YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2010

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March, 2010	2009	Percentage increase (decrease)
Turnover *(US$'000)*	2,654,565	2,545,313	4.3%
Profit attributable to owners of the Company *(US$'000)*	210,795	217,685	(3.2%)
Basic earnings per share *(US cents)*	12.8	13.2	(3.0%)
Dividend per share – Interim *(HK$)*	0.34	0.34	–

* *for identification purposes only*

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31st March, 2010 with comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st March, 2010

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31st March, 2010

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st March, 2010

	Note	At 31st March, 2010 (unaudited) *US$'000*	At 30th September, 2009 (audited) *US$'000*
Non-current assets			
Investment properties		59,103	59,103
Property, plant and equipment		1,606,753	1,592,418
Deposits paid for acquisition of property, plant and equipment		350	4,436
Prepaid lease payments		169,750	168,040
Intangible assets		71,470	73,756
Goodwill		218,607	218,607
Investments in associates		326,679	335,076
Amounts due from associates		24,328	10,728
Investments in jointly controlled entities		342,847	316,607
Amounts due from jointly controlled entities		155,041	159,739
Available-for-sale investments		19,459	15,481
Rental deposits and prepayments		25,780	29,455
Derivative financial instruments		54,595	55,321
Deferred tax assets		1,252	1,252
		3,076,014	3,040,019
Current assets			
Inventories		676,351	668,356
Trade and other receivables	9	841,054	792,771
Prepaid lease payments		4,636	3,806
Taxation recoverable		4,390	4,510
Derivative financial instruments		34,483	13,950
Structured bank deposit		40,091	39,824
Bank balances and cash		1,183,852	1,195,566
		2,784,857	2,718,783
Asset classified as held for sale		5,479	–
		2,790,336	2,718,783

	Note	At 31st March, 2010 (unaudited) *US$'000*	At 30th September, 2009 (audited) *US$'000*
Current liabilities			
Trade and other payables	10	735,447	758,256
Taxation payable		42,964	16,965
Derivative financial instruments		26,620	11,302
Short-term bank borrowings		526,713	570,201
Convertible bonds		–	271,337
		1,331,744	1,628,061
Net current assets		1,458,592	1,090,722
Total assets less current liabilities		4,534,606	4,130,741
Non-current liabilities			
Convertible bonds		260,922	–
Long-term bank borrowings		721,833	680,207
Deferred tax liabilities		28,583	29,154
		1,011,338	709,361
Net assets		3,523,268	3,421,380
Capital and reserves			
Share capital		53,211	53,211
Reserves		3,083,854	2,984,016
Equity attributable to owners of the Company		3,137,065	3,037,227
Non-controlling interests		386,203	384,153
Total equity		3,523,268	3,421,380

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 the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30th September, 2009.

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

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

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments

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

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

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

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

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

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

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

3. TURNOVER AND SEGMENTAL INFORMATION

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

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

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

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

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

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

5. INCOME TAX EXPENSE

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

notes:

(i) Hong Kong

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

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

From March 2004 to March 2008, the Hong Kong Inland Revenue Department (the "HKIRD") issued protective profits tax assessments, in aggregate, of approximately HK$1,051,943,000 (equivalent to approximately US$135,742,000) relating to the years of assessment 1997/1998 to 2001/2002, that is, for the financial years ended 30th September, 1997 to 2001, against certain wholly-owned subsidiaries of the Company. The Group lodged objections with the HKIRD against these protective assessments. The HKIRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing the Tax Reserve Certificate ("TRC") of HK$314,526,000 (equivalent to approximately US$40,586,000) for those years of assessment. These TRC were purchased.

In March 2009, the HKIRD further issued protective profits tax assessments of approximately HK$236,777,000 (equivalent to approximately US$30,553,000) relating to the year of assessment 2002/2003, that is, for the financial year ended 30th September 2002. The Group lodged objections with the HKIRD against these protective assessments. The HKIRD agreed to hold over the tax claimed subject to the purchasing of TRC of HK$118,389,000 (equivalent to approximately US$15,277,000). The Group has not purchased these TRC and, in May 2009, filed an application to High Court of Hong Kong for a judicial review on the protective assessments and holdover notices relating to the years of assessment 1997/1998 to 2002/2003.

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

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

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

(ii) PRC

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

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

(b) Pursuant to《國家稅務局關於落實西部大開發有關稅收政策具體實施意見的通知》, the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific encouraged industry are subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeds 70% of its total revenue in a fiscal year.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax holidays and concessions from PRC EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law"). The preferential treatment set out in (b) above continues on the implementation of the New Law.

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

(iii) Overseas

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

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

6. PROFIT FOR THE PERIOD

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

7. DIVIDENDS

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

note:

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

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

8. EARNINGS PER SHARE

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

	For the six months ended 31st March, 2010	2009
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	210,795	217,685
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds *(note)*	–	10,154
Fair value changes on derivative embedded in convertible bonds *(note)*	–	(23,302)
Profit for the period attributable to owners of the Company for the purpose of diluted earnings per share	210,795	204,537

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

note: The computation of diluted earnings per share for the six months ended 31st March, 2010 does not assume the conversion of the Company's outstanding convertible bonds – CB 2011 because the assumed exercise of the conversion options would result in an increase in earnings per share.

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade and bills receivables net of allowance for doubtful debts of US$540,482,000 (30th September, 2009: US$491,561,000) and an aged analysis based on the invoice date is as follows:

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

10. TRADE AND OTHER PAYABLES

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

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

11. CONTINGENCIES

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

INTERIM DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 5th July, 2010 to Thursday, 8th July, 2010, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Friday, 2nd July, 2010.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

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

Operations

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

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

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

Total Turnover by Product Category

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

Total Turnover by Geographical Market

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

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

Financial Position

The Group maintains a stable financial position. As at 31st March, 2010, the Group had cash and cash equivalents of US$1,183.9 million (30th September, 2009: US$1,195.6 million) and total borrowings of US$1,509.5 million, including the convertible bonds, (30th September, 2009: US$1,521.7 million). Net debt was US$325.6 million as at 31st March 2010 compared to US$326.2 million as at 30th September 2009 as the Group continued to benefit from the tight management of working capital in both the production operations and the retail business. The gearing ratio stood at 43% (30th September, 2009: 44%) and the net debt to equity ratio was 9% (30th September, 2009: 10%). The gearing ratio is based on total borrowings to total equity and the net debt to equity ratio is based on total borrowings net of cash and cash equivalents to total equity.

Corporate Social Responsibility

For many years, the Group has committed resources to its Corporate Social Responsibility ("CSR") Department so that it can design and implement businesses practices that are consistent with sustainable development. The CSR Department also deploys teams at the various Group factories to ensure these policies for sustainable development are adhered to at the operating level. Certain key principles embedded in the work performed by the CSR Department, among others, include that (i) employees rights and benefits and even their grievances are properly addressed from various aspects; (ii) the health and safety of the employees are duly considered and taken care of; (iii) effective and smooth communications between management and employees help raise harmonious industrial relations in worksites; (iv) environment requirements are incorporated into the factory operations; and (v) workers leisure activities and enrichment programs are enhanced.

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

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

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

Looking Forward

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF ACCOUNTS

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

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

CORPORATE GOVERNANCE

The Company has applied the principles and complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules during the six months ended 31st March, 2010, with deviation from Code provision A.4.1.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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, 2010.

ACKNOWLEDGEMENT

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

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

By Order of the Board
Tsai Chi Neng
Chairman

Hong Kong, 15th June, 2010

Website: www.yueyuen.com