



# YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 551)**

## FINAL RESULTS FOR THE YEAR ENDED 30TH SEPTEMBER, 2007

### GROUP FINANCIAL HIGHLIGHTS

- Turnover in 2007 increased by 12.5% to US\$4,114.1 million compared with US\$3,657.4 million in 2006.
- Profit attributable to equity holders of the Company for the fiscal year 2007 increased by 1.6% to US\$359.4 million compared with US\$353.6 million in 2006.
- EPS in 2007 decreased by 0.9% to US\$0.216 from US\$0.218 in 2006.
- The Directors have resolved to recommend the payment of a final dividend of HK\$0.53 per share, compared to HK\$0.51 per share in 2006. (Interim dividend of HK\$0.31 per share in 2007.)
- Total production volume in 2007 increased by 18.2% to 232.2 million pairs from 196.4 million pairs in 2006.

\* For identification only

## RESULTS

The Directors of Yue Yuen Industrial (Holdings) Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30th September, 2007 with comparative figures for the corresponding period in 2006 as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 30th September, 2007*

	<i>NOTES</i>	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Turnover	2	4,114,090	3,657,379
Cost of sales		<u>(3,143,553)</u>	<u>(2,815,959)</u>
Gross profit		970,537	841,420
Other income		100,376	96,850
Net increase in fair value of investment properties		4,530	1,931
Net gain on derivative financial instruments and convertible bonds		17,369	9,368
Selling and distribution expenses		(221,157)	(154,154)
Administrative expenses		(312,563)	(299,988)
Other expenses		(141,018)	(145,783)
Finance costs		(50,181)	(41,855)
Share of results of associates		24,676	24,758
Share of results of jointly controlled entities		<u>(5,922)</u>	<u>43,057</u>
Profit before taxation	3	386,647	375,604
Income tax expense	4	<u>(17,715)</u>	<u>(9,257)</u>
Profit for the year		<u>368,932</u>	<u>366,347</u>
Attributable to:			
Equity holders of the Company		359,432	353,591
Minority interests		<u>9,500</u>	<u>12,756</u>
		<u>368,932</u>	<u>366,347</u>
Dividends	5	<u>174,632</u>	<u>160,708</u>
		<i>US cents</i>	<i>US cents</i>
Earnings per share	6		
– Basic		<u>21.6</u>	<u>21.8</u>
– Diluted		<u>20.6</u>	<u>21.0</u>

## CONSOLIDATED BALANCE SHEET

As at 30th September, 2007

	NOTES	2007 US\$'000	2006 US\$'000
<b>Non-current assets</b>			
Investment properties		61,982	57,169
Property, plant and equipment		1,367,743	1,194,409
Prepaid lease payments		114,285	106,332
Goodwill		190,636	188,535
Investments in associates		292,179	246,717
Amounts due from associates		2,801	6,999
Investments in jointly controlled entities		261,372	225,009
Amounts due from jointly controlled entities		93,223	37,273
Available-for-sale investments		21,744	31,151
Rental deposits and prepayment		21,797	–
		<u>2,427,762</u>	<u>2,093,594</u>
<b>Current assets</b>			
Inventories		498,691	419,581
Trade and other receivables	7	780,692	620,692
Prepaid lease payments		2,079	1,766
Taxation recoverable		806	8,253
Derivative financial instruments		3,125	400
Deposits placed with a financial institution		24,000	24,000
Bank balances and cash		383,617	210,506
		<u>1,693,010</u>	<u>1,285,198</u>
<b>Current liabilities</b>			
Trade and other payables	8	622,227	506,597
Taxation payable		11,400	5,795
Derivative financial instruments		24,032	815
Short-term bank borrowings		148,769	193,163
Bank overdrafts		5,417	–
		<u>811,845</u>	<u>706,370</u>
Net current assets		<u>881,165</u>	<u>578,828</u>
Total assets less current liabilities		<u>3,308,927</u>	<u>2,672,422</u>

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Non-current liabilities		
Convertible bonds	492,135	237,837
Long-term bank borrowings	314,838	290,493
Deferred taxation	8,150	7,523
	<u>815,123</u>	<u>535,853</u>
Net assets	<u>2,493,804</u>	<u>2,136,569</u>
Capital and reserves		
Share capital	53,682	52,274
Reserves	2,365,696	2,039,046
	<u>2,419,378</u>	<u>2,091,320</u>
Equity attributable to equity holders of the Company	2,419,378	2,091,320
Minority interests	74,426	45,249
	<u>2,493,804</u>	<u>2,136,569</u>
Total equity	<u>2,493,804</u>	<u>2,136,569</u>

Notes:

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standard, amendments, and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for accounting periods beginning 1st October, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations, will have no material impact on how the results and financial position of the Group are prepared and presented except for HKFRS 8. However, the directors are not yet in a position to determine whether HKFRS 8 would have a significant impact on how the disclosure of segmental information in the consolidated financial statements are presented.

HKAS 1 (Revised)	Presentation of Financial Instruments <sup>2</sup>
HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment <sup>3</sup>
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>4</sup>
HK(IFRIC)-INT 12	Service Concession Arrangements <sup>5</sup>
HK(IFRIC)-INT 13	Customer Loyalty Programmes <sup>6</sup>
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st November, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>6</sup> Effective for annual periods beginning on or after 1st July, 2008

## 2. TURNOVER AND SEGMENTAL INFORMATION

Turnover mainly represents revenue arising on sales of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

### Geographical segments

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

*For the year ended 30th September, 2007*

	<b>United States of America</b> <i>US\$'000</i>	<b>Europe</b> <i>US\$'000</i>	<b>China</b> <i>US\$'000</i>	<b>Rest of Asia</b> <i>US\$'000</i>	<b>Others</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
TURNOVER	<u>1,441,417</u>	<u>987,726</u>	<u>828,171</u>	<u>555,600</u>	<u>301,176</u>	<u>4,114,090</u>
RESULTS						
Segment results	<u>170,022</u>	<u>116,866</u>	<u>85,071</u>	<u>44,349</u>	<u>35,558</u>	451,866
Other income						100,376
Unallocated expenses						(156,067)
Net increase in fair value of investment properties						4,530
Net gain on derivatives financial instruments and convertible bonds						17,369
Finance costs						(50,181)
Share of results of associates						24,676
Share of results of jointly controlled entities						<u>(5,922)</u>
Profit before taxation						386,647
Income tax expense						<u>(17,715)</u>
Profit for the year						<u>368,932</u>

For the year ended 30th September, 2006

	<b>United States of America</b> <i>US\$'000</i>	<b>Europe</b> <i>US\$'000</i>	<b>China</b> <i>US\$'000</i>	<b>Rest of Asia</b> <i>US\$'000</i>	<b>Others</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
TURNOVER	<u>1,391,242</u>	<u>904,458</u>	<u>666,102</u>	<u>430,912</u>	<u>264,665</u>	3,657,379
RESULTS						
Segment results	<u>161,180</u>	<u>104,769</u>	<u>61,794</u>	<u>39,422</u>	<u>30,592</u>	397,757
Other income						96,850
Unallocated expenses						(156,262)
Net increase in fair value of investment properties						1,931
Net gain on derivatives financial instruments and convertible bonds						9,368
Finance costs						(41,855)
Share of results of associates						24,758
Share of results of jointly controlled entities						<u>43,057</u>
Profit before taxation						375,604
Income tax expense						<u>(9,257)</u>
Profit for the year						<u>366,347</u>

### Business segment

For management purposes, the Group is currently organised into two divisions in (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 revenues analysed by the business segment.

	<b>Revenue</b>	
	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Manufacture and sale of footwear products	3,625,240	3,329,212
Retailing business	488,431	328,167
Others	419	-
	<u>4,114,090</u>	<u>3,657,379</u>

### 3. PROFIT BEFORE TAXATION

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Profit before taxation has been arrived at after charging:		
Employee benefit expense, including directors' emoluments		
– basic salaries, bonus and allowances	741,485	618,509
– retirement benefit scheme contributions	11,007	10,004
	<u>752,492</u>	<u>628,513</u>
Release of prepaid lease payments	2,154	1,741
Auditors' remuneration	1,119	1,400
Depreciation of property, plant and equipment	138,830	129,791
Impairment loss on amounts due from associates	–	3,110
Impairment loss on amounts due from jointly controlled entities	–	3,500
Impairment loss on available-for-sale investments	–	6,000
Loss on deemed disposal of a subsidiary	–	1,353
Loss on disposal of investment properties	–	746
Loss on disposal of property, plant and equipment	4,507	7,558
Research and development expenditure	114,684	98,913
Share of taxation of associates (included in share of results of associates)	889	1,540
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	3,000	–
and after crediting:		
Interest income	14,375	10,572
Discount on acquisition of additional interests in subsidiaries	–	1,022
Dividend income from listed available-for-sale investments	2,562	1,742
Net exchange gain	6,417	13,176
Gain on deemed disposal of an associate	1,054	–
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US\$36,000 (2006: US\$33,000)	4,944	5,269
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	<u>–</u>	<u>569</u>

*Note:* For the years ended 30th September, 2006 and 2007, cost of inventories recognized as an expense represents cost of sales as shown in the consolidated income statement.

#### 4. INCOME TAX EXPENSES

	2007 US\$'000	2006 US\$'000
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax at 17.5% (2006: 17.5%)		
– current year	751	604
– underprovision in prior years	22	22
PRC Income Tax		
– current year	12,683	4,812
Overseas taxation		
– current year	3,634	3,169
– (over)underprovision in prior years	(2)	5
	<u>17,088</u>	<u>8,612</u>
Deferred tax charge	627	645
	<u>17,715</u>	<u>9,257</u>

The Group's profit is subject to taxation from the place of its operations where its profit is generated. Taxation is calculated at the rates prevailing in the relevant jurisdictions.

The provision of PRC income tax is calculated based on the statutory rate of 33% of the assessable profit for those subsidiaries established in the PRC, as determined accordance with the relevant income tax rules and regulations in the PRC.

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. The tax holidays and concessions will expire between 2008 and 2010.

Pursuant to 《國家稅務總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》 and 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 of 2001 to 2010.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Law.

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

From March 2004 to March 2006, the Inland Revenue Department (the "IRD") issued protective profits tax assessments, in aggregate, of approximately HK\$623,507,000 (equivalent to approximately US\$80,164,000) relating to the years of assessment 1997/98, 1998/99 and 1999/2000, that is, for the financial years ended 30th September, 1997, 1998 and 1999, against certain wholly-owned subsidiaries of the Company. The Group lodged objections with the IRD against the protective assessments. The IRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing tax reserve certificates (the "TRC") of HK\$181,526,000 (equivalent to approximately US\$23,311,000) for those three years of assessment. These TRC were purchased by the relevant subsidiaries.

In March 2007, IRD further issued protective profits tax assessments of approximately HK\$201,371,000 (equivalent to approximately US\$25,817,000) relating to the year of assessment 2000/2001, that is, for the financial year ended 30th September, 2000. The IRD agreed to hold over the tax claim subject to the purchasing of TRC of HK\$65,000,000 (equivalent to approximately US\$8,333,000). The TRC was purchased by the relevant subsidiaries on 1st June, 2007.

The directors of the Company believe that no profits tax is payable by the Group in respect of the concerned subsidiaries and that no provision for Hong Kong profits tax in respect of the protective assessments is necessary. In the opinion of the directors, those subsidiaries 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 in respect of the protective assessments and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

Whilst the Company has been advised that it has a strong case that the tax claimed is not in fact payable, the directors are also considering alternative approaches in the best interest of the Group to resolve the dispute with the IRD without legal proceedings, which are costly and time consuming. If the dispute 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.

## 5. DIVIDENDS

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Dividends recognized as distribution during the year:		
2007 Interim dividend of HK\$0.31 per share (2006: 2006 Interim dividend of HK\$0.29 per share) paid	66,002	60,517
2006 Final dividend of HK\$0.51 per share (2006: 2005 Final dividend of HK\$0.48 per share) paid	108,630	100,191
	<u>174,632</u>	<u>160,708</u>

The directors recommend the payment of a final dividend of HK\$0.53 per share for the year ended 30th September, 2007. The proposed final dividend will be paid on or before 13th March, 2008 to those shareholders whose names appear on the Company's register of members on 3rd March, 2008.

This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

## 6. EARNINGS PER SHARE

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

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
Earnings:		
Profit for the year attributable to equity holders of the Company for the purposes of basic earnings per share	359,432	353,591
Effect of dilutive potential ordinary shares:		
Gain on fair value changes on derivative financial instruments	(14,063)	(32,892)
Finance costs on convertible bonds	24,704	12,159
Loss on modification of convertible bonds	–	25,399
Gain on redemption of convertible bonds	–	(2,289)
Profit for the year attributable to equity holders of the Company for the purpose of diluted earnings per share	<u>370,073</u>	<u>355,968</u>

	<b>2007</b>	<b>2006</b>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,660,984,164	1,619,748,986
Effect of dilutive potential ordinary shares:		
Convertible bonds	<u>134,352,478</u>	<u>71,332,038</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,795,336,642</u>	<u>1,691,081,024</u>

## 7. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms, 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 of US\$497,269,000 (2006: US\$428,133,000) and an aged analysis is as follows:

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
0 to 30 days	349,321	309,856
31 to 90 days	137,794	109,035
Over 90 days	<u>10,154</u>	<u>9,242</u>
	<u>497,269</u>	<u>428,133</u>

The fair value of the Group's trade and other receivables at the balance sheet date approximates the corresponding carrying amount.

## 8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$306,277,000 (2006: US\$246,643,000) and an aged analysis is as follows:

	<b>2007</b> <i>US\$'000</i>	<b>2006</b> <i>US\$'000</i>
0 to 30 days	205,783	171,522
31 to 90 days	74,385	49,906
Over 90 days	<u>26,109</u>	<u>25,215</u>
	<u>306,277</u>	<u>246,643</u>

The fair value of the Group's trade and other payables at the balance sheet approximates the corresponding carrying amount.

## 9. CONTINGENT LIABILITIES

	2007 US\$'000	2006 US\$'000
Guarantees given to banks in respect of banking facilities utilised by:		
– associates	6,455	2,655
– jointly controlled entities	66,020	41,300
	<u>72,475</u>	<u>43,955</u>

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29th February, 2008 to 3rd March, 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 28th February, 2008 in order to qualify for the final dividend mentioned above.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

### Results

For the year ended 30th September, 2007, total turnover rose 12.5% year on year to approximately US\$4,114.1 million, and net profit attributable to equity holders of the Company increased 1.6% year on year to approximately US\$359.4 million. Basic earnings per share decreased by 0.9% year on year to US21.6 cents due to a share placement during the year.

### Operations

The Group recorded steady growth in the footwear manufacturing operation, with turnover from athletic shoes and casual/outdoor shoes grew by 10.6% and 9.5% year-on-year respectively. There was significant growth in the total number of shoes produced, which at 232.2 million pairs represented a rise of 18.2% compared with the previous year. The rate of growth was higher than the market average due to support of existing customers and the addition of new clients. During the year under review, the Group installed 25 new production lines, evenly spread among the three production bases (mainland China, Vietnam and Indonesia), taking the total number of lines to 398.

### Total Turnover by Product Category

	2007		2006		y-o-y
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	% change
Athletic Shoes	2,333.8	56.7	2,109.7	57.7	10.6
Casual/Outdoor Shoes	713.2	17.3	651.6	17.8	9.5
Sports Sandals	62.5	1.5	45.9	1.3	36.1
Soles & Components	466.9	11.4	483.5	13.2	(3.4)
Retail Sales – Shoes & Apparel	488.4	11.9	328.8	9.0	48.8
Others	49.3	1.2	38.5	1.0	28.1
<b>Total Turnover</b>	<b><u>4,114.1</u></b>	<b><u>100.0</u></b>	<b><u>3,657.4</u></b>	<b><u>100.0</u></b>	<b><u>12.5</u></b>

Steady growth in turnover was experienced in each geographical market, and distribution was more balanced among the three major markets – the US, Asia and Europe. Turnover growth was particularly strong in the emerging market regions such as South America and Asia with surging retail sales in the Greater China region driving the rise recorded in the latter.

### **Total Turnover by Geographical Market**

*For the year ended 30th September,*

	<b>2007</b>		<b>2006</b>		<i>y-o-y</i>
	<i>US\$ millions</i>	<i>%</i>	<i>US\$ millions</i>	<i>%</i>	<i>% change</i>
U.S.A.	1,441.4	35.0	1,391.2	38.0	3.6
Canada	69.2	1.7	67.3	1.9	2.8
Europe	987.7	24.0	904.5	24.7	9.2
South America	121.5	3.0	94.4	2.6	28.7
Asia	1,383.8	33.6	1,097.0	30.0	26.1
Other Areas	110.5	2.7	103.0	2.8	7.3
<b>Total Turnover</b>	<b><u>4,114.1</u></b>	<b><u>100.0</u></b>	<b><u>3,657.4</u></b>	<b><u>100.0</u></b>	<b><u>12.5</u></b>

Retail sales in the Greater China region surged 48.8% year-on-year to US\$488.4 million. This was due to the strong growth in the retail sales operation in mainland China and increased contributions from the wholesale operations in Taiwan and Hong Kong. The total number of self-operated and franchised stores/counters in China under the Group and its affiliates stood at about 3,000 by the end of September 2007. In addition, there were about 2,600 distributors in the Greater China region for the Group's wholesales operations for the three licensee brands.

Although the manufacturing environment in the past year continued its down turn, the Group managed to maintain its growth and profit margins by leveraging on its economies of scale, improving efficiencies and expanding its retail operation. Some associate companies, and especially jointly controlled entities, however, were unable to cope with the severe and challenging business environments. They have strived through organizational restructuring and reset their business directions resulting in substantial losses which undermined the Group's bottom line performance.

### **Financial Review**

The Group's financial position remained stable. As at 30th September, 2007, the Group had cash and cash equivalents of US\$ 408 million (2006: US\$235 million) and total borrowings of US\$961 million (2006: US\$722 million). The gearing ratio (total borrowings to shareholders' equity) was 39% (2006: 34%) and the net debt to equity ratio (total borrowings net of cash on hand to shareholders' equity) stood at 22% (2006: 23%). The increase in the gearing ratio was due to a rise in capital expenditure on new production capacity and the retail business.

## **Capital Expenditure**

During the period, the Group incurred the following capital expenditure in the total amount of US\$337.6 million (2006: 292.1 million) which composed of: a) Property, Plant and Equipment US\$324.6 million, mainly for the new plant and machineries to cope with the increase in production lines as well as the increase in land and building in the retail segment and b) prepaid land lease US\$13 million.

## **Looking Forward**

Turnover growth momentum continued to be strong in the first quarter of fiscal 2008 due to a surge in the contribution from the mainland China retail sales operation and the steady growth of the manufacturing business. For the three months ended December 2007, the Group recorded 16.8% year-on-year growth in turnover to approximately US\$1,121.8 million.

The Group expects to see further growth going forward, but is well aware of the potential impact on US retail sales from the sub-prime mortgage problem. On the cost side, oil prices remain at a high level and there is constant inflation pressure on wages. An appreciation in the Chinese Yuan would exert pressure on manufacturers too. However, further consolidation of the manufacturing sector should provide opportunities for the Group to expand.

Turnover from the China wholesale and retail sales operations should continue to grow, with further investment in organic growth and in joint ventures with local retail chain operators in various regions. The Group has built up an extensive sporting goods distribution network throughout the mainland, selling products for international as well as local sporting goods brands. The Olympics Games in Beijing should spur on consumption of sporting goods in 2008, underpinning growth for the Group.

With respect to the restructuring of the retail operation, on 12th December, 2007, the Group announced plans to spin-off and separate list Pou Sheng International (Holdings) Limited and its subsidiaries on the main board of the Stock Exchange of Hong Kong Limited. The restructuring would effectively consolidate the retail business under the Pou Sheng Group. The rationale and benefits of the proposed spin-off are numerous: It would help achieve operational focus; increase management focus and motivation; provide a new source of capital and enhance valuations. It is intended that assured entitlement to certain Pou Sheng shares will be provided to existing shareholders of Yue Yuen by way of preferred application in any offering of new Pou Sheng shares in the listed entity.

The Group achieved steady growth last year and is looking for the momentum to be sustained in the coming year. The fast expansion of the China wholesale and retail sales operations and the sustained order flow on the footwear manufacturing side should underpin overall growth. There will be challenge on the cost side due to rising oil prices and wages. However, the Group is well positioned to weather these challenges. The adoption of effective cost control measures and the ongoing quest for efficiency improvements will underpin the Group's operating performance. Meanwhile, the timely expansion of the Group's mainland China wholesale and retail sales operations has started bearing fruit.

The Group has strengthened its position in the areas of manufacturing and mainland China retailing in the last year. We expect our business will continue to grow and will work hard to enhance the value of the Group for our shareholders.

## **Corporate Social Responsibility**

The Group has reported 15 consecutive years of sales increases. And for 15 years our staff and the communities in which they live have shared in this success through the wide range of initiatives that fall under our Corporate Social Responsibility (CSR) programs. CSR is an integrated part of the Group's operation that is supported at the highest levels of the organization and recognized as helping to maintain the Group's market-leading position. We are committed to keeping abreast of industry best-practice in the area of CSR.

The holding of the Olympic Games in Beijing in 2008 presents huge opportunities for the growth of our manufacturing and retail business, and also for our CSR initiatives. We know and recognize that staff with a high level of job satisfaction not only means greater production efficiency, it also means high-quality products. And so we remain committed to improving workplace safety, implementing environmental protections measures, and organizing personal development programs on an ongoing basis.

In fiscal 2007, the Group implemented numerous programs covering areas such as workers' personal development, workplace safety, pollution control, and energy conservation. There were also visits from government officials and international independent assessors to audit workplace safety and the health of staff.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company has applied the principles and has complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules throughout the year ended 30th September, 2007, with deviations 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**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s 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 throughout the year ended 30th September, 2007.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management and the external auditors, the Group’s consolidated financial statements, the accounting principles and practices adopted and discussed auditing, internal controls, and financial reporting matters.

## **ACKNOWLEDGMENT**

We would like to take this opportunity to express our sincere appreciation for the continuous support of our customers, suppliers and shareholders. Also, without the commitment and dedicated services from our employees, we would not be able to achieve the level of growth we have recorded in the past, and to whom we extend our profound gratitude.

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

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

Hong Kong, 17th January, 2008  
*Website: [www.yueyuen.com](http://www.yueyuen.com)*