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# YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

# 裕元工業（集團）有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 551)**

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2009

**GROUP FINANCIAL HIGHLIGHTS**

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

* *for identification purposes only*

## INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31st March, 2009 with comparative figures for the corresponding period in 2008 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 31st March, 2009*

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

## CONDENSED CONSOLIDATED BALANCE SHEET

*At 31st March, 2009*

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

| | Note | At 31st March, 2009 (unaudited) *US$'000* | At 30th September, 2008 (audited) *US$'000* |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | *10* | 651,554 | 637,749 |
| Taxation payable | | 16,887 | 11,514 |
| Derivative financial instruments | | 17,472 | 41,632 |
| Short-term bank borrowings | | 539,859 | 344,278 |
| Convertible bonds | | 263,594 | 262,131 |
| Bank overdrafts | | – | 188 |
| | | 1,489,366 | 1,297,492 |
| Net current assets | | 781,712 | 875,483 |
| Total assets less current liabilities | | 3,640,948 | 3,671,183 |
| Non-current liabilities | | | |
| Convertible bonds | | – | 255,479 |
| Long-term bank borrowings | | 443,740 | 296,014 |
| Deferred taxation | | 11,060 | 11,141 |
| | | 454,800 | 562,634 |
| Net assets | | 3,186,148 | 3,108,549 |
| Capital and reserves | | | |
| Share capital | | 53,211 | 53,682 |
| Reserves | | 2,794,261 | 2,726,215 |
| Equity attributable to equity holders of the Company | | 2,847,472 | 2,779,897 |
| Other reserve of a listed subsidiary | | 3,286 | 706 |
| Minority interests | | 335,390 | 327,946 |
| Total equity | | 3,186,148 | 3,108,549 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 30th September, 2008.

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

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 1 (Revised) | Presentation of Financial Statements[3] |
| HKAS 23 (Revised) | Borrowing Costs[3] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[4] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[3] |
| HKAS 39 (Amendment) | Eligible Hedged Items[4] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[3] |
| HKFRS 3 (Revised) | Business Combinations[4] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments[3] |
| HKFRS 8 | Operating Segments[3] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate[3] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[4] |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers[5] |

[1] Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
[2] Effective for annual periods beginning on or after 1st January, 2009, 1st July, 2009 and 1st January, 2010, as appropriate
[3] Effective for annual periods beginning on or after 1st January, 2009
[4] Effective for annual periods beginning on or after 1st July, 2009
[5] Effective for transfers on or after 1st July, 2009

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

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

## 3. TURNOVER AND SEGMENTAL INFORMATION

### Geographical segments

The Group reports its primary segment information based on geographical location of its customers, irrespective of the origin of the goods and an analysis of the Group's turnover and results is presented below:

*For the six months ended 31st March, 2009*

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

*For the six months ended 31st March, 2008*

| | United States of America US$'000 | Europe US$'000 | PRC US$'000 | Rest of Asia US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| TURNOVER | 724,503 | 561,302 | 558,134 | 317,956 | 158,285 | 2,320,180 |
| RESULTS | | | | | | |
| Segment results | 78,831 | 61,364 | 55,649 | 27,159 | 17,264 | 240,267 |
| Unallocated income | | | | | | 77,463 |
| Unallocated expenses | | | | | | (89,291) |
| Fair value changes on derivative financial instruments | | | | | | 4,757 |
| Finance costs | | | | | | (34,255) |
| Share of results of associates | | | | | | 17,826 |
| Share of results of jointly controlled entities | | | | | | 9,572 |
| Profit before taxation | | | | | | 226,339 |
| Income tax expense | | | | | | (10,657) |
| Profit for the period | | | | | | 215,682 |

**Business segments**

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

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

## 4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

## 5. INCOME TAX EXPENSE

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

*Notes:*

**(i) Hong Kong**

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

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

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

In the opinion of the directors, the subsidiaries involved did not carry on any business and derived no profit in or from Hong Kong. The subsidiaries which carry on business in Hong Kong only provided limited administrative services and have already paid Hong Kong Profits Tax. Having taken advice from the Company's legal adviser, the directors of the Company believe that no profits tax is in fact payable by the Group for these years of assessment or for any other years and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

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

**(ii) PRC**

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rate rules and regulations in the PRC, except for the followings:

(i) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions will expire between 2008 and 2010.

(ii) Pursuant to《國家稅務局關於落實西部大開發有關稅收政策具體實施意見的通知》, the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in specific encouraged industries are subject to a preferential tax rate of 15% during the period from 2001 to 2010.

Pursuant to Income Tax Law of the PRC, Yue Sheng (Kunshan) Sports Goods Co. Ltd., a subsidiary of the Company operating in an approved economic and technology development zone of the PRC, is entitled to a preferential income tax rate of 15% and is exempted from 3% local income tax, when the annual revenue from manufacturing business amounted to over 50% of its total revenue in a fiscal year. Continuance of this preferential rate is subject to annual confirmation from the local tax bureau. For the period ended 31st March, 2009, a statutory rate of 25% is used in the calculation of PRC EIT.

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

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

**(iii) Overseas**

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

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

## 6. PROFIT FOR THE PERIOD

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

## 7. DIVIDENDS

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

*Note:*

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

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

## 8. EARNINGS PER SHARE

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

| | For the six months ended 31st March, | |
|---|---|---|
| | **2009** | **2008** |
| | *US$'000* | *US$'000* |
| Earnings: | | |
| Profit for the period attributable to equity holders of the Company for the purpose of basic earnings per share | 217,685 | 209,311 |
| Effect of dilutive potential ordinary shares: | | |
| Finance costs on convertible bonds *(Note)* | 10,154 | 6,749 |
| Fair value changes on derivative embedded in convertible bonds | (23,302) | – |
| Profit for the period attributable to equity holders of the Company for the purpose of diluted earnings per share | 204,537 | 216,060 |

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

*Note:* The computation of diluted earnings per share for the six months ended 31st March, 2008 does not assume the conversion of the Company's outstanding convertible bonds – CB 2011 since the exercise of which would result in an increase in earnings per share.

## 9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 days to 90 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables net of allowance for doubtful debts of US$549,949,000 (30th September, 2008: US$588,599,000) and an aged analysis is as follows:

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

## 10. TRADE AND OTHER PAYABLES

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

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

**11. CONTINGENCIES**

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

## INTERIM DIVIDENDS

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

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 6th July, 2009 to Thursday, 9th July, 2009, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Friday, 3rd July, 2009.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

### Results

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

### Operations

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

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

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

**Total Turnover by Product Category**

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

**Total Turnover by Geographical Market**

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

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

**Financial Position**

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

**Corporate Social Responsibility**

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

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

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

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

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

**Looking Forward**

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

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

The shares were cancelled upon repurchase.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st March, 2009.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements.

## CORPORATE GOVERNANCE

The Company has applied the principles and complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 31st March, 2009, with deviation from Code provision A.4.1.

The Company has not yet adopted Code provision A.4.1. Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors (including independent non-executive directors) of the Company were not appointed for specific terms, but are subject to retirement by rotation in accordance with the Bye-laws of the Company. Since the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 31st March, 2009.

## ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

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

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

Hong Kong, 19th June, 2009

*Website: www.yueyuen.com*