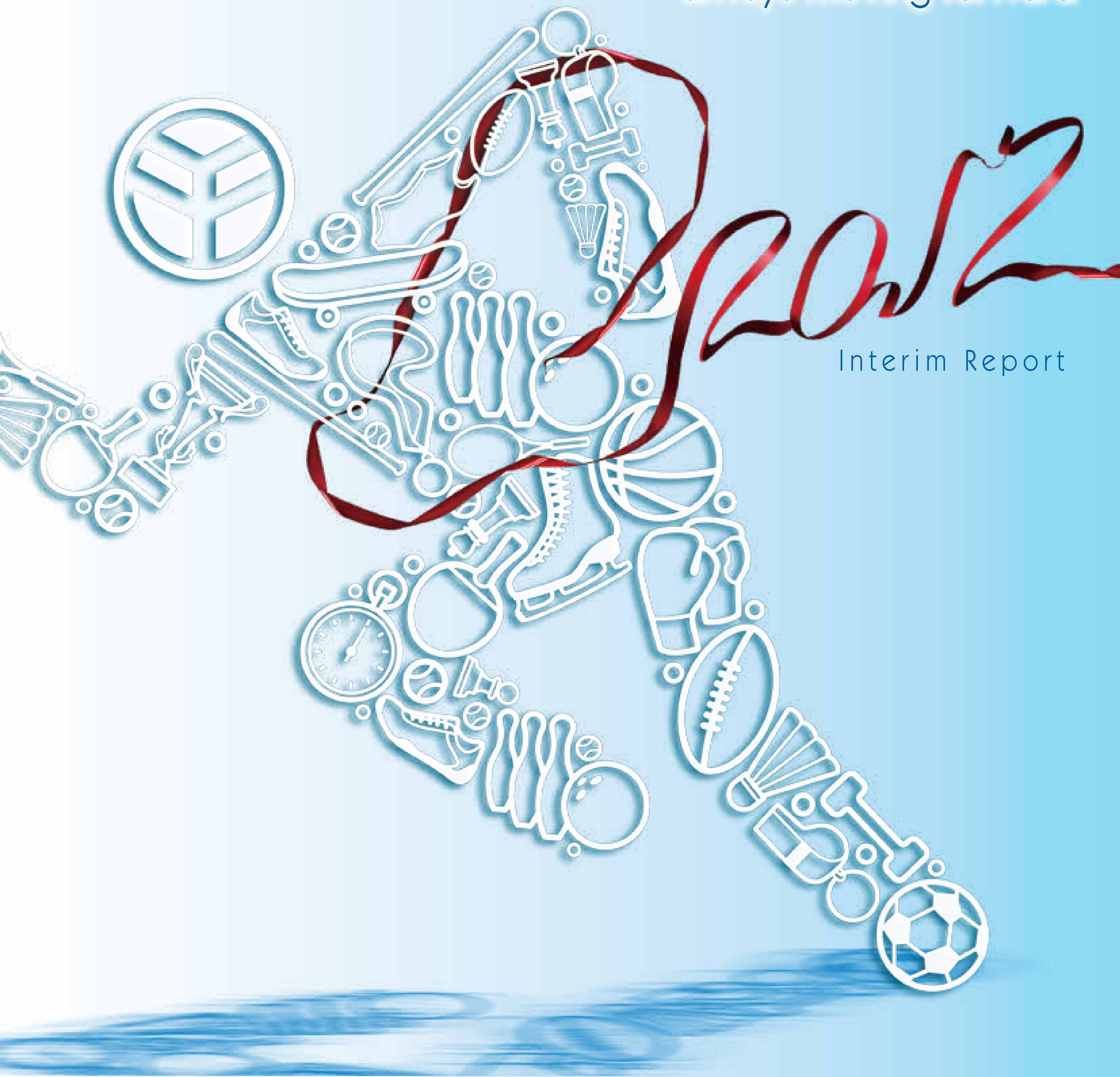
裕元工業(集團)有限公司
**Yue Yuen Industrial (Holdings) Limited**
Stock Code : 551

# One step at a time, always moving forward



# 2012 Interim Report

# 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, 2012

### GROUP FINANCIAL HIGHLIGHTS

| | For the six months ended 31st March, 2012 | 2011 | Percentage increase |
|---|---|---|---|
| Turnover *(US$'000)* | 3,614,010 | 3,301,949 | 9.45% |
| Recurring profit attributable to owners of the Company *(US$'000)* | 232,632 | 218,657 | 6.39% |
| Non-recurring profit attributable to owners of the Company *(US$'000)* | 46,225 | 11,436 | 304.21% |
| Profit attributable to owners of the Company *(US$'000)* | 278,857 | 230,093 | 21.19% |
| Basic earnings per share *(US cents)* | 16.9 | 14.0 | 20.71% |
| Dividend per share – interim *(HK$)* | 0.35 | 0.34 | 2.94% |

* *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, 2012 with comparative figures for the corresponding period in 2011 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 31st March, 2012*

| | | For the six months ended 31st March, | |
|---|---|---|---|
| | | 2012 | 2011 |
| | | (unaudited) | (unaudited) |
| | *Notes* | *US$'000* | *US$'000* |
| Turnover | 3 | 3,614,010 | 3,301,949 |
| Cost of sales | | (2,782,285) | (2,546,397) |
| Gross profit | | 831,725 | 755,552 |
| Other income | | 94,685 | 74,326 |
| Selling and distribution expenses | | (305,023) | (260,953) |
| Administrative expenses | | (271,894) | (246,999) |
| Other expenses | | (105,479) | (84,787) |
| Finance costs | | (18,696) | (19,595) |
| Fair value changes on derivative financial instruments | 4 | (889) | (3,449) |
| Gain on deemed disposal of jointly controlled entities | 17(j) | 5,898 | 18,767 |
| Gain on disposal of subsidiaries | 18 | 5,761 | – |
| Fair value changes on investment properties | | – | 4,612 |
| Impairment loss of an available-for-sale investment | | – | (100) |
| Impairment losses on investments in an associate and jointly controlled entities | | (6,290) | (2,000) |
| Share of results of associates | | 18,183 | 17,643 |
| Share of results of jointly controlled entities | | 40,247 | 11,869 |
| Profit before taxation | | 288,228 | 264,886 |
| Income tax expense | 5 | (7,753) | (15,259) |
| Profit for the period | 6a | 280,475 | 249,627 |
| Attributable to: | | | |
| Owners of the Company | | 278,857 | 230,093 |
| Non-controlling interests | | 1,618 | 19,534 |
| | | 280,475 | 249,627 |
| | | *US cents* | *US cents* |
| Earnings per share | 8 | | |
| – Basic | | 16.9 | 14.0 |
| – Diluted | | 15.9 | 11.6 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 31st March, 2012*

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Profit for the period | 280,475 | 249,627 |
| **Other comprehensive income** | | |
| Exchange difference arising on the translation of foreign operations | 25,243 | 21,021 |
| Gain on fair value changes of investments | 4,019 | 1,877 |
| Other comprehensive income for the period | 29,262 | 22,898 |
| Total comprehensive income for the period | 309,737 | 272,525 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 298,907 | 246,155 |
| Non-controlling interests | 10,830 | 26,370 |
| | 309,737 | 272,525 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st March, 2012*

| | Notes | At 31st March, 2012 (unaudited) US$'000 | At 30th September, 2011 (audited) US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 9 | 41,469 | 41,469 |
| Property, plant and equipment | 9 | 1,897,374 | 1,849,997 |
| Deposits paid for acquisition of property, plant and equipment | | 9,330 | 15,156 |
| Prepaid lease payments | | 189,847 | 189,000 |
| Intangible assets | | 147,309 | 111,882 |
| Goodwill | | 282,578 | 233,211 |
| Investments in associates | | 395,089 | 382,677 |
| Amounts due from associates | | 11,362 | 11,155 |
| Investments in jointly controlled entities | | 381,791 | 352,153 |
| Deposit paid for acquisition of the remaining interest in jointly controlled entities | | 1,963 | 1,219 |
| Amounts due from jointly controlled entities | | 114,501 | 123,387 |
| Long-term loan receivables | | 8,431 | 8,311 |
| Available-for-sale investments | | 23,965 | 30,959 |
| Rental deposits and prepayments | | 26,584 | 25,927 |
| Derivative financial instruments | 10 | 5,834 | 22,363 |
| Pledged bank deposits | | 12,687 | 12,507 |
| Deferred tax assets | | 3,458 | 1,978 |
| Deposit paid for proposed acquisition of a business | 17(d) | – | 3,127 |
| | | 3,553,572 | 3,416,478 |
| Current assets | | | |
| Inventories | | 1,220,770 | 1,087,895 |
| Trade and other receivables | 11 | 1,148,321 | 1,152,069 |
| Prepaid lease payments | | 5,420 | 5,403 |
| Taxation recoverable | | 2,030 | 1,435 |
| Available-for-sale investments | | – | 938 |
| Derivative financial instruments | 10 | 1,721 | 226 |
| Bank balances and cash | | 930,144 | 704,095 |
| | | 3,308,406 | 2,952,061 |
| Assets classified as held for sale | 12 | – | 104,725 |
| | | 3,308,406 | 3,056,786 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

*At 31st March, 2012 (continued)*

| | *Notes* | **At 31st March, 2012 (unaudited)** *US$'000* | **At 30th September, 2011 (audited)** *US$'000* |
|---|---|---|---|
| Current liabilities | | | |
| Bank overdrafts | | 29,110 | – |
| Trade and other payables | 13 | 1,113,580 | 1,109,451 |
| Taxation payable | | 15,717 | 15,314 |
| Derivative financial instruments | 10 | 572 | 13,349 |
| Bank borrowings | 14 | 628,905 | 453,951 |
| Convertible bonds | 15 | – | 283,377 |
| | | 1,787,884 | 1,875,442 |
| Liabilities associated with assets classified as held for sale | 12 | – | 38,550 |
| | | 1,787,884 | 1,913,992 |
| Net current assets | | 1,520,522 | 1,142,794 |
| Total assets less current liabilities | | 5,074,094 | 4,559,272 |
| Non-current liabilities | | | |
| Consideration payable for acquisition of business | | 18,410 | – |
| Long-term bank borrowings | 14 | 727,644 | 415,120 |
| Deferred tax liabilities | | 44,894 | 37,475 |
| | | 790,948 | 452,595 |
| Net assets | | 4,283,146 | 4,106,677 |
| Capital and reserves | | | |
| Share capital | 16 | 53,211 | 53,211 |
| Reserves | | 3,782,613 | 3,600,557 |
| Equity attributable to owners of the Company | | 3,835,824 | 3,653,768 |
| Non-controlling interests | | 447,322 | 452,909 |
| Total equity | | 4,283,146 | 4,106,677 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31st March, 2012*

| | 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) | Property revaluation reserve US$'000 | Non-distributable reserve fund US$'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, 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 | – | – | – | – | – | – | – | – | – | – | – | 3,785 | 3,785 |
| Deregistration of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | (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 |
| Exchange difference arising on the translation of foreign operations | – | – | – | – | – | – | – | – | 16,121 | – | 16,121 | 7,626 | 23,747 |
| Loss on fair value changes of investments | – | – | (5,901) | – | – | – | – | – | – | – | (5,901) | – | (5,901) |
| Gain on fair value changes of properties prior to its reclassification as investment properties | – | – | – | – | – | – | 692 | – | – | – | 692 | – | 692 |
| Deferred taxation recognised on fair value changes of properties prior to its reclassification as investment properties | – | – | – | – | – | – | (173) | – | – | – | (173) | – | (173) |
| Profit for the period | – | – | – | – | – | – | – | – | – | 219,736 | 219,736 | 14,162 | 233,898 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

*For the six months ended 31st March, 2012 (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) | Property revaluation reserve US$'000 | Non-distributable reserve fund US$'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 (expense) income for the period | – | – | (5,901) | – | – | – | 519 | – | 16,121 | 219,736 | 230,475 | 21,788 | 252,263 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | – | – | 1,253 | 1,253 |
| Realised on deregistration of subsidiaries | – | – | – | – | – | – | – | – | 965 | (965) | – | 6 | 6 |
| Realised on disposal of jointly controlled entities | – | – | – | – | – | – | – | – | (377) | 377 | – | – | – |
| Realised on disposal of an associate | – | – | – | – | – | – | – | – | (522) | 522 | – | – | – |
| Contribution from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 1,886 | 1,886 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | (3,345) | – | – | – | – | – | (3,345) | (3,778) | (7,123) |
| Dividends | – | – | – | – | – | – | – | – | – | (72,018) | (72,018) | – | (72,018) |
| Dividends paid to non-controlling interests of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | (1,025) | (1,025) |
| Transfer to non-distributable reserve fund | – | – | – | – | – | – | – | 4,224 | – | (4,224) | – | – | – |
| At 30th September, 2011 (audited) | 53,211 | 695,536 | 2,617 | (16,688) | 40,321 | 4,551 | 519 | 26,350 | 100,996 | 2,746,355 | 3,653,768 | 452,909 | 4,106,677 |
| Exchange difference arising on the translation of foreign operations | – | – | – | – | – | – | – | – | 16,031 | – | 16,031 | 9,212 | 25,243 |
| Gain on fair value changes of investments | – | – | 4,019 | – | – | – | – | – | – | – | 4,019 | – | 4,019 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 278,857 | 278,857 | 1,618 | 280,475 |
| Total comprehensive income for the period | – | – | 4,019 | – | – | – | – | – | 16,031 | 278,857 | 298,907 | 10,830 | 309,737 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | – | – | 1,381 | 1,381 |
| Shares repurchased of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | (5,018) | (5,018) |
| Realised on deregistration of subsidiaries | – | – | – | – | – | – | – | – | 100 | (100) | – | (82) | (82) |
| Realised on deemed disposal of a jointly controlled entity | – | – | – | – | – | – | – | – | (451) | 451 | – | – | – |
| Realised on disposal of jointly controlled entities | – | – | – | – | – | – | – | – | (566) | 566 | – | – | – |
| Realised on disposal of subsidiaries (Note 18) | – | – | – | – | – | – | – | – | – | – | – | (10,767) | (10,767) |
| Realised on expiry of call option | – | – | – | – | (25,394) | – | – | – | – | 25,394 | – | – | – |
| Partial disposal of interests in subsidiaries without losing control | – | – | – | – | 910 | – | – | – | – | – | 910 | 1,827 | 2,737 |
| Recognition of consideration for acquisition of business settled by shares of a subsidiary *(Note 17(f))* | – | – | – | – | – | – | – | – | – | – | – | 3,412 | 3,412 |
| Deemed acquisition of additional interests in subsidiaries | – | – | – | – | 1,323 | – | – | – | – | – | 1,323 | (1,323) | – |
| Dividends *(Note 7)* | – | – | – | – | – | – | – | – | – | (119,084) | (119,084) | – | (119,084) |
| Dividends paid to non-controlling interests of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | (5,847) | (5,847) |
| Transfer to non-distributable reserve fund | – | – | – | – | – | – | – | 2,697 | – | (2,697) | – | – | – |
| At 31st March, 2012 (unaudited) | 53,211 | 695,536 | 6,636 | (16,688) | 17,160 | 4,551 | 519 | 29,047 | 116,110 | 2,929,742 | 3,835,824 | 447,322 | 4,283,146 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

*For the six months ended 31st March, 2012 (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 had 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 shares 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 of approximately US$43,666,000 were recognised as equity and presented in reserves as "other reserve".

On 7th November, 2011, the USD Call Option 2011 remained unexercised and lapsed. Accordingly, the premium received by the Company of approximately US$25,394,000 was derecognised and transferred to the retained profits in current period.

Up to 31st March, 2012, the holders of the USD Call Option 2015 had not exercised any of their rights thereof.

In addition, the Group also accounted for the acquisition of additional interest of subsidiaries and partial disposal of subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received was recognised in "other reserve".

(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 disposal 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 profits 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, 2012*

| | Notes | For the six months ended 31st March, 2012 (unaudited) US$'000 | 2011 (unaudited) US$'000 |
|---|---|---|---|
| Net cash from operating activities | | 258,823 | 214,926 |
| Net cash used in investing activities | | | |
| Purchase of property, plant and equipment | | (149,877) | (242,895) |
| Acquisition of subsidiaries and business (net of cash and cash equivalents acquired) | 17 | (35,681) | 1,531 |
| Prepaid land leases | | (2,494) | (3,381) |
| Purchases of available-for-sale investments | | (2,129) | (8,360) |
| Deposits paid for acquisition of property, plant and equipment | | – | (12,124) |
| Increase in pledged bank deposits | | – | (12,201) |
| Proceeds from disposal of investment properties | | – | 8,638 |
| Repayment of long term loan receivables | | – | 6,680 |
| Advances to jointly controlled entities | | – | (904) |
| Refund of investment cost in a jointly controlled entity | | 200 | 473 |
| Repayments from jointly controlled entities | | 1,603 | – |
| Proceeds from disposal of jointly controlled entities | | 2,400 | – |
| Dividends received from jointly controlled entities | | 2,650 | 5,402 |
| Other investing cash flows | | 3,572 | 4,321 |
| Dividends received from associates | | 5,963 | 6,569 |
| Net proceeds from disposal of subsidiaries | 18 | 13,213 | – |
| Proceeds from disposal of available-for-sale investments | | 13,814 | 13,411 |
| Proceeds from disposal of property, plant and equipment | | 32,561 | 16,382 |
| | | (114,205) | (216,458) |
| Net cash from financing activities | | | |
| Bank borrowings raised | | 4,885,899 | 1,650,854 |
| Proceeds from partial disposal of interests in subsidiaries without losing control | | 2,737 | – |
| Shares repurchased of a subsidiary | | (5,018) | – |
| Dividends paid to non-controlling interests of subsidiaries | | (5,847) | (4,037) |
| Interest paid | | (16,473) | (11,782) |
| Dividends paid | | (119,084) | (118,555) |
| Redemption of convertible bonds | | (286,043) | – |
| Repayment of bank borrowings | | (4,407,814) | (1,482,834) |
| | | 48,357 | 33,646 |
| Net increase in cash and cash equivalents | | 192,975 | 32,114 |
| Effect of foreign exchange rate changes | | 209 | 469 |
| Cash and cash equivalents brought forward | | 707,850 | 622,333 |
| Cash and cash equivalents carried forward | | 901,034 | 654,916 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | 930,144 | 654,916 |
| Bank overdrafts | | (29,110) | – |
| | | 901,034 | 654,916 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard 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, 2011. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements of the Group.

The accounting policies used in the condensed consolidated financial statements for the six months ended 31st March, 2012 are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30th September, 2011.

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

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[3] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[5] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] Effective for annual periods beginning on or after 1st January, 2013
[2] Effective for annual periods beginning on or after 1st January, 2015
[3] Effective for annual periods beginning on or after 1st July, 2012
[4] Effective for annual periods beginning on or after 1st January, 2012
[5] Effective for annual periods beginning on or after 1st January, 2014

Saved as disclosed in the annual report for the year ended 30th September, 2011, 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

Information reported to the Board of Directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of performance focuses specifically on the turnover analysis by principal categories of the Group's business and the profit of the Group as a whole. 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. Accordingly, the CODM has determined that the Group has only one operating segment, as defined in HKFRS 8.

The information regarding turnover derived from the principal businesses described above is reported below:

| | For the six months ended 31st March, | |
|---|---|---|
| | **2012** | **2011** |
| | **(unaudited)** | **(unaudited)** |
| | *US$'000* | *US$'000* |
| **Turnover** | | |
| Manufacturing Business | 2,835,681 | 2,606,872 |
| Retailing Business | 778,329 | 695,077 |
| Total turnover | 3,614,010 | 3,301,949 |

## 4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

| | For the six months ended 31st March, | |
|---|---|---|
| | **2012** | **2011** |
| | **(unaudited)** | **(unaudited)** |
| | *US$'000* | *US$'000* |
| Loss on changes in fair value of: | | |
| – JV Call Options *(defined in Note 10a)* | (15,161) | (4,720) |
| – HKD Call Option *(defined in Note 10b)* | (3) | (17,809) |
| – Embedded derivative in convertible bonds *(Note 15)* | – | 17,565 |
| – Other derivative financial instruments | 14,275 | 1,515 |
| | (889) | (3,449) |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
**(continued)**

### 5. INCOME TAX EXPENSE

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Taxation attributable to the Company and its subsidiaries: | | |
| Current tax charge: | | |
| Hong Kong Profits Tax *(note i)* | 336 | 395 |
| PRC Enterprise Income Tax ("EIT") *(note ii)* | 8,472 | 10,898 |
| Overseas taxation *(note iii)* | 2,330 | 3,008 |
| Underprovision in prior year: | | |
| PRC EIT *(note ii)* | – | 639 |
| | 11,138 | 14,940 |
| Deferred tax (credit) charge | (3,385) | 319 |
| | 7,753 | 15,259 |

*notes:*

(i) Hong Kong

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

(ii) PRC

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 in 2012.

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 is deemed to commence from 2008 onwards. Certain PRC subsidiaries were loss-making up to 2008, their tax holidays are therefore deemed to commence in 2008.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. INCOME TAX EXPENSE (continued)

*notes: (continued)*

(b) Pursuant to《財政局、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》(Caishui [2001] No. 202), the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific state-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 exceeded 70% of its total revenue in a fiscal year. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue") pursuant to《[財政局、國家稅務總局、海關總署]關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) issued in 2011. The directors of the Company consider that the relevant subsidiaries are engaged in the state-encouraged industries under the Catalogue and continue to enjoy the preferential tax rate of 15% in the current period.

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 to be applicable on the implementation of the Law of the PRC on EIT.

(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)

## 6a. PROFIT FOR THE PERIOD

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Profit for the period has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 121,028 | 97,406 |
| Release of prepaid lease payments | 2,540 | 2,910 |
| Amortisation of intangible assets | 3,613 | 2,837 |
| Research and development expenditure (included in other expenses) | 81,662 | 73,000 |
| Allowance for inventories | 8,246 | 2,001 |
| Impairment loss on trade receivables | 6,715 | – |
| and after crediting to other income: | | |
| Net exchange gain | 14,199 | 9,495 |
| Write back of impairment loss on trade receivables | – | 638 |
| Net gain on disposal of property, plant and equipment | 15,112 | 3,297 |
| Subsidies, rebates and other income from suppliers | 15,626 | 16,603 |

## 6b. RECURRING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Profit for the period attributable to owners of the Company | 278,857 | 230,093 |
| Less: Non-recurring income (expenses) attributable to owners of the Company *(note)* | | |
| Gain on deemed disposal of jointly controlled entities | 5,898 | 18,767 |
| Impairment losses of interests in an associate and jointly controlled entities | (6,290) | (2,000) |
| Impairment loss of an available-for-sale investment | – | (100) |
| Fair value changes on derivative financial instruments | (889) | (3,449) |
| Gain on disposal of subsidiaries | 5,761 | – |
| Gain on disposal of property, plant and equipment | 18,177 | – |
| Share of result of a jointly controlled entity | 18,830 | – |
| Fair value changes on investment properties (net of tax) | – | 3,459 |
| Amounts attributable to non-controlling interests | 4,738 | (5,241) |
| Non-recurring profit attributable to owners of the Company | 46,225 | 11,436 |
| Recurring profit attributable to owners of the Company | 232,632 | 218,657 |

*note:*

In the opinion of directors, these income (expenses) are non-recurring in nature.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
**(continued)**

### 7. DIVIDENDS

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Dividends recognised as distribution during the period: | | |
| 2011 final dividend of HK$0.56 per share (2011: 2010 final dividend of HK$0.56 per share) *(note)* | 119,084 | 118,555 |

*note:*

The final dividends for each of the years ended 30th September, 2011 and 2010 of approximately US$119,084,000 and US$118,555,000, respectively, were declared and approved after 30th September, 2011 and 2010, respectively. Under the Group's accounting policy, they were recognised as distributions in the period in which they were declared.

Pursuant to a resolution of the Board of Directors of the Company at a meeting on 30th May, 2012, the directors of the Company declared an interim dividend of HK$0.35 per share for the 15-month period ending 31st December, 2012 (see Note 20) (2011: interim dividend for the year ended 30th September, 2011 of HK$0.34 per share). The interim dividend of approximately HK$577,125,000 (2011: HK$560,636,000) will be paid on 13th July, 2012 to the shareholders on the register of members of the Company on 4th July, 2012.

### 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| Earnings: | | |
| Profit for the period attributable to owners of the Company for the purpose of basic earnings per share | 278,857 | 230,093 |
| Effect of dilutive potential ordinary shares: | | |
| Finance costs on convertible bonds | 2,223 | 7,813 |
| Fair value changes on derivative embedded in convertible bonds | – | (17,565) |
| Adjustment to the share of profit of a subsidiary on dilution of its earnings per share *(note)* | – | (1) |
| Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share | 281,080 | 220,340 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. EARNINGS PER SHARE (continued)

| | For the six months ended 31st March, (unaudited) 2012 | (unaudited) 2011 |
|---|---|---|
| Number of shares: | | |
| Number of ordinary shares in issue during the periods 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 | 16,391,085 | 78,504,672 |
| USD Call Option 2015 | 92,247,920 | 92,247,920 |
| Convertible bonds | 15,342,056 | 73,480,373 |
| Number of ordinary shares in issue during the periods for the purpose of diluted earnings per share | 1,772,909,547 | 1,893,161,451 |

*note:*

The computation of diluted earnings per share for the six months ended 31st March, 2012 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's shares for that period.

## 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, 2012 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$155,717,000 (for the six months ended 31st March, 2011: US$247,678,000). In addition, property, plant and equipment of approximately US$12,288,000 (for the six months ended 31st March, 2011: US$3,641,000) were acquired through the acquisition of subsidiaries and business (see Note 17).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

| | | At 31st March, 2012 | | At 30th September, 2011 | |
|---|---|---|---|---|---|
| | | Assets (unaudited) | Liabilities (unaudited) | Assets (audited) | Liabilities (audited) |
| | *notes* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **Derivatives:** | | | | | |
| Non-current: | | | | | |
| JV Call Options | (a) | 5,834 | – | 22,363 | – |
| Current: | | | | | |
| HKD Call Option | (b) | – | – | 3 | – |
| Foreign currency derivatives | | 1,721 | 572 | 223 | 13,349 |
| | | 1,721 | 572 | 226 | 13,349 |
| | | 7,555 | 572 | 22,589 | 13,349 |

*notes:*

(a) JV Call Options

| | At 31st March, 2012 (unaudited) | At 30th September, 2011 (audited) |
|---|---|---|
| | *US$'000* | *US$'000* |
| Derivative financial assets: | | |
| Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities | 5,834 | 22,363 |

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 other than those relating to Hebei Zhanxin Sports Development Company Limited ("Zhanxin") as at 30th September, 2011, and Shaanxi Jixian Longyue Sports Goods Company Limited ("Jixian") as at 31st March, 2012.

# 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 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.

The value of each of the JV Call Options at 31st March, 2012 was valued by Savills Valuation and Professional Services Limited, an independent valuer, using the Binomial Option Pricing Model.

In December, 2011, the Group acquired the Relevant Equity Interests in Zhanxin through exercise of its JV Call Option. Accordingly, the carrying amount of the relevant JV Call Option was derecognised and included as cost of investment in Zhanxin.

During the current interim period, the Group also exercised its JV Call Option to acquire the Relevant Equity Interests in Jixian. However, this acquisition was not yet completed at 31st March, 2012.

The fair value changes on the JV Call Options during the current interim period is mainly attributable to the expectation of the management that certain JV Call Options would at no time during the remaining exercisable period be exercised to acquire the Relevant Equity Interests in a subsidiary, an associate and certain jointly controlled entities.

At 31st March, 2012, an amount of US$1,963,000 (included in deposit paid for acquisition of the remaining interest in jointly controlled entities) represents the deposit paid for acquisition of the remaining 50% equity interest in Jixian not already held by the Group.

(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. During the current interim period, the HKD Call Option lapsed and change in fair value of approximately US$3,000 has been accounted for in the condensed consolidated income statement for the six months ended 31st March, 2012.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 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$748,056,000 (30th September, 2011: US$782,079,000). An aged analysis based on the invoice date is as follows:

| | At 31st March, 2012 (unaudited) *US$'000* | At 30th September, 2011 (audited) *US$'000* |
|---|---|---|
| 0 to 30 days | 531,327 | 576,200 |
| 31 to 90 days | 197,246 | 188,892 |
| Over 90 days | 19,483 | 16,987 |
| | 748,056 | 782,079 |

## 12. DISPOSAL GROUP HELD FOR SALE

The aggregate classes of assets and liabilities classified as held for sale are as follows:

| | At 30th September, 2011 (audited) *US$'000* |
|---|---|
| Property, plant and equipment | 93,254 |
| Prepaid lease payments | 4,091 |
| Deposits paid for acquisition of property, plant and equipment | 3,625 |
| Bank balances and cash | 3,755 |
| Total assets classified as held for sale | 104,725 |
| Accruals and other payables | 23,550 |
| Bank borrowings | 15,000 |
| Total liabilities associated with assets classified as held for sale | 38,550 |

On 10th November, 2010 and 28th March, 2011, the Group entered into a sale and purchase agreement and a supplementary sale and purchase agreement, respectively, 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 RMB285,000,000 (equivalent to US$45,198,000). The transaction was agreed prior to, but not completed as at, 30th September, 2011 and these assets were classified as held for sale as at 30th September, 2011.

During the current period, the transaction was completed and a gain on disposal of the properties of US$4,685,000 was recognised in profit or loss for the current period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. DISPOSAL GROUP HELD FOR SALE (continued)

In addition, the Group entered into an agreement with Must Win International Limited ("Must Win"), a non-controlling shareholder of a subsidiary of the Company, pursuant to which the Group agreed to dispose of and Must Win agreed to acquire hotel properties and certain subsidiaries, whose principal assets were buildings and the associated land use rights, at an aggregate consideration of approximately RMB235,950,000 (equivalent to US$37,493,000). The transaction was agreed prior to, but not completed as at, 30th September, 2011 and the related assets and liabilities were classified as a disposal group held for sale as at 30th September, 2011.

During the current period, the transaction was completed and a gain on disposal of the properties of approximately US$13,492,000 and a gain on disposal of subsidiaries of approximately US$5,761,000 were recognised in profit or loss for the current period. Details of the disposal of subsidiaries are set out in Note 18.

## 13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately US$477,552,000 (30th September, 2011: US$537,680,000). An aged analysis based on the invoice date is as follows:

| | At 31st March, 2012 (unaudited) *US$'000* | At 30th September, 2011 (audited) *US$'000* |
|---|---|---|
| 0 to 30 days | 360,483 | 400,002 |
| 31 to 90 days | 91,464 | 112,925 |
| Over 90 days | 25,605 | 24,753 |
| | 477,552 | 537,680 |

## 14. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately US$4,886 million (2011: US$1,651 million), of which approximately US$4,071 million (2011: US$1,304 million) were repaid before the period ended 31st March, 2012. The proceeds of the remaining new bank borrowings were used to repay bank borrowings and to finance the daily operation of the Group. Among these bank borrowings, the variable-rate borrowings bear interest at a premium over London Interbank Offered Rate, Hong Kong Interbank Offered Rate and prevailing lending rate quoted by the People's Bank of China.

# 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.

CB 2011 was 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.

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 profit or loss on the partial redemption.

On 17th November, 2011, the outstanding balance of CB 2011 was redeemed in full on its maturity date by the Company at an aggregate consideration of US$286,043,000. There was no impact to the condensed consolidated income statement on redemption.

The movement of the liability component of the CB 2011 for the six months ended 31st March, 2012 is set out below:

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| At the beginning of the period | 283,377 | 268,649 |
| Effective interest expenses | 2,223 | 7,813 |
| Redemption of CB 2011 | (286,043) | – |
| Exchange difference | 443 | (807) |
| At the end of the period | – | 275,655 |

The movement of the derivative embedded in the CB 2011 during the period is as follows:

| | For the six months ended 31st March, 2012 (unaudited) *US$'000* | 2011 (unaudited) *US$'000* |
|---|---|---|
| At the beginning of the period | – | 24,822 |
| Exchange realignment | – | (60) |
| Changes in fair value | – | (17,565) |
| At the end of the period | – | 7,197 |

For the six months ended 31st March, 2011, the conversion option derivative embedded in CB 2011 was 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)**

## 16. SHARE CAPITAL

| | Number of shares | Amount<br>*HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.25 each: | | |
| At 1st October, 2010, 31st March, 2011, 30th September, 2011 and 31st March, 2012 | 2,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.25 each: | | |
| At 1st October, 2010, 31st March, 2011, 30th September, 2011 and 31st March, 2012 | 1,648,928,486 | 412,232 |
| | | *US$'000* |
| Shown in the condensed consolidated financial statements as at: | | |
| 1st October, 2010, 31st March, 2011, 30th September, 2011 and 31st March, 2012 | | 53,211 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. ACQUISITION OF SUBSIDIARIES AND BUSINESS

The Group acquired Zhanxin and the Pengda Business (as defined below) during the six months ended 31st March, 2012 and acquired Zhejiang Yichuan Sports Goods Chain Company Limited ("Yichuan") during the six months ended 31st March, 2011. The Group obtained control over these entities on the dates of completion of these acquisitions which have been accounted for using the purchase method. Further details of these acquisitions, including considerations paid or payable, assets acquired, liabilities recognised and goodwill arising, are set out below:

| | | 2012 | | | 2011 |
|---|---|---|---|---|---|
| | *notes* *(a)(b)(c)(k)* | **Zhanxin** *US$'000* | **Pengda Business** *US$'000* | **Total** *US$'000* | **Yichuan** *US$'000* |
| **The consideration for the acquisitions comprise the following:** | | | | | |
| Cash consideration | (d) | 12,344 | 103,797 | 116,141 | 25,501 |
| Consideration shares | (e) | – | – | – | 2,693 |
| Consideration shares with trading restrictions | (f) | – | 3,412 | 3,412 | – |
| Fair value of guaranteed compensation | (g) | – | 18,410 | 18,410 | – |
| Contingently issuable shares | (h) | – | – | – | 1,092 |
| Related call options | (i) | 1,171 | – | 1,171 | 8,060 |
| Fair value of previously held interests | (j) | 6,959 | – | 6,959 | 27,124 |
| Total consideration | | 20,474 | 125,619 | 146,093 | 64,470 |
| **Provisional fair value of assets acquired and liabilities recognised at the date of acquisitions are as follow:** | | | | | |
| Property, plant and equipment | | 1,404 | 10,884 | 12,288 | 3,641 |
| Deposit paid for acquisition of property, plant and equipment | | – | – | – | 480 |
| Licensing agreements | (l) | 9,911 | – | 9,911 | – |
| Customer relationship | (l) | – | 3,775 | 3,775 | – |
| Non-compete agreement | (l) | 3,889 | 19,716 | 23,605 | 4,569 |
| Brandname | (l) | – | – | – | 37,501 |
| Inventories | | 12,060 | 55,516 | 67,576 | 38,335 |
| Trade and other receivables | (m) | 8,869 | – | 8,869 | 23,477 |
| Bank balances and cash | | 2,176 | – | 2,176 | 1,531 |
| Trade and other payables | | (14,712) | – | (14,712) | (31,535) |
| Taxation payable | | (56) | – | (56) | (638) |
| Bank borrowings | | (7,383) | – | (7,383) | (16,978) |
| Deferred tax liabilities | | (3,450) | (5,873) | (9,323) | (10,517) |
| | | 12,708 | 84,018 | 96,726 | 49,866 |
| **Goodwill arising on acquisitions** | (n) | 7,766 | 41,601 | 49,367 | 14,604 |
| **Cash flow arising on acquisitions:** | | | | | |
| Cash consideration paid | | (9,638) | (28,219) | (37,857) | – |
| Less: bank balances and cash acquired | | 2,176 | – | 2,176 | 1,531 |
| Net cash (outflow) inflow | | (7,462) | (28,219) | (35,681) | 1,531 |
| **Acquisition-related costs** | (o) | 36 | 217 | 253 | 51 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. ACQUISITION OF SUBSIDIARIES AND BUSINESS (continued)

*notes:*

(a) Zhanxin 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 JV Call Option to acquire the remaining 55% equity interest in Zhanxin not already held by the Group. Zhanxin was a jointly controlled entity of the Group before the completion of this transaction on 1st December, 2011.

(b) On 1st February, 2012, the Group completed the acquisition of a chain of retail stores in the PRC, including the related tangible and intangible assets, owned by Shanghai Pengda Sports Goods Company Limited and its related parties ("Pengda") (the "Pengda Business"), for the purpose of strengthening its market position and geographical coverage in the PRC sportswear retail market.

(c) 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 JV Call Option to acquire the remaining 50% equity interest in Yichuan not already held by the Group. Yichuan was a jointly controlled entity of the Group before the completion of this transaction on 1st October, 2010.

(d) For the cash consideration of US$12,344,000 for the acquisition of Zhanxin, (i) US$1,219,000 was paid as a deposit as at 30th September, 2011, (ii) US$9,638,000 was paid during the current period and (iii) US$1,487,000 is payable before 31st December, 2012. The net present value of the total cash consideration approximates to the amount of cash paid and payable for the acquisition.

For the cash consideration of US$103,797,000 for the acquisition of Pengda Business, (i) US$3,127,000 was paid as a deposit as at 30th September, 2011, (ii) US$28,219,000 was paid during the current period and (iii) US$72,451,000 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.

For the cash consideration of US$25,501,000 for the acquisition of Yichuan, (i) US$19,223,000 was paid in prior years, (ii) US$3,139,000 was paid during the six months ended 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.

(e) This represents the agreement to issue 6,330,000 shares of HK$0.01 each in Pou Sheng in each of the 3 years ending 30th September, 2013 (which in aggregate are 18,990,000 shares of HK$0.01 each in Pou Sheng). 6,330,000 shares were issued during the six month ended 30th September, 2011 and the issue and allotment of the remaining 12,660,000 shares are to be completed on or before 30th September, 2012 and 30th September, 2013, respectively. The fair value of these consideration shares was 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. ACQUISITION OF SUBSIDIARIES AND BUSINESS (continued)

*notes: (continued)*

(f) This represents 46,000,000 shares of HK$0.01 each in Pou Sheng which are to be issued on or before 30th September, 2012 (the "Pengda Consideration Shares"). These shares, when issued, are to be placed in an escrow account and cannot be withdrawn within a period of 4 years without Pou Sheng's consent (the "Restricted Period"). The fair value of these consideration shares was determined by American Appraisal by applying a marketability discount to the closing share price of Pou Sheng as at 1st February, 2012.

(g) Pursuant to the relevant agreements, the Group is to compensate Pengda for the shortfall, if any, between the market value of each Pengda Consideration Share and HK$4, such market value being the average closing price of Pou Sheng's shares in the 20 consecutive trading days immediately following the end of the Restricted Period. The fair value of such guaranteed compensation has been determined by American Appraisal using the Binominal Option Pricing Model with reference to the closing share price of Pou Sheng as at 1st February, 2012.

(h) For each of the three fiscal years ending 30th September, 2013, if the audited annual after-tax profit of Yichuan is not less than RMB54,710,000 (equivalent to approximately US$8,400,000) (the "Pre-determined Profit 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 was 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.

The Pre-determined Profit Level of Yichuan for the year ended 30th September, 2011 was not reached, and no contingently issuable shares were issued for that year.

(i) This represents the carrying value of the Group's JV Call Option relating to Zhanxin and Yichuan as at the date of acquisition.

(j) The fair value of the 45% equity interest in Zhanxin previously held by the Group was re-measured as of the date of acquisition at US$6,959,000 by American Appraisal, resulting in a gain of US$5,898,000 recognised in profit or loss during the six months ended 31st March, 2012.

The fair value of the 50% equity interest in Yichuan previously held by the Group was 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 recognised in profit or loss during the six months ended 31st March, 2011.

The above fair values at the respective dates of acquisitions were determined using the discounted cash flow approach and the guideline companies method approach. The significant inputs into the models include earning to price multiples of comparable companies (in terms of products, market, competition, growth rate and capital structure), premium on control and market liquidity of Zhanxin or Yichuan, as appropriate.

(k) The initial accounting for the acquisitions of Zhanxin and Pengda Business have been determined provisionally for the property, plant and equipment and the inventories acquired as well as intangible assets to be identified and recognised separately from goodwill awaiting the receipt of professional valuation in relation to the respective fair values.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. ACQUISITION OF SUBSIDIARIES AND BUSINESS (continued)

*notes: (continued)*

(l) Intangible assets, being licensing agreements, customer relationship, non-compete agreements and brandname, were valued as of the respective dates of acquisitions by American Appraisal, on the following basis:

| | |
|---|---|
| Licensing agreements | The Excess Earnings method under the Income Approach |
| Customer relationship | The Excess Earnings method under the Income Approach |
| Non-compete agreement | The "With and Without" method under the Income Approach |
| Brandname | The Relief from Royalty method under the Income Approach |

The management of the Group considers all of the licensing agreements, customer relationship and non-compete agreements have finite useful lives and are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Licensing agreements | 10 years |
| Customer relationship | 8 years |
| Non-compete agreements | 5 years to 20 years |

The brandname is considered 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 were determined using discount rates of 15% for Zhanxin, 16% for Pengda Business and 14% for Yichuan. 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 the acquirees and their subsidiaries and management's expectations for the market development.

(m) At the acquisition date, the gross contractual amount of the receivables acquired was equivalent to their fair value as it was expected that all amounts were fully collectible.

(n) Goodwill arose in each of the acquisition of Zhanxin, Pengda Business, and Yichuan because the respective consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies arising from revenue growth, future market development and the assembled workforce of the targets. 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 these acquisitions is expected to be deductible for tax purposes.

(o) The acquisition-related costs of the above transactions, were recognised as an expense in the current and prior periods (included in administrative expenses) in the condensed consolidated income statement.

(p) Pro-forma revenue and profit

Included in the profit for the six months ended 31st March, 2012 is profit of US$124,000 and loss of US$1,478,000 attributable to the additional businesses generated by Zhanxin and Pengda Business, respectively. Revenue for the six months ended 31st March, 2012 includes US$18,847,000 and US$20,974,000 generated from Zhanxin and Pengda Business, respectively. Had the acquisitions been completed on 1st October, 2011, total group revenue for the six months ended 31st March, 2012 would have been US$3,669,262,000, and profit for the same period would have been US$279,293,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1st October, 2011, nor is it intended to be a projection of future results.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. ACQUISITION OF SUBSIDIARIES AND BUSINESS (continued)

*notes: (continued)*

(p) Pro-forma revenue and profit *(continued)*

The revenue and profit of Yichuan for the six months ended 31st March, 2011 are US$81,905,000 and US$1,992,000, respectively. As the acquisition of Yichuan was completed on 1st October, 2010, such revenue and profit were consolidated in full in the condensed consolidated income statement.

## 18 DISPOSAL OF SUBSIDIARIES

As set out in Note 12, the Group disposed of (i) entire interest in Yolland Holdings Limited and its subsidiaries; and (ii) 51% equity interest in Huge World Investments Limited, a disposal group classified as held for sale as at 30th September, 2011, during the current period. Details of the disposal are disclosed below.

The aggregate amounts of the assets and liabilities attributable to these subsidiaries on the respective dates of disposal were as follows:

| | *US$'000* |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 53,144 |
| Deposit paid for acquisition of property, plant and equipment | 3,625 |
| Bank balances and cash | 3,755 |
| Accruals and other payables | (23,550) |
| Bank borrowings | (15,000) |
| Total net assets | 21,974 |
| Less: Non-controlling interests | (10,767) |
| | 11,207 |
| Gain on disposal of subsidiaries: | |
| Consideration received | 16,968 |
| Net assets disposed of | (11,207) |
| Gain on disposal | 5,761 |
| Net cash inflow arising on disposal: | |
| Cash consideration received | 16,968 |
| Less: bank balances and cash disposed of | (3,755) |
| | 13,213 |

The subsidiaries disposed of during the six months ended 31st March, 2012 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. CONTINGENCIES AND COMMITMENTS

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

#### (I) CONTINGENCIES

| | At 31st March, 2012 (unaudited) *US$'000* | At 30th September, 2011 (audited) *US$'000* |
|---|---|---|
| Guarantees given to banks in respect of banking facilities granted to: | | |
| (i) jointly controlled entities | | |
| – amount guaranteed | 87,791 | 91,855 |
| – amount utilised | 60,103 | 59,008 |
| (ii) associates | | |
| – amount guaranteed | 26,298 | 26,269 |
| – amount utilised | 14,262 | 17,838 |
| (iii) a former subsidiary | | |
| – amount guaranteed | 12,687 | 12,507 |
| – amount utilised | 12,687 | 12,507 |

#### (II) COMMITMENTS

| | At 31st March, 2012 (unaudited) *US$'000* | At 30th September, 2011 (audited) *US$'000* |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of: | | |
| – construction of buildings | 12,575 | 35,189 |
| – acquisition of property, plant and equipment | 2,893 | 10,654 |
| – acquisition of the remaining interests in jointly controlled entities | 11,121 | 10,975 |
| | 26,589 | 56,818 |
| Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of: | | |
| – investments in available-for-sale investments | – | 3,512 |
| – investments in jointly controlled entities | 1,649 | 1,626 |
| | 1,649 | 5,138 |
| | 28,238 | 61,956 |

### 20. EVENT AFTER THE REPORTING PERIOD

Pursuant to a resolution of the Board of Directors of the Company dated 30th May, 2012, the Company's financial year end date is changed from 30th September to 31st December in order to coincide with the statutory financial year end date of the Company's major operating subsidiaries, which are incorporated in the PRC. Accordingly, the first financial period after the change is the 15-month period ending 31st December, 2012.

## INTERIM DIVIDENDS

The Directors are pleased to declare an interim dividend of HK$0.35 per share for the 15-month period ending 31st December, 2012 to shareholders whose names appear on the Register of Members on Wednesday, 4th July, 2012. The interim dividend will be paid on Friday, 13th July, 2012.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 4th July, 2012 to Friday, 6th July, 2012, 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 Tuesday, 3rd July, 2012.

## CHANGE OF FINANCIAL YEAR END DATE

As announced on 30th May, 2012, the Board of Directors of the Company resolved to change the financial year end date of the Company from 30th September to 31st December in order to coincide with the statutory financial year end date of the Company's major operating subsidiaries, which are incorporated in the PRC. Accordingly, the first financial period after the change is the 15-month period ending 31st December, 2012.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

### Results

The Group's turnover rose 9.5% year on year to approximately US$3,614.0 million. Recurrent net profit was up 6.4%. Non-recurrent profit and one-off items affected the Group's profit. Net profit attributable to owners of the Company increased 21.2% year on year, to approximately US$278.9 million.

### Operations

In the first six months of the fiscal year of 2012, the Group's shoe manufacturing turnover grew 9.4% to US$2,557.5 million, underpinned by growth in athletic shoes and casual/outdoor shoes sales of 8.9% and 11.5% respectively. Total shoe manufacturing volume declined slightly by 1.2% to 160.8 million pairs. The Group's shoe manufacturing turnover grew in all major markets, with the best growth rates being achieved in the China and the South America markets.

In respect of the retail and wholesale business of sportswear in the Greater China Region, sales grew 12% to US$778.3 million in the first six months of the fiscal year of 2012, which is mainly due to acquisition on the regional retailers, opening of new stores, and promotional sales following by liquidation of inventory.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

**Operations (continued)**

**Total Turnover by Product Category**

| *Six months ended 31st March* | **2012** US$ millions | % | **2011** US$ millions | % | **y-o-y** % change |
|---|---|---|---|---|---|
| Athletic Shoes | 1,909.7 | 52.8 | 1,753.8 | 53.1 | 8.9 |
| Casual/Outdoor Shoes | 591.3 | 16.4 | 530.3 | 16.1 | 11.5 |
| Sports Sandals | 56.5 | 1.6 | 52.8 | 1.6 | 7.0 |
| *Sub-total* | 2,557.5 | 70.8 | 2,336.9 | 70.8 | 9.4 |
| Retail Sales-Shoes, Apparel & Leasing | 778.3 | 21.5 | 695.1 | 21.1 | 12.0 |
| Soles, Components & Others | 278.2 | 7.7 | 269.9 | 8.1 | 3.1 |
| **Total Turnover** | **3,614.0** | **100.0** | **3,301.9** | **100.0** | **9.5** |

**Total Turnover by Geographical Market**

| *Six months ended 31st March* | **2012** US$ millions | % | **2011** US$ millions | % | **y-o-y** % change |
|---|---|---|---|---|---|
| U.S.A. | 973.1 | 26.9 | 944.5 | 28.6 | 3.0 |
| Europe | 749.9 | 20.7 | 718.3 | 21.8 | 4.4 |
| Asia* | 1,553.5 | 43.0 | 1,368.3 | 41.4 | 13.5 |
| South America | 190.8 | 5.3 | 143.3 | 4.3 | 33.1 |
| Canada | 52.5 | 1.5 | 52.8 | 1.6 | (0.6) |
| Other Areas | 94.2 | 2.6 | 74.7 | 2.3 | 26.1 |
| **Total Turnover** | **3,614.0** | **100.0** | **3,301.9** | **100.0** | **9.5** |

* Excluding retail sales, Asia turnover was US$775.2 million and US$673.2 million, representing 21.5% and 20.3% of the total turnover in 2012 and in 2011 respectively.

During the period, the Group's gross profit increased by 10.1% to US$831.7 million (2011: US$755.6 million), primarily due to the stabilization of spot prices for materials and energy costs, as well as some increase in operating efficiency. Meanwhile, selling, distribution and administrative expenses increased by 13.6% to US$576.9 million (2011: US$508.0 million) driven by inflation in the Asia environment, in particular China, leading to rising wages and to higher rental costs. Share of results from associates and jointly controlled entities improved by 98.0% to US$58.4 million (2011: US$29.5 million). As a result, the Group's net profit attributable to owners increased by 21.2% to US$278.9 million.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

### Looking Forward

Being a manufacturer operating in Asia, the Group has to actively manage the inflation sprouting in the local economies; and has faced the challenges of unease global consumer confidence and spending momentum caused by the sovereign debt issues appearing in the European Monetary System. Despite the existing difficult global economic conditions, the Group's turnover increased by 8.5% year on year to US$4.2 billion for the first seven months ended 30th April, 2012. Management expects economic activity in China will slow down for the rest of the year. The Group will continue to find manufacturing efficiencies, better manage its production overheads, and look for ways to further strengthen its relationships and collaboration with its existing customers. Pou Sheng, the Group's subsidiary, has been adversely affected by a higher level of inventory and general inflation in China. Pou Sheng is in the process of restructuring the business to return it to a trajectory of growth in the medium term. The current focus of business of Pou Sheng will be on actively adjusting inventories and enhancing the standards of operation to recover the profitability and maintain the leading status in China.

### Financial Position

The Group maintains a stable financial position. As at 31st March, 2012, the Group had cash and cash equivalents of US$901.0 million (30th September, 2011: US$707.9 million) and total borrowings of US$1,356.5 million (30th September, 2011: US$1,152.4 million). Net debt was US$455.5 million as at 31st March, 2012 compared to US$444.6 million as at 30th September 2011. The gearing ratio stood at 32% (30th September, 2011: 28%) and the net debt to equity ratio was 11% (30th September, 2011: 11%). 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.

Group capital expenditures for the six months ended 31st March, 2012 amounted to US$152.4 million, a decline of 41% compared to the same period last year. Approximately US$149.9 million of capital expenditures was related to the purchase of property, plant and equipment and US$2.5 million was related to the acquisition of prepaid land leases.

### Corporate Social Responsibility

The efforts regarding the corporate social responsibility (CSR) in the Group are spearheaded by Sustainable Development ("SD") department, which constructs the strategies for achieving specific CSR goals and coordinates the policy implementation. Through the intensive interaction between SD and CSR teams in the factories, the Group aligns the measures enhancing employees' welfare, health and safety in the workplaces, and pursues particular activities that are environmentally friendly. Activities undertaken by the Group are in accordance with the local legal regulations as well as the Codes of Conduct ("CoC") constructed by the brand name customers. Since the Group is a responsible member of the Fair Labor Association (FLA), the Group follows mainstream labor standards worldwide.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

### Corporate Social Responsibility (continued)

For the purpose of integrating the CSR efforts on the Group's level, in November 2011, the CSR managers from the various factories across Asia joined the CSR workshop taking place in Huangjiang, China. In this workshop, the mutual understanding relevant to CSR progress was explored in terms of CSR human resources management, projects improving health, safety and environment (HSE) in factories, and sustainability methodology which will be the guidelines for the prospective steps. The Group believes pursuing the consistency of CSR schemes is the essential element for achieving the sound harmony between the different stakeholders who are influential in the Group's operation.

In China, the Group promotes the reliable work conditions which are beneficial to the employees, for instance, periodically implementing the fire drills, the first-aid training, etc. A Zhongshan factory invited the third party to inspect the workplace occupational safety status for ensuring the preventative measures. A Dongguan factory fosters behavior based safety project to avoid unsafe behavior and eliminate potential safety hazards. Another factory in Dongguan partnered with international non-governmental organization to conduct health promotion activity about preventing hepatitis B. In order to positively facilitate the two-way communication, a Huangjiang factory utilizes short message service (SMS) bulk and online counseling platform to encourage the constructive interaction. Fulfilling social responsibility, the same factory collected the donated clothes as the gifts for the elementary school in Gansu Province.

In Vietnam, taking the possible environmental impact caused by manufacturing into serious consideration is of significance for the Group. The factories keep paying much attention to the useful solutions for reducing waste, recycling water, raising energy efficiency, etc. Through visiting an international waste disposal company, the CSR team of a Dong Nai factory looked into the best practice of waste treatment other than incineration. In response to World Water Day and Earth Hour, the events such as turning off the lights for 1 hour took place. Also, the factories look after the employees' well-being in an attentive way. The cooperation with an international reproductive health organization proceeds. The three-year project aims to improve the employees' awareness of sexual safety and reproductive health through resources such as peer educators' training, counseling service, group discussion, and one on one talk.

In Indonesia, the Group is sensitive to the culture and acknowledges the importance of the local religious characteristics. The factories pay full respect to the local custom in terms of canteen, praying, Ramadan, etc. On the basis of the tie to the surrounding community, a factory in Sukabumi gave the lambs to the local organization to celebrate Eid al-Adha. The close partnership is embodied through responding to the emergency. For several days the daily three meals arranged by a factory in Serang were provided to the nearby residents suffering from the flood. The same factory initiated fundraising when the employee's family member was severely ill. The Group oftens makes contributions not only for the benefit of the production staff but also for the communities surrounding the factories.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2012, 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

*(a) Ordinary shares of HK$0.25 each in the Company*

| Name of director | Capacity | Number of shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Tsai Chi Neng | Beneficiary of a trust *(Note)* | 101,126,262 | 6.13% |
| David N.F. Tsai | Beneficiary of a trust *(Note)* | 101,126,262 | 6.13% |
| Tsai Pei Chun, Patty | Beneficiary of a trust *(Note)* | 101,126,262 | 6.13% |

*Note:* Each of Mr. Tsai Chi Neng, Mr. David N.F. Tsai and Ms. Tsai Pei Chun, Patty is deemed to be interested in 101,126,262 ordinary shares of the Company by virtue of his/her capacity as a beneficiary of a discretionary trust.

*(b) Ordinary shares of HK$0.01 each in Pou Sheng, a non-wholly owned subsidiary of the Company*

| Name of director | Capacity | Number of shares held | Percentage of the issued share capital of Pou Sheng |
|---|---|---|---|
| David N.F. Tsai | Beneficial Owner | 4,833,000 | 0.11% |
| Chan Lu Min | Beneficial Owner | 681,000 | 0.01% |
| Tsai Pei Chun, Patty | Beneficial Owner | 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, 2012.

## 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 of Directors of the Company 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

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

In order to provide greater flexibility to the Pou Sheng Board in the treatment of outstanding options held by the grantees in the event that they cease to become a participant, certain terms of the Pou Sheng Share Option Scheme were amended on 7th March, 2012 (the "Amended Pou Sheng Share Option Scheme") as approved by the shareholders of Pou Sheng and the Company. The terms are amended as that in the event a grantee of an option, who is an employee or a director of Pou Sheng or any of its subsidiaries (Pou Sheng and its subsidiaries are collectively referred to as the "Pou Sheng Group"), ceases to be a participant under the Pou Sheng Share Option Scheme by any reason other than death or termination of his employment on grounds of summary dismissal, the Pou Sheng Board may by written notice to such grantee within one month from (and including) the date of cessation or termination of such employment or directorship determine whether such option shall lapse or the period within which such option (or such remaining part thereof) shall be exercisable following such date of cessation or termination of employment or directorship but before the expiry of the original option period and if the Pou Sheng Board does not serve such written notice within such one month period, the grantee may exercise the outstanding options up to his entitlement as at the time of such cessation or termination of employment or directorship (to the extent not already exercised) at anytime during the original option period.

Pursuant to the Amended Pou Sheng Share Option Scheme, 5,400,000 options were granted to eligible participants of the Pou Sheng Group on 7th March, 2012.

During the six months ended 31st March, 2012, the Group recognised a total expense of US$1,381,000 as equity-settled share-based payments in relation to the options granted under the Amended Pou Sheng Share Option Scheme.

## SHARE INCENTIVE SCHEMES (continued)

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

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

| | Date of grant | Exercise price HK$ | Exercisable period | Number of options outstanding at 1st October, 2011 | Granted during the period | Exercised during the period | Lapsed/ cancelled during the period | Number of options outstanding at 31st March, 2012 |
|---|---|---|---|---|---|---|---|---|
| **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** |
| | | | | 8,800,000 | – | – | – | 8,800,000 |
| **Employees/consultants of Pou Sheng** | 21/01/2010 | 1.62 | 21/01/2011-20/01/2018 | 6,534,750 | – | – | (157,500) | 6,377,250 |
| | 21/01/2010 | 1.62 | 21/01/2012-20/01/2018 | 6,534,750 | – | – | (157,500) | 6,377,250 |
| | 21/01/2010 | 1.62 | 21/01/2013-20/01/2018 | 13,069,500 | – | – | (315,000) | 12,754,500 |
| | 21/01/2010 | 1.62 | 21/01/2014-20/01/2018 | 17,426,000 | – | – | (420,000) | 17,006,000 |
| | 20/01/2011 | 1.23 | 20/01/2012-19/01/2019 | 12,500,000 | – | – | (962,500) | 11,537,500 |
| | 20/01/2011 | 1.23 | 20/01/2013-19/01/2019 | 12,500,000 | – | – | (962,500) | 11,537,500 |
| | 20/01/2011 | 1.23 | 20/01/2014-19/01/2019 | 12,500,000 | – | – | (962,500) | 11,537,500 |
| | 20/01/2011 | 1.23 | 20/01/2015-19/01/2019 | 12,500,000 | – | – | (962,500) | 11,537,500 |
| | 07/03/2012 | 1.05 | 07/03/2013-06/03/2020 | – | 1,350,000 | – | – | 1,350,000 |
| | 07/03/2012 | 1.05 | 07/03/2014-06/03/2020 | – | 1,350,000 | – | – | 1,350,000 |
| | 07/03/2012 | 1.05 | 07/03/2015-06/03/2020 | – | 1,350,000 | – | – | 1,350,000 |
| | 07/03/2012 | 1.05 | 07/03/2016-06/03/2020 | – | 1,350,000 | – | – | 1,350,000 |
| | | | | 93,565,000 | 5,400,000 | – | (4,900,000) | 94,065,000 |
| Grand total | | | | 102,365,000 | 5,400,000 | – | (4,900,000) | 102,865,000 |
| Exercisable as at 1st October, 2011 and 31st March, 2012 | | | | 7,104,750 | | | | 26,682,000 |

* Ms. Chang Karen Yi-Fen resigned as director of Pou Sheng with effect from 9th April, 2012.

** The relevant options lapsed on 9th April, 2012.

## SHARE INCENTIVE SCHEMES (continued)

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

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$0.99 and the fair value, vesting schedule, exercisable period of the options are as follows:

| Vesting period | Exercisable period | Percentage vesting | Fair value (per option) *HK$* |
|---|---|---|---|
| 07/03/2012-06/03/2013 | 07/03/2013-06/03/2020 | 25% of options granted | 0.48 |
| 07/03/2012-06/03/2014 | 07/03/2014-06/03/2020 | 25% of options granted | 0.48 |
| 07/03/2012-06/03/2015 | 07/03/2015-06/03/2020 | 25% of options granted | 0.48 |
| 07/03/2012-06/03/2016 | 07/03/2016-06/03/2020 | 25% of options granted | 0.48 |

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. 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.

## SHARE INCENTIVE SCHEMES (continued)

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

The major inputs into the Model are as follows:

| | Options granted on 7th March, 2012 |
|---|---|
| Date of grant (measurement date) | 7th March, 2012 |
| Closing price of the shares of Pou Sheng on the date of grant | HK$0.99 |
| Exercise price per share | HK$1.05 |
| Annual expected volatility | 45% |
| Expected life of the option | 8 years |
| Annual risk free rate | 1.08% |
| Expected dividend yield | NIL |

The risk free rate is assumed to be equaled to the yield of Hong Kong Exchange government bonds 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 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

The register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO showed that, as at 31st March, 2012, 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 in the Company*

| Name of shareholder | *Notes* | Number of ordinary shares beneficially held | Percentage of the issued share capital of the Company as at 31st March, 2012 |
|---|---|---|---|
| Pou Chen Corporation ("PCC") | (a) | 824,143,835 | 49.98% |
| Wealthplus Holdings Limited ("Wealthplus") | (a) | 773,156,303 | 46.88% |
| Mr. Tsai Chi Jui | (b) | 115,321,998 | 6.99% |
| Ms. Tsai Huang Shu Man | (b) | 115,321,998 | 6.99% |
| Royal Bank of Canada Trust Company (Cayman) Limited | (c) | 101,126,262 | 6.13% |
| Accord Management Limited | (d) | 101,126,262 | 6.13% |
| Ms. Tsai Hsu Li Min | (e) | 101,126,262 | 6.13% |
| Ms. Tsai Hsu Shu Chun | (e) | 101,126,262 | 6.13% |
| Merrill Lynch & Co. Inc. | (f) | 99,315,703 | 6.02% |
| Citigroup Inc. | (g) | 101,180,535 | 6.14% |
| **Short Position** | | | |
| Merrill Lynch & Co. Inc. | (f) | 109,341,792 | 6.63% |
| Citigroup Inc. | (g) | 646,513 | 0.04% |

*Notes:*

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus 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) Mr. Tsai Chi Jui, brother of Mr. Tsai Chi Neng, is deemed to be interested in (i) 101,126,262 ordinary shares held by six discretionary trusts by virtue of his capacity as a founder of such discretionary trusts and (ii) 13,875,736 ordinary shares held directly by Moby Dick Enterprises Limited ("Moby Dick") by virtue of his interest in more than one-third of the voting shares of Moby Dick. Moby Dick is wholly-owned by Max Creation Industrial Limited ("Max Creation"), which is in turn 53.63% owned by World Future Investments Limited, which is in turn wholly-owned by Mr. Tsai Chi Jui. Mr. Tsai Chi Jui holds 320,000 ordinary shares directly. Mr. Tsai Chi Neng, who is a director of the Company, is also a director of Moby Dick. Mr. Tsai Chi Neng and Mr. David N.F. Tsai (who are directors of the Company) are directors of Max Creation. Ms. Tsai Huang Shu Man, being the spouse of Mr. Tsai Chi Jui, is deemed to be interested in the 115,321,998 ordinary shares in which Mr. Tsai Chi Jui is interested by virtue of the SFO.

## SUBSTANTIAL SHAREHOLDERS (continued)

*Notes: (continued)*

(c) Royal Bank of Canada Trust Company (Cayman) Limited is deemed to be interested in 101,126,262 ordinary shares by virtue of its capacity as a trustee of six discretionary trusts.

(d) Accord Management Limited is wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited. Accord Management Limited is deemed to be interested in 80,494,822 ordinary shares held directly by Quicksilver Profits Limited ("Quicksilver") and 20,631,440 ordinary shares held directly by Red Hot Investments Limited ("Red Hot") by virtue of its interest in more than one-third of the voting shares in Quicksilver and Red Hot respectively. Mr. Tsai Chi Neng, who is a director of the Company, is also a director of Quicksilver and Red Hot.

(e) Each of Ms. Tsai Hsu Li Min, being the spouse of Mr. Tsai Chi Neng, and Ms. Tsai Hsu Shu Chun, being the spouse of Mr. David N.F. Tsai, is deemed to be interested in the 101,126,262 ordinary shares in which each of Mr. Tsai Chi Neng and Mr. David N.F. Tsai is interested by virtue of the SFO. Mr. Tsai Chi Neng and Mr. David N.F. Tsai are directors of the Company.

(f) 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. The above have been prepared based on the disclosure of interest form filed with the Company.

## SUBSTANTIAL SHAREHOLDERS (continued)

*Notes: (continued)*

(g) The 101,180,535 ordinary shares (long position) are held as to 2,384,477 ordinary shares as corporate interest, 6,169,807 ordinary shares in the capacity as custodian corporation/approved lending agent, 378,331 ordinary shares as security interest and 92,247,920 ordinary shares as trustee. Further, 646,513 ordinary shares in short position are held as corporate interest. Of the 101,180,535 ordinary shares in long position, 93,936,282 ordinary shares represent underlying interests in physically settled unlisted derivatives.

Of the 101,180,535 ordinary shares (long position) held by Citigroup Inc., 90,178 ordinary shares (long position) are directly held by Citigroup Global Markets Inc., 473,475 ordinary shares (long position) are directly held by Morgan Stanley Smith Barney Holdings LLC, 12,938 ordinary shares (long position) are directly held by Citigroup Global Markets Financial Products LLC, 2,184,362 ordinary shares (long position) are directly held by Citigroup Global Markets Limited, 92,247,920 ordinary shares (long position) are directly held by Citicorp International Limited, 6,170,982 ordinary shares (long position) are directly held by Citibank N.A. and 680 ordinary shares (long position) are directly held by Citicorp Trust South Dakota.

Of the 646,513 ordinary shares (short position) interested by Citigroup Inc., 86,588 ordinary shares (short position) are directly interested by Citigroup Global Markets Inc., 18,729 ordinary shares (short position) are directly interested by Citigroup Global Markets Financial Products LLC and 541,196 ordinary shares (short position) are directly interested by Citigroup Global Markets Limited.

Morgan Stanley Smith Barney Holdings LLC 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 24.3% by Citigroup Global Markets Pacific Holding Company Inc. and as to 75.7% by Citigroup Global Markets (International) Finance AG. Both Citigroup Global Markets Pacific Holding Company Inc. and Citigroup Global Markets (International) Finance AG are wholly-owned by Citigroup Financial Products Inc.. Citigroup Global Markets Limited is wholly-owned by Citigroup Global Markets Europe Limited which is in turn owned as to 64.67% by Citigroup Financial Products Inc., 35.22% by Citigroup Global Markets International LLC and 0.11% by Citigroup Global Markets (International) Finance AG. Citigroup Global Markets International LLC is wholly-owned by Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is therefore deemed to be interested in an aggregate of 2,760,953 ordinary shares (long position) and 646,513 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.

Citicorp International Limited is wholly-owned by Citigroup Holding (Singapore) Private Limited, which is in turn wholly-owned by Citigroup Asia Pacific Holding Corporation, which is in turn wholly-owned by Citibank Overseas Investment Corporation, which is in turn wholly-owned by Citibank N.A.. 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.. Citicorp Holdings Inc. is therefore deemed to be interested in an aggregate of 98,418,902 ordinary shares (long position).

Citicorp Trust South Dakota is wholly-owned by Citibank (South Dakota), National Association, which is in turn wholly-owned by Citigroup Inc.. Citibank (South Dakota), National Association is therefore deemed to be interested in an aggregate of 680 ordinary shares (long position).

In light of the above, Citigroup Inc. is deemed to be interested in an aggregate of 101,180,535 ordinary shares (long position) and 646,513 ordinary shares (short position). The above have been prepared based on the disclosure of interest form filed with the Company.

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, 2012.

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

On 29th December, 2011, three of the independent non-executive directors of the Company, Dr. Liu Len Yu, Mr. Huang Ming Fu and Mr. Chu Li-Sheng and two of the executive directors of the Company, Ms. Tsai Pei Chun, Patty and Ms. Kuo Li-Lien were appointed as the members of the Nomination Committee of the Company, and Dr. Liu Len Yu was appointed as the chairman of the Nomination Committee of the Company.

On 9th April, 2012, Ms. Kuo Li-Lien, an executive director of the Company, was appointed as secretary of various Hong Kong subsidiaries of Pou Sheng, and was appointed as director of the following subsidiaries of Pou Sheng, which are incorporated in the British Virgin Islands:

1. Diodite Limited
2. Wealthy Chain Investments Limited
3. Winning Team Holdings Limited

## 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, 2012.

## 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, 2012 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

During the six months ended 31st March, 2012, the Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## 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, 2012.

## 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, Mr. Huang Ming Fu and Mr. Chu Li-Sheng are the Independent Non-executive Directors.

By Order of the Board
**Tsai Chi Neng**
*Chairman*

Hong Kong, 30th May, 2012

*Website: www.yueyuen.com*