裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Stock Code：551

Interim Report 2011

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, 2011

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2011	2010	Percentage increase
Turnover *(US$'000)*	3,301,949	2,654,565	24.4%
Profit attributable to owners of the Company *(US$'000)*	230,093	210,795	9.2%
Basic earnings per share *(US cents)*	14.0	12.8	9.4%
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, 2011 with comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2011

		For the six months ended 31st March,	
		2011	**2010**
		(unaudited)	**(unaudited)**
	Notes	*US$'000*	*US$'000*
Turnover	3	3,301,949	2,654,565
Cost of sales		(2,546,397)	(1,977,269)
Gross profit		755,552	677,296
Other income		74,326	50,670
Selling and distribution expenses		(260,953)	(219,238)
Administrative expenses		(246,999)	(213,161)
Other expenses		(84,787)	(75,200)
Finance costs		(19,595)	(22,286)
Fair value changes on derivative financial instruments	4	(3,449)	3,770
Gain on deemed disposal of a jointly controlled entity	17(i)(d)	18,767	–
Fair value changes on investment properties		4,612	–
Impairment loss of an available-for-sale investment		(100)	–
Impairment loss on investments in an associate and jointly controlled entities		(2,000)	(2,480)
Share of results of associates		17,643	17,110
Share of results of jointly controlled entities		11,869	31,538
Profit before taxation		264,886	248,019
Income tax expense	5	(15,259)	(31,281)
Profit for the period	6	249,627	216,738
Attributable to:			
Owners of the Company		230,093	210,795
Non-controlling interests		19,534	5,943
		249,627	216,738
		US cents	*US cents*
Earnings per share	8		
– Basic		14.0	12.8
– Diluted		11.6	12.2

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31st March, 2011

	For the six months ended 31st March, 2011 (unaudited) *US$'000*	2010 (unaudited) *US$'000*
Profit for the period	249,627	216,738
Other comprehensive income		
Exchange difference arising on the translation of foreign operations	21,021	2,270
Gain on fair value changes of investments	1,877	3,802
Other comprehensive income for the period	22,898	6,072
Total comprehensive income for the period	272,525	222,810
Total comprehensive income attributable to:		
Owners of the Company	246,155	216,594
Non-controlling interests	26,370	6,216
	272,525	222,810

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March, 2011

	Notes	At 31st March, 2011 (unaudited) US$'000	At 30th September, 2010 (audited) US$'000
Non-current assets			
Investment properties	9	55,797	59,746
Property, plant and equipment	9	1,779,041	1,668,055
Deposits paid for acquisition of property, plant and equipment		12,875	4,704
Prepaid lease payments		179,204	182,494
Intangible assets		112,012	70,612
Goodwill		233,211	218,607
Investments in associates		362,022	349,796
Amounts due from associates		11,331	11,083
Investments in jointly controlled entities		345,144	341,698
Deposit paid for acquisition of the remaining interest in a jointly controlled entity		–	19,223
Amounts due from jointly controlled entities		119,215	132,452
Long-term loan receivables		11,180	17,642
Available-for-sale investments		23,873	21,463
Rental deposits and prepayments		27,927	22,375
Derivative financial instruments	10	33,244	46,024
Pledged bank deposits		12,201	–
Deferred tax assets		741	2,293
		3,319,018	3,168,267
Current assets			
Inventories		963,100	776,139
Trade and other receivables	11	1,115,455	1,109,315
Prepaid lease payments		5,082	3,942
Taxation recoverable		1,534	2,692
Available-for-sale investments		3,050	8,227
Derivative financial instruments	10	16,576	34,407
Bank balances and cash		654,916	622,333
		2,759,713	2,557,055
Assets classified as held for sale	12	35,978	–
		2,795,691	2,557,055
Current liabilities			
Trade and other payables	13	942,037	898,866
Consideration payable for acquisition of subsidiaries	17	3,139	–
Taxation payable		16,924	16,078
Derivative financial instruments	10	7,879	27,041
Bank borrowings	14	420,704	226,318
Convertible bonds	15	275,655	–
		1,666,338	1,168,303
Net current assets		1,129,353	1,388,752
Total assets less current liabilities		4,448,371	4,557,019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31st March, 2011 (continued)

	Notes	At 31st March, 2011 (unaudited) US$'000	At 30th September, 2010 (audited) US$'000
Non-current liabilities			
Convertible bonds	15	–	268,649
Consideration payable for acquisition of subsidiaries	17	3,139	–
Long-term bank borrowings	14	477,013	483,731
Deferred tax liabilities		36,784	28,136
		516,936	780,516
Net assets		3,931,435	3,776,503
Capital and reserves			
Share capital	16	53,211	53,211
Reserves		3,445,445	3,317,845
Equity attributable to owners of the Company		3,498,656	3,371,056
Non-controlling interests		432,779	405,447
Total equity		3,931,435	3,776,503

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2011

	Equity attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	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	Non-controlling interests US$'000	Total equity US$'000
At 1st October, 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 interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(858)	(858)
Dividends	–	–	–	–	–	–	–	–	(116,756)	(116,756)	–	(116,756)
Dividend 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	386,203	3,523,268
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	18,286	–	18,286	5,259	23,545
Gain on fair value changes of investments	–	–	714	–	–	–	–	–	–	714	–	714
Profit for the period	–	–	–	–	–	–	–	–	268,712	268,712	10,388	279,100

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2011 (continued)

	Equity attributable to owners of the Company											
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	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	Non-controlling interests US$'000	Total equity US$'000
Total comprehensive income for the period	–	–	714	–	–	–	–	18,286	268,712	287,712	15,647	303,359
Issue of call option	–	–	–	–	18,272	–	–	–	–	18,272	–	18,272
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	1,165	1,165
Realised on deregistration of subsidiaries	–	–	–	–	–	–	–	(202)	202	–	(2)	(2)
Realised on disposal of subsidiaries	–	–	–	–	–	–	–	(770)	770	–	(1,222)	(1,222)
Realised on disposal of jointly controlled entities	–	–	–	–	–	–	–	(2,432)	2,432	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	4,111	4,111
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(449)	(449)
Dividends	–	–	–	–	–	–	–	–	(71,993)	(71,993)	–	(71,993)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	2,086	–	(2,086)	–	–	–
At 30th September, 2010 (audited)	53,211	695,536	6,641	(16,688)	43,666	4,551	19,369	71,750	2,493,020	3,371,056	405,447	3,776,503
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	14,185	–	14,185	6,836	21,021
Gain on fair value changes of investments	–	–	1,877	–	–	–	–	–	–	1,877	–	1,877
Profit for the period	–	–	–	–	–	–	–	–	230,093	230,093	19,534	249,627
Total comprehensive income for the period	–	–	1,877	–	–	–	–	14,185	230,093	246,155	26,370	272,525
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	1,220	1,220
Recognition of share-settled considerations for acquisition of subsidiaries *(note 17(i))*	–	–	–	–	–	–	–	–	–	–	3,785	3,785
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Realised on deemed disposal a jointly controlled entity	–	–	–	–	–	–	–	(1,126)	1,126	–	–	–
Dividends	–	–	–	–	–	–	–	–	(118,555)	(118,555)	–	(118,555)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	(4,037)	(4,037)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	2,757	–	(2,757)	–	–	–
At 31st March, 2011 (unaudited)	53,211	695,536	8,518	(16,688)	43,666	4,551	22,126	84,809	2,602,927	3,498,656	432,779	3,931,435

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 31st March, 2011 (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 2011").

On 20th April, 2010, in consideration of the receipt by the Company of a cash premium of US$18.3 million, the Company granted an option to another 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 share of HK$0.25 each in the Company at an agreed exercise price of US$4.21 per share (the "USD Call Option 2015").

The premiums received by the Company were recognised as equity and are presented in reserve as "other reserve".

Up to 31st March, 2011, the holders of the USD Call Options 2011 and 2015 had not exercised any of their 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 (the "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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st March, 2011

		For the six months ended 31st March,	
		2011	2010
		(unaudited)	(unaudited)
	Note	*US$'000*	*US$'000*
Net cash from operating activities		214,926	239,134
Net cash used in investing activities			
Purchase of property, plant and equipment		(242,895)	(112,129)
Deposits paid for acquisition of property, plant and equipment		(12,124)	(350)
Increase in pledged bank deposits		(12,201)	–
Purchases of available-for-sale investments		(8,360)	(6,652)
Prepaid land leases		(3,381)	(5,992)
Advances to jointly controlled entities		(904)	(11,993)
Proceeds from disposal of property, plant and equipment		16,382	9,288
Proceeds from disposal of available-for-sale investments		13,411	6,501
Repayments from jointly controlled entities		–	1,750
Proceeds from disposal of investment properties		8,638	–
Repayment of long term loan receivables		6,680	–
Dividends received from associates		6,569	20,863
Dividends received from jointly controlled entities		5,402	8,800
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	17	1,531	–
Refund of investment cost in a jointly controlled entity		473	3,100
Investments in jointly controlled entities		–	(10,339)
Other investing cash flows		4,321	3,467
		(216,458)	(93,686)
Net cash from (used in) financing activities			
Bank borrowings raised		1,650,854	550,533
Repayment of bank borrowings		(1,482,834)	(552,472)
Dividends paid		(118,555)	(116,756)
Finance costs		(11,782)	(14,768)
Dividends paid to non-controlling interests of subsidiaries		(4,037)	(3,598)
Redemption of convertible bonds		–	(18,684)
		33,646	(155,745)
Net increase (decrease) in cash and cash equivalents		32,114	(10,297)
Effect of foreign exchange rate changes		469	(1,417)
Cash and cash equivalents brought forward		622,333	1,195,566
Cash and cash equivalents carried forward, represented by bank balances and cash		654,916	1,183,852

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 ("HKAS 34") "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

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 Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st October, 2010. The adoption of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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, 2010. In addition, the Group adopted the following new accounting policy for business combinations achieved in stages (where the Group previously had an equity interest in the acquiree) and contingent consideration in a business combination.

Business Combinations

Business combinations on or after 1st October, 2009

Contingent consideration

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Business combinations achieved in stages

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date the Group obtains control). Any resulting gain or loss is recognised in profit or loss. Any amount that was previously recognised in other comprehensive income is recognised on the same basis as if the interest had been disposed of on the acquisition date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008)[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 24 (Revised)	Related Party Disclosures[1]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for first-time Adopters[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[2]
HKFRS 9	Financial Instruments[4]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[1]

[1] Effective for annual periods beginning on or after 1st January, 2011
[2] Effective for annual periods beginning on or after 1st July, 2011
[3] Effective for annual periods beginning on or after 1st January, 2012
[4] Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted. The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1st October, 2013 and the application of HKFRS 9 might have impact on amounts reported in respect of the Group's available-for-sale investments. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective 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

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 (the "CODM"), being the board of directors of the Company, in order to allocate resources to segments and to assess their performance.

Information reported to the CODM, for the purposes of resources allocation and performance assessment, focuses specifically on the turnover analysis by principal categories of the Group's business and the profit of the Group as a whole. Accordingly, the CODM has determined that the Group has only one operating segment, as defined in HKFRS 8. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear products ("Retailing Business") which includes the operating and leasing of large scale commercial spaces to retailers and distributors.

Information regarding turnover derived from the above business is as follows:

	For the six months period ended 31st March,	
	2011	**2010**
	US$'000	*US$'000*
Turnover		
Manufacturing Business	2,606,872	2,059,739
Retailing Business	695,077	594,826
Total turnover	3,301,949	2,654,565

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

	For the six months ended 31st March,	
	2011	**2010**
	US$'000	*US$'000*
(Loss) gain on changes in fair value of:		
– JV Call Options *(defined in note 10a)*	(4,720)	217
– HKD call option *(defined in note 10b)*	(17,809)	20,253
– Derivatives embedded in convertible bonds *(note 15)*	17,565	(15,219)
– Derivative embedded in structured bank deposit	–	(196)
– Other derivative financial instruments	1,515	(1,285)
	(3,449)	3,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE

	For the six months ended 31st March, 2011 US$'000	2010 US$'000
Income tax expense attributable to the Company and its subsidiaries:		
Profits Tax:		
Hong Kong Profits Tax *(note i)*	395	25,297
PRC Enterprise Income Tax ("EIT") *(note ii)*	11,537	5,506
Overseas taxation *(note iii)*	3,008	1,049
	14,940	31,852
Deferred taxation	319	(571)
	15,259	31,281

notes:

(i) Hong Kong

	For the six months ended 31st March, 2011 US$'000	2010 US$'000
Hong Kong Profits Tax		
– current period	395	297
– prior years	–	25,000
	395	25,297

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

During the period from March 2004 to March 2010, the Hong Kong Inland Revenue Department (the "HKIRD") issued protective profits tax assessments to certain wholly owned subsidiaries of the Group. Following a series of subsequent negotiations, a compromised settlement with the HKIRD was reached in early June 2010 at a sum of about US$25 million as a full and final settlement of the profits tax of those subsidiaries 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

	For the six months ended 31st March, 2011	2010
	US$'000	*US$'000*
PRC EIT		
– current period	10,898	5,506
– underprovision in prior year	639	–
	11,537	5,506

PRC EIT is 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 rules and regulations in the PRC, except as follows:

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries were 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 expired or will expire between 2009 and 2012.

(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 obtained from tax authorities in charge, certain subsidiaries which were located in specified provinces of Western China and engaged in a specific encouraged industry were 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 concessions from EIT as set out in (a) above continue to be applicable until the expirations of the relevant concessions. Subject to the fulfillments of the conditions set out above, the preferential treatment set out in (b) above continues on the implementations of the Law of the PRC on EIT.

For entities which were 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 are allowed to be carried forward to future years until their expiry. However, if an entity did not commence its tax holiday due to its loss position, the tax holiday was deemed to commence from 2008 onwards. Certain PRC subsidiaries were loss-making up to 2008, their tax holidays were therefore deemed to commence in 2008.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

notes: (continued)

(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.

6. PROFIT FOR THE PERIOD

	For the six months ended 31st March, 2011	2010
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	97,406	88,769
Release of prepaid lease payments	2,910	3,482
Amortisation of intangible assets	2,837	2,310
Research and development expenditure (included in other expenses)	73,000	64,119
Allowance for inventories	2,001	11,959
Impairment loss on investments in an associate and jointly controlled entities (other than the investment classified as held for sale)	2,000	800
and after crediting to other income:		
Net exchange gain	9,495	3,066
Write back of impairment loss on trade receivables	638	294
Subsidies, rebates and other income from suppliers	16,603	10,385

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

	For the six months ended 31st March, 2011	2010
	US$'000	*US$'000*
Dividends recognised as distribution during the period:		
2010 final dividend of HK$0.56 per share (2010: 2009 final dividend of HK$0.55 per share) *(note)*	118,555	116,756

note:

The final dividends for each of the years ended 30th September, 2010 and 2009 of approximately US$118,555,000 and US$116,756,000, respectively, were declared and approved after 30th September, 2010 and 2009, respectively. Under the Group's accounting policy, they were recognised as distributions in the period in which they were declared.

At a meeting on 31st May, 2011, the directors of the Company declared an interim dividend of HK$0.34 per share for the year ending 30th September, 2011 (2010: interim dividend of HK$0.34 per share). The interim dividend of approximately US$72,032,000 (2010: US$72,221,000) will be paid on 15th July, 2011 to the shareholders on the register of members of the Company on 5th July, 2011.

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, 2011	2010
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	230,093	210,795
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds *(note a)*	7,813	–
Fair value changes on derivative embedded in convertible bonds *(note a)*	(17,565)	–
Adjustment to the share of profit of a subsidiary on dilution of its earnings per share *(note b)*	(1)	–
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	220,340	210,795

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE (continued)

	For the six months ended 31st March, 2011	2010
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,648,928,486	1,648,928,486
Effect of dilutive potential ordinary shares:		
USD Call Option 2011	78,504,672	78,504,672
USD Call Option 2015	92,247,920	–
Convertible bonds *(note a)*	73,480,373	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,893,161,451	1,727,433,158

notes:

(a) 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 because the assumed exercise of the conversion options would result in an increase in earnings per share (see Note 15).

(b) The computation of diluted earnings per share for the six months ended 31st March, 2010 does not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise price of those options was higher than the average market price of Pou Sheng for that period.

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Except for the fair value change recognised upon the disposal of certain investment properties of approximately US$4,612,000, the directors are of the opinion that the carrying value of the Group's investment properties as at 31st March, 2011 is not materially different from their fair value at that date. Accordingly, no valuation movement has been recognised in respect of the Group's remaining investment properties for the period.

During the period, the Group acquired property, plant and equipment of approximately US$247,678,000 (for the six months ended 31st March, 2010: US$116,450,000). In addition, property, plant and equipment of approximately US$3,641,000 (for the six months ended 31st March, 2010: Nil) were acquired through the acquisition of Zhejiang Yichuan Sports Goods Chain Company Limited ("Yichuan") (see Note 17).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS

		At 31st March, 2011		At 30th September, 2010	
		Assets	**Liabilities**	**Assets**	**Liabilities**
	notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Derivatives:					
Non-current:					
JV Call Options	(a)	33,244	–	46,024	–
Current:					
HKD Call Option	(b)	14,191	–	32,000	–
Foreign currency derivatives		2,385	682	2,407	2,219
Embedded derivatives in convertible bonds *(note 15)*		–	7,197	–	24,822
		16,576	7,879	34,407	27,041
		49,820	7,879	80,431	27,041

notes:

(a) JV Call Options

	At 31st March, 2011	At 30th September, 2010
	US$'000	*US$'000*
Derivative financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	33,244	46,024

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").

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 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. Such conditions were not yet fulfilled at the end of the reporting period except for the JV Call Options granted by Relevant Partners of Yichuan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(a) JV Call Options (continued)

Pursuant to the JV Call Options agreements 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. Furthermore, 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 a certain discount agreed between Pou Sheng and the Relevant Partners. The consideration is to be settled after deducting the Option Premium paid.

The value of each of the JV Call Options at 31st March, 2011 was estimated by Savills Valuation and Professional Services Limited, an independent valuer, using the Binomial Option Pricing 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, 2011	At 30th September, 2010
Derivative financial assets – JV Call Options:		
Expected price earning ratio – Pou Sheng	19	24
Expected volatility – Pou Sheng	55%	53%
Expected volatility – the Relevant Companies	35%	34%
Risk free rate	3.30%	2.36%
Exercisable period	2.68 years	3.18 years
Expected dividend yield	Nil	Nil

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 over the past years.

In October 2010, the Group exercised a JV Call Option to acquire the Relevant Entity Interests in Yichuan. As at the completion date of the transaction, the carrying amount of the relevant JV Call Option of approximately US$8,060,000 were derecognised and included as cost of investment in Yichuan, as set out in Note 17.

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 in March 2008, the initial premium paid of US$27,994,000 was recognised as a derivative financial asset. At 31st March, 2011, the HKD Call Option was fair valued at approximately US$14,191,000 (30th September, 2010: US$32,000,000). The change in fair value of approximately US$17,809,000 has been accounted for in the condensed consolidated income statement for the six months ended 31st March, 2011.

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, 2011	At 30th September, 2010
Share price of the Company	HK$24.60	HK$28.75
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.6%	3.1%
Volatility	25%	26%

11. TRADE AND OTHER RECEIVABLES

The Group allows credit periods 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 approximately US$688,741,000 (30th September, 2010: US$720,430,000). An aged analysis based on the invoice date is as follows:

	At 31st March, 2011 *US$'000*	At 30th September, 2010 *US$'000*
0 to 30 days	484,483	505,508
31 to 90 days	191,802	200,036
Over 90 days	12,456	14,886
	688,741	720,430

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ASSETS CLASSIFIED AS HELD FOR SALE

	At 31st March, 2011 *US$'000*
Amount comprises:	
Property, plant and equipment	32,723
Prepaid lease payments	3,255
	35,978

On 10th November, 2010, the Group entered into an agreement with a third party, pursuant to which the Group agreed to dispose of, and the third party agreed to acquire, a shopping mall building and the associated land use rights from the Group at an aggregate consideration of RMB270,000,000 (equivalent to approximately US$41,178,000).

As of 31st March, 2011, the Group received from the buyer an amount of RMB93,637,000 (equivalent to approximately US$14,281,000) as a deposit for the acquisition, which was accounted for as a deposit received for sale of properties (included in trade and other payables) in the condensed consolidated statement of financial position. The transaction is expected to be completed in June 2011.

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately US$471,552,000 (30th September, 2010: US$440,538,000). An aged analysis based on the invoice date is as follows:

	At 31st March, 2011 *US$'000*	At 30th September, 2010 *US$'000*
0 to 30 days	360,928	331,718
31 to 90 days	90,408	87,154
Over 90 days	20,216	21,666
	471,552	440,538

14. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately US$1,651 million (2010: US$551 million). The borrowings bear interest at market rates. The proceeds were used to repay existing banking borrowings of approximately US$1,483 million (2010: US$552 million) and to finance the daily operation of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

15. CONVERTIBLE BONDS

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 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 were permitted, at their option, to 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. 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 approximately US$460,000 was charged to the condensed consolidated income statement on the partial redemption during the period ended 31st March, 2010.

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. Accordingly, the liability component of CB 2011 was classified as a current liability as at 31st March, 2011.

In addition, all but not only part 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, 2011, the liability component of CB 2011 with a carrying amount of US$275,655,000 (30th September, 2010: US$268,649,000) and principal amount of HK$1,965,600,000 (30th September, 2010: HK$1,965,600,000), equivalent to approximately US$252 million (30th September, 2010: US$252 million) remained outstanding.

At 31st March, 2011, the fair value of the CB 2011 based on quoted ask price was US$290,489,000 (30th September, 2010: US$302,667,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. CONVERTIBLE BONDS (continued)

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

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

	For the six months ended 31st March,	
	2011	**2010**
	US$'000	*US$'000*
At the beginning of the period	268,649	271,337
Effective interest expenses	7,813	7,518
Partial redemption of CB 2011	–	(17,496)
Exchange difference	(807)	(437)
At the end of the period	275,655	260,922
Less: amount included in current liabilities	(275,655)	–
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,	
	2011	**2010**
	US$'000	*US$'000*
At the beginning of the period	24,822	10,568
Partial redemption of CB 2011	–	(728)
Exchange realignment	(60)	9
Changes in fair value	(17,565)	15,219
At the end of the period	7,197	25,068

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)

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

The inputs used in the Monis Model adopted by the management in determining the fair values of the derivatives embedded in the CB 2011 at the end of reporting period are as follows:

	At 31st March, 2011	At 30th September, 2010
Share price	HK$24.60	HK$28.75
Exercise price	HK$26.75	HK$26.75
Expected dividend yield	3.6%	3.1%
Volatility	25%	26%

16. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.25 each:		
At 1st October, 2009, 31st March, 2010, 30th September, 2010 and 31st March, 2011	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 1st October, 2009, 31st March, 2010, 30th September, 2010 and 31st March, 2011	1,648,928,486	412,232

	US$'000
Shown in the condensed consolidated financial statements as at:	
1st October, 2009, 31st March, 2010, 30th September, 2010 and 31st March, 2011	53,211

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ACQUISITION OF SUBSIDIARIES

For the period ended 31st March, 2011

Yichuan is a limited liability company established in the PRC and is principally engaged in the sportswear retailing business. In order to strengthen the Group's market position and geographical coverage in the PRC, the Group exercised a Call Option to acquire the remaining 50% equity interest in Yichuan not already held by the Group. The transaction was completed on 1st October, 2010 and control over Yichuan passed to the Group on the same date. This acquisition has been accounted for using the acquisition method and resulted in the recognition of goodwill of US$14,604,000, calculated as follows:

Goodwill arising on acquisition:

	US$'000
Consideration transferred *(note i)*	64,470
Less: net assets acquired *(note ii)*	(49,866)
Goodwill arising on acquisition	14,604

Goodwill arose on acquisition of Yichuan because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Yichuan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

notes:

(i) Consideration transferred

	US$'000
The consideration for the acquisition comprises the following:	
Cash consideration *(note a)*	25,501
Consideration shares *(note b)*	2,693
Contingently issuable shares *(note c)*	1,092
Related call option *(Note 10(a))*	8,060
Fair value of previously held interest in Yichuan *(note d)*	27,124
Total consideration	64,470

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ACQUISITION OF SUBSIDIARIES (continued)

notes: (continued)

(i) Consideration transferred (continued)

notes:

(a) A total cash consideration of US$25,501,000, of which (i) US$19,223,000 was paid as a deposit at 30th September, 2010, (ii) US$3,139,000 is payable before 30th September, 2011 and (iii) US$3,139,000 is payable before 30th September, 2012. The net present value of the total cash consideration approximates to the amount of cash paid and payable for the acquisition.

(b) The issue and allotment of 6,330,000 shares of HK$0.01 each in Pou Sheng each year for 3 years (which in aggregate are 18,990,000 shares of HK$0.01 each in Pou Sheng). Such issue and allotment of shares are to be completed on or before 30th September, 2011, 30th September, 2012 and 30th September, 2013, respectively. The fair value of these consideration shares has been determined by American Appraisal China Limited ("American Appraisal"), a firm of independent professional valuers, using the closing share price of Pou Sheng as at 30th September, 2010.

(c) For each of the three fiscal years ending 30th September, 2013, if the audited after-tax profit of Yichuan reaches a pre-determined level, Pou Sheng will be required to issue an additional 5,000,000 shares of HK$0.01 each in Pou Sheng to the vendors. The fair value of these contingently issuable shares has been determined by American Appraisal, using the closing share price of Pou Sheng as at 30th September, 2010 and with reference to management's best estimate of the likelihood that the profit target will be met.

(d) The fair value of the 50% equity interest in Yichuan previously held by the Group has been re-measured as of the date of acquisition at US$27,124,000 by American Appraisal, resulting in a gain of US$18,767,000.

(e) The acquisition-related costs of the above transaction amounting to US$51,000 have been excluded from the consideration transferred and have been recognised as an expense in the current period (included in administrative expenses) in the condensed consolidated income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ACQUISITION OF SUBSIDIARIES (continued)

notes: (continued)

(ii) Assets acquired and liabilities recognised at the date of acquisition

	US$'000
Property, plant and equipment	3,641
Deposit paid for acquisition of property, plant and equipment	480
Non-compete agreement (included in intangible assets) *(note)*	4,569
Brandname (included in intangible assets) *(note)*	37,501
Inventories	38,335
Trade and other receivables	23,477
Bank balances and cash	1,531
Trade and other payables	(31,535)
Taxation payable	(638)
Bank borrowings	(16,978)
Deferred tax liabilities	(10,517)
	49,866

note:

Intangible assets, being the non-compete agreement and brandname, were valued as of that date by American Appraisal, on the following basis:

Non-compete agreement	The "With and Without" method under the Income Approach
Brandname	The Relief from Royalty method under the Income Approach

The non-compete agreement is amortised on a straight-line basis over five years. The brandname is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely.

In estimating the fair values of the intangible assets on initial recognition, the present values of the net cash flows attributable to the intangible assets have been determined using a discount rate of 14%. Other key assumptions used in the calculations related to the estimation of cash inflows/outflows which included budgeted sales and gross margin. Such estimation was based on the past performance of Yichuan and its subsidiaries and management's expectations for the market development.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ACQUISITION OF SUBSIDIARIES (continued)

notes: (continued)

(iii) Net cash inflow arising on acquisition

	US$'000
Bank balances and cash acquired	1,531

The turnover and profit of Yichuan for the current period is US$81,905,000 and US$1,992,000, respectively. As the acquisition of Yichuan was completed on 1st October, 2010, such turnover and profit have been consolidated in full in the condensed consolidated income statement.

18. CONTINGENCIES AND COMMITMENTS

At the end of the reporting period, the Group had the following contingencies and commitments:

(I) CONTINGENCIES

	At 31st March, 2011 *US$'000*	**At 30th September, 2010** *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) jointly controlled entities		
– amount guaranteed	84,102	99,774
– amount utilised	44,295	54,493
(ii) associates		
– amount guaranteed	30,725	36,914
– amount utilised	23,249	22,287
(iii) a former subsidiary		
– amount guaranteed	12,201	–
– amount utilised	12,201	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CONTINGENCIES AND COMMITMENTS (continued)

(II) COMMITMENTS

	At 31st March, 2011 US$'000	At 30th September, 2010 US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	45,867	76,524
– acquisition of property, plant and equipment	7,258	13,195
	53,125	89,719
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– investments in available-for-sales investments	3,651	3,520
– capital injection in jointly controlled entities	1,586	1,556
– acquisition of the remaining interests in a jointly controlled entity	–	8,969
	5,237	14,045
	58,362	103,764

INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.34 per share for the year ending 30th September, 2011 to shareholders whose names appear on the Register of Members on Tuesday, 5th July, 2011. The interim dividend will be paid on Friday, 15th July, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 5th July, 2011 to Friday, 8th July, 2011, 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 Monday, 4th July, 2011.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover rose 24.4% year-on-year to approximately US$3,301.9 million, and net profit attributable to owners of the Company increased by 9.2% year-on-year to approximately US$230.1 million.

Operations

Both footwear manufacturing and the retail operations in the Greater China Region saw solid sales growth compared to the same period last year.

Shoe manufacturing activity represents 70.8% of the Group's turnover. The Group's major customers have seen their sales grow in their recent financial year and expect calendar year 2011 also to experience sales growth. For the six month period, the Group's shoe manufacturing sales increased by 27.1% to US$2,336.9 million underpinned by shoe manufacturing volume that was up by 19.7% to 162.8 million pairs, and an increase of 6.2% in the average sales price to US$14.35 per pair. The total number of production lines grew by 10.0% to 506 lines for the 6 months ended 31st March, 2011.

Retail Turnover from the wholesale and retail operations in the Greater China region, representing 21.1% of the Group's turnover, also grew on a year-on-year basis as a consequence of the strength in consumer spending in the Greater China region. Retail Turnover increased by 16.8% to US$695.1 million in the six month period. The Group as at 31st March, 2011, had 2,765 directly operated retail stores/counters and had 3,282 sub-distributors, giving the Group a total of 6,047 points of sale across the region.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Operations (continued)

The table below shows the total turnover by product category.

Total Turnover by Product Category

Six months ended 31st March	**2011**		**2010**		**y-o-y**
	US$ millions	*%*	*US$ millions*	*%*	*% change*
Athletic Shoes	1,753.8	53.1	1,424.8	53.7	23.1
Casual/Outdoor Shoes	530.3	16.1	370.9	14.0	43.0
Sports Sandals	52.8	1.6	43.5	1.6	21.4
Retail Turnover	695.1	21.1	594.9	22.4	16.8
Soles, Components & Others	269.9	8.1	220.5	8.3	22.4
Total Turnover	**3,301.9**	**100.0**	**2,654.6**	**100.0**	**24.4**

The growth of the retail business in the Greater China region has made Asia the largest market for the Group and the turnover from the three major markets, the USA, Europe and Asia, comprise 91.8% of the Group's turnover. Excluding the retail business turnover, shoe manufacturing turnover for the Asia region represents roughly 20.4% of the Group's turnover. Even from the standpoint of shoe manufacturing turnover, the USA, Europe and Asia are the three largest markets.

The table below shows the total turnover by geographical market.

Total Turnover by Geographical Market

Six months ended 31st March	**2011**		**2010**		**y-o-y**
	US$ millions	*%*	*US$ millions*	*%*	*% change*
U.S.A.	944.5	28.6	793.9	29.9	19.0
Europe	718.3	21.8	553.4	20.9	29.8
Asia	1,368.3	41.4	1,113.3	42.0	22.9
South America	143.3	4.3	83.3	3.1	72.0
Canada	52.8	1.6	41.0	1.5	28.8
Other Areas	74.7	2.3	69.7	2.6	7.2
Total Turnover	**3,301.9**	**100.0**	**2,654.6**	**100.0**	**24.4**

Looking Forward

Unaudited Group turnover grew in the month of April 2011 on account of the continuing recovery of the global economy: Group turnover increased by around 26% year-on-year to approximately US$613 million.

Overall, the Group has achieved turnover growth in the seven months ended 30th April, 2011, compared to the same period last year, to around US$3.9 billion, an increase of just over 24%. The start up of new production facilities in Mainland China, Indonesia, Vietnam and Bangladesh, is an incremental process that requires time. In the short term, time and resources need to be set aside to gradually fine tune the production line and train up new production staff. Increasing wages in China will help maintain consumer spending growth in the Country, which in turn should lead to further sales growth for the Group's international athletic and casual brand name customers.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Financial Position

The Group maintains a stable financial position. As at 31st March, 2011, the Group had cash and cash equivalents of US$655 million (30th September, 2010: US$622 million) and total borrowings of US$1,173 million, including the convertible bonds, (30th September, 2010: US$979 million). Net debt was US$518 million as at 31st March, 2011 compared to US$357 million as at 30th September, 2010 as the Group increased capital expenditures by 118% to US$258 million for the six month period. The gearing ratio stood at 30% (30th September, 2010: 26%) and the net debt to equity ratio was 13% (30th September, 2010: 9%). The gearing ratio is based on total borrowings to total equity and the net debt to equity ratio is based on total borrowings net of cash and cash equivalents to total equity.

CORPORATE SOCIAL RESPONSIBILITY

The Group's Sustainable Development ("SD") department continues to guide the Group so that it can fulfill its corporate and social responsibility. The SD department achieves this principally through three avenues. First, it assists the Group to follow closely the Codes of Conduct ("CoC") developed by the brand name customers. These CoC are crucial to ensure that factories are managed in a manner consistent with developed world labour management practices and are considered generally accepted codes of conduct. By following these codes of conduct, the Group not only protects its reputation but also strengthens its relationship with its brand name customers. Secondly, the SD department helps the factories develop programs that improve employee safety and thus reduce the number of industrial accidents. Finally, the SD department works together with the factories on programs that promote environmental protection. Protection of the environment is achieved by either saving energy, or reducing the production of waste. Stakeholders of corporations expect leading organizations to address the issues relating to corporate and social responsibility.

In China, the Group continues to look for ways to improve operating safety, save energy and for approaches to increase employee well being in the workplace. Factories have dedicated resources to the ergonomics of the production line, on the one hand looking for techniques to reduce the involvement of labour and on the other to optimize the layout of the workstation. Factories have also been upgrading the technology for the chemical boilers, in particular where possible switching from using heavy oil to natural gas as the operating fuel, so as to reduce pollution emissions. One of the Zhongshan factories recently held various parenting classes to help factory employees strengthen the relationship between parents and children. A Huangjiang factory installed a new ion-exchange system for treating waste water and this has helped reduce fresh water usage by 40%. Another Huangjiang factory implemented new canteen procedures for employees so as to provide a greater choice of meal dishes: this change has helped elevate employee satisfaction in the factory. A factory in Jiangxi together with a technical college offered a course to students on factory management principles. Another factory in Jiangxi was recently commended by the district government for the programs it created to protect the environment. A factory in Dongguan recently provided a series of courses to teach employees new computer skills: employees were enthusiastic and the factory will continue to offer the courses in the future. The factories continue to teach workers on the importance of personal hygiene as well as promote social activities to educate and help communities surrounding the factories.

CORPORATE SOCIAL RESPONSIBILITY (continued)

In Vietnam, the Group has been involved in charitable activities to help both employees and the communities surrounding the factories. Recently the Group started the construction of a kindergarten for children of the factory staff. The initial capacity will be at least 500 students and it will be built incorporating the latest designs expected of environmentally friendly building structures. The target is to have kindergarten operating in the next twelve to eighteen months and to expand capacity over time. The factory in Dong Nai held a traffic safety contest to improve the awareness of traffic safety for all employees. In another instance, the factory was involved in a community event to provide gifts to under privileged children. The factory also sponsored various events to help employees celebrate the Chinese New Year and to strengthen the relationship between management and employees. The factory also sponsored various activities to commemorate International Women's Day and support the Earth Hour Event promoting energy efficiency. The factory implemented various changes to the premises to enhance illumination and ventilation so as to improve the health and safety of employees and to help save energy. The factory near Ho Chi Minh City held a football contest for employees to improve employee spirit within the factory. An event was also held to provide employees information about important aspects of children's health. The factory held an event to recognize workers who had been employees for at least ten years. The factory also held seminars to educate workers on issues such as contagious diseases, personal hygiene, women's health during pregnancy and worker safety in the factory.

In Indonesia, the Group held community activities like free medical service, and donation for local events to help employees and villagers surrounding a key industry park. Meanwhile, factories held various activities like seminars, training, sport campaign, modern dance, and health fair for employees to have a better understanding of their rights, hygiene, safety issues on the production floor and relaxation from the team activities. The health fair is a two day event that allows the organizers to teach production workers within a friendly and relaxed atmosphere, important concepts regarding personal health, starting from personal hygiene all the way to encompassing more complex issues such as women's health during pregnancy. The Group has found the health fair event is an effective way to engage the majority of workers on the production floor. These events help factory employees be happier and keep better health. Various initiatives like to build the energy saving mindset into the work place, and devices installed on machines to limit the wastage of energy, and innovation on both process and machinery to reduce the energy consumption, those are promoted to make the factories more energy efficient and environmentally friendly were also carried out. The Group has also periodically organized expeditions to villages surround the factory to provide free medical services. The factories in a few instances won awards from key customers for their leading efforts in the area of social environmental affairs.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2011, the interest or short position of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (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

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	4,833,000	–	–	–	4,833,000	0.11%
Chan Lu Min	681,000	–	–	–	681,000	0.01%
Tsai Pei Chun, Patty	4,460,000	–	–	–	4,460,000	0.10%

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, 2011.

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.

SHARE INCENTIVE SCHEMES (continued)

(b) Share Option Scheme of Pou Sheng

On 14th May, 2008, Pou Sheng adopted a share option scheme (the "Pou Sheng Scheme") under which the board of Pou Sheng may at its discretion grant any eligible participant share options, as it may determine appropriate. 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.

Pursuant to the Pou Sheng Scheme, 55,000,000 options were granted to eligible participants of Pou Sheng on 20th January, 2011 (2010: 64,500,000 options granted on 21st January, 2010) and the Group recognized a total expense of US$1,220,000 as equity-settled share-based payments in relation to the options granted by the Pou Sheng Scheme for the period ended 31st March, 2011 (2010: US$413,000).

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

	Date of grant	Exercise price *HK$*	Exercisable period	Number of options outstanding at 01/10/2010	Granted during the period	Exercise during the period	Lapsed/ cancelled during the period	Number of options outstanding at 31/03/2011
Director of Pou Sheng								
Chang Karen Yi-Fen	21/01/2010	1.62	21/01/2011 – 20/01/2018	570,000	–	–	–	570,000
	21/01/2010	1.62	21/01/2012 – 20/01/2018	570,000	–	–	–	570,000
	21/01/2010	1.62	21/01/2013 – 20/01/2018	1,140,000	–	–	–	1,140,000
	21/01/2010	1.62	21/01/2014 – 20/01/2018	1,520,000	–	–	–	1,520,000
	20/01/2011	1.23	20/01/2012 – 19/01/2019	–	1,250,000	–	–	1,250,000
	20/01/2011	1.23	20/01/2013 – 19/01/2019	–	1,250,000	–	–	1,250,000
	20/01/2011	1.23	20/01/2014 – 19/01/2019	–	1,250,000	–	–	1,250,000
	20/01/2011	1.23	20/01/2015 – 19/01/2019	–	1,250,000	–	–	1,250,000
				3,800,000	5,000,000	–	–	8,800,000

SHARE INCENTIVE SCHEMES (continued)

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

	Date of grant	Exercise price *HK$*	Exercisable period	Number of options outstanding at 01/10/2010	Granted during the period	Exercise during the period	Lapsed/ cancelled during the period	Number of options outstanding at 31/03/2011
Employees of Pou Sheng	21/01/2010	1.62	21/01/2011 – 20/01/2018	8,356,500	–	–	(623,250)	7,733,250
	21/01/2010	1.62	21/01/2012 – 20/01/2018	8,356,500	–	–	(623,250)	7,733,250
	21/01/2010	1.62	21/01/2013 – 20/01/2018	16,713,000	–	–	(1,246,500)	15,466,500
	21/01/2010	1.62	21/01/2014 – 20/01/2018	22,284,000	–	–	(1,662,000)	20,622,000
	20/01/2011	1.23	20/01/2012 – 19/01/2019	–	12,500,000	–	–	12,500,000
	20/01/2011	1.23	20/01/2013 – 19/01/2019	–	12,500,000	–	–	12,500,000
	20/01/2011	1.23	20/01/2014 – 19/01/2019	–	12,500,000	–	–	12,500,000
	20/01/2011	1.23	20/01/2015 – 19/01/2019	–	12,500,000	–	–	12,500,000
				55,710,000	50,000,000	–	(4,155,000)	101,555,000
Grand total				59,510,000	55,000,000	–	(4,155,000)	110,355,000

The vesting period of the options is from the date of grant until the commencement of the exercisable period.

The closing price of the shares of Pou Sheng immediately before the date of which the options were granted during the period was HK$1.28 and the details of the fair value, vesting schedule and exercisable period of the options are as follows:

Vesting period	Exercisable period	Percentage vesting	Fair value (per option) *HK$*
20/01/2011 to 19/01/2012	20/01/2012 to 19/01/2019	25% of options granted	0.52
20/01/2011 to 19/01/2013	20/01/2013 to 19/01/2019	25% of options granted	0.55
20/01/2011 to 19/01/2014	20/01/2014 to 19/01/2019	25% of options granted	0.58
20/01/2011 to 19/01/2015	20/01/2015 to 19/01/2019	25% of options granted	0.60

SHARE INCENTIVE SCHEMES (continued)

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

The binomial option pricing model (the "Model") was adopted to assess the fair value of the options granted as at the grant date 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 major inputs into the Model are as follows:

	Options granted on 20th January, 2011
Date of grant (measurement date)	20th January, 2011
Closing price of the shares of Pou Sheng on the date of grant	HK$1.23
Exercise price per share	HK$1.23
Expected volatility	50%
Expected life of the option	vesting period plus one half of exercisable period
Annual risk free rate	1.55% – 1.97%
Expected dividend yield	Nil

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

It is expected the dividend yield will be zero 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, 2011, 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	773,156,303	46.88%
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%
Citigroup Inc.	e	105,906,126	6.42%
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, 773,156,303 ordinary shares were held by Wealthplus as listed above and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. David N.F. Tsai, Mr. Chan Lu Min 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.

(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 who is a director of the Company is also a director 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 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.

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(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.

(e) The 105,906,126 ordinary shares (long position) are held as to 101,226,416 ordinary shares as corporation interest, 4,096,710 ordinary shares in the capacity as custodian corporation/approved lending agent and 583,000 ordinary shares as security interest. Further, 9,084,813 ordinary shares in short position are held as corporation interest. Of the 105,906,126 ordinary shares in long position, 92,247,920 ordinary shares represent underlying interests in physically settled unlisted derivatives.

Of the 105,906,126 ordinary shares (long position) held by Citigroup Inc., 7,388,195 ordinary shares (long position) are directly held by Citigroup Global Markets Inc., 601,635 ordinary shares (long position) are directly held by Morgan Stanley Smith Barney, 92,325,050 ordinary shares (long position) are directly held by Citigroup Global Markets Financial Products LLC, 1,461,496 ordinary shares (long position) are directly held by Citigroup Global Markets Ltd, 28,790 ordinary shares (long position) are directly held by Citigroup Trust – Delaware, National Association and 4,100,960 ordinary shares (long position) are directly held by Citibank N.A.

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(e) *(continued)*

Of the 9,084,813 ordinary shares (short position) interested by Citigroup Inc., 7,021,000 ordinary shares (short position) are directly interested by Citigroup Global Markets Inc., 154,500 ordinary shares (short position) are directly interested by Citigroup Global Markets Financial Products LLC and 1,909,313 ordinary shares (short position) are directly interested by Citigroup Global Markets Ltd.

Morgan Stanley Smith Barney is owned as to 49% by Citigroup Global Markets Inc., which is in turn wholly-owned by Citigroup Financial Products Inc. Citigroup Global Markets Financial Products LLC is wholly-owned by Citigroup Global Markets Holdings GmbH, which is in turn owned as to 75.7% by Citigroup Global Markets (International) Finance AG, which is in turn wholly-owned by Citigroup Financial Products Inc. Citigroup Global Markets Ltd is wholly-owned by Citigroup Global Markets Europe Ltd, which is in turn owned as to 97.33% by Citigroup Global Markets LLC, which is in turn wholly-owned by Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is therefore deemed to be interested in an aggregate of 101,776,376 ordinary shares (long position) and 9,084,813 ordinary shares (short position).

Citigroup Financial Products Inc. is wholly-owned by Citigroup Global Markets Holdings Inc., which is in turn wholly-owned by Citigroup Inc.

Citigroup Trust – Delaware, National Association is wholly-owned by Citibank N.A., which is in turn wholly-owned by Citicorp Holdings Inc., which is in turn wholly-owned by Citigroup Inc.. Citibank N.A. is therefore deemed to be interested in an aggregate of 4,129,750 ordinary shares (long position).

In light of the above, Citigroup Inc. is deemed to be interested in an aggregate of 105,906,126 ordinary shares (long position) and 9,084,813 ordinary shares (short position).

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31st March, 2011.

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

Mr. Lee Shao Wu was appointed as an executive director of the Company on 19th January, 2011.

On 4th March, 2011, Mr. John J. D. Sy was retired as a non-executive director, members of audit committee and remuneration committee of the Company.

During the period ended 31st March, 2011, Mr. Li I Nan, Steve, the executive director of the Company, was appointed as a director of CK Shoetech Management Limited, Prime Wise Investments Limited, Keen Vision Holdings Limited and Luckville Limited, the subsidiaries of the Company, which are incorporated in the British Virgin Islands (the "BVI").

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

During the period ended 31st March, 2011, Mr. Chan Lu Min, the executive director of the Company, was appointed as a director of CK Shoetech Management Limited and Prime Wise Investments Limited, the subsidiaries of the Company, which are incorporated in the BVI.

On 13th December, 2010, Mr. Lu Chin Chu, the executive director of the Company, was appointed as a director of Prime Wise Investments Limited, the subsidiary of the Company, which is incorporated in the BVI. Mr. Lu was retired as an executive director of the Company on 4th March, 2011.

During the period ended 31st March, 2011, Mr. Kung Sung Yen, the executive director of the Company, was appointed as a director of Keen Vision Holdings Limited and Luckville Limited, the subsidiaries of the Company, which are incorporated in the BVI.

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, 2011.

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, 2011 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, 2011, 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, 2011.

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. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve, Ms. Tsai Pei Chun, Patty, Ms. Kuo Li-Lien and Mr. Lee Shao Wu are the Executive Directors 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, 31st May, 2011

Website: www.yueyuen.com