule, exercise period of the options are as follows:

Vesting period	Exercise period	Percentage vesting	Fair value (per option) HK$
21/01/2010 to 20/01/2011	21/01/2011 to 20/01/2018	15% of options granted	0.69
21/01/2010 to 20/01/2012	21/01/2012 to 20/01/2018	15% of options granted	0.72
21/01/2010 to 20/01/2013	21/01/2013 to 20/01/2018	30% of options granted	0.75
21/01/2010 to 20/01/2014	21/01/2014 to 20/01/2018	40% of options granted	0.78

The binomial option pricing model (the "Model") was adopted to value the share options granted during the review period. Under the Model, the underlying asset can take on only two possible discrete values in the next time period for each value that it can take on in the preceding time period. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables as adopted may materially affect the estimation of the fair value of an option.

Specific assumptions were made in the Model in relation to risk free rate, volatility, dividend yield, life of options and trading days. Certain general assumptions relating to the political, legal, fiscal or economic conditions in the country or district where the business is in operation, taxation law, inflation, interest and currency exchange rate, key management and technical personnel, the existing state of the business and debts of Pou Sheng were also made.

The inputs into the Model were as follows:

	Options granted on 21st January, 2010
Date of grant (measurement date)	21st January, 2010
Closing price on the date of grant	HK$1.62
Exercise price per share	HK$1.62
Expected volatility	54%
Expected life of the option	the vesting period plus one half of exercise period
Annual risk free rate	1.66% – 2.13%
Expected dividend yield	1%

The risk free rate is assumed to be equalled to the yield of Hong Kong Exchange Fund Bills/ Notes over the exercise period near the grant date.

It is expected the dividend yield of 1% will be paid in the future.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share average prices of Pou Sheng and the listed companies with similar business over the past years immediately preceding the grant date. The calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the underlying shares.

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, 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO showed that, other than the interests disclosed in "Directors' and Chief Executives' Interests In Securities", the following shareholders had notified the Company of their relevant interests in shares representing 5% or more of the issued share capital of the Company.

Long Position
Ordinary shares of HK$0.25 each of the Company

Name of shareholder	*Notes*	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
Pou Chen Corporation ("PCC")	a	824,143,835	49.98%
Wealthplus Holdings Limited ("Wealthplus")	a	767,707,605	46.55%
Max Creation Industrial Limited ("Max Creation")	b	115,001,998	6.97%
World Future Investments Limited ("World Future")	c	115,001,998	6.97%
Mr. Tsai Chi Jui	c	115,321,998	6.99%
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 are also directors of Top Score.

(b) Of the 115,001,998 ordinary shares beneficially owned by Max Creation, 80,494,822 ordinary shares were held by Quicksilver Profits Limited ("Quicksilver"), 20,631,440 ordinary shares were held by Red Hot Investments Limited ("Red Hot") and 13,875,736 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 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 also directors of Max Creation.

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(c) World Future is deemed to be interested in 115,001,998 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 115,001,998 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..

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, 2010.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

During the period ended 31st March 2010, Mr. Tsai Chi Neng and Mr. Li I Nan, Steve, both are executive directors of the Company, have been appointed as directors of each of Acme Horizon Limited and Eaglelead Limited, the subsidiaries of the Company, which are incorporated in Hong Kong.

On 25th March, 2010, Mr. So Kwan Lok resigned as an independent non-executive director, chairman of remuneration committee and member of audit committee of the Company. Mr. Leung Yee Sik, an independent non-executive director of the Company, was appointed chairman of the remuneration committee of the Company in place of Mr. So Kwan Lok.

Mr. Huang Ming-Fu was appointed as an independent non-executive director, member of remuneration committee and member of audit committee on 25th March 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st March, 2010.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with management and the external auditor 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.

The external auditor has reviewed the interim financial information for the six months ended 31st March, 2010 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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, 2010, 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, 2010.

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, Ms. Tsai Pei Chun, Patty and Ms. Kuo Li-Lien are the Executive Directors, Mr. John J. D. Sy is the Non-executive Director, and Dr. Liu Len Yu, Mr. Leung Yee Sik and Mr. Huang Ming-Fu are the Independent Non-executive Directors.

By Order of the Board
Tsai Chi Neng
Chairman

Hong Kong, 15th June, 2010

Website: www.yueyuen.com