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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)**

### **ANNOUNCEMENT**

**PROPOSED DISCLOSEABLE TRANSACTION BY WAY OF  
SPIN-OFF AND SEPARATE LISTING OF  
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED AND  
ITS SUBSIDIARIES ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**PROPOSED DISCLOSEABLE AND CONNECTED TRANSACTIONS INVOLVING  
ACQUISITION OF SHARES FROM AND ISSUE OF  
NEW SHARES TO CONNECTED PERSONS OF YUE YUEN**

**ADOPTION OF POU SHENG SHARE OPTION SCHEME**

**ADOPTION OF POU SHENG SHARE SUBSCRIPTION PLAN**

**INVITATIONS TO CONNECTED PERSONS OF YUE YUEN UNDER THE POU  
SHENG SHARE SUBSCRIPTION PLAN**

\* For identification only

Financial Advisor to Yue Yuen



Independent Financial Advisor to  
Independent Board Committee and the Shareholders



## **PROPOSED SPIN-OFF**

Reference is made to the announcements of Yue Yuen made on 12 December 2007 relating to Pou Sheng having submitted an advance booking form for an application for the listing of, and permission to deal in, the Pou Sheng Shares on the main board of the Stock Exchange and on 9 April 2008 relating to certain call options involving the issue of Pou Sheng Shares.

The Proposed Spin-off will be conditional on, among other things, the following:

- (i) the approval of the Proposed Spin-off by Yue Yuen Shareholders;
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in, all the Pou Sheng Shares in issue and to be issued pursuant to the Global Offering; and
- (iii) the obligations of the underwriters under the underwriting agreement to be entered into among Pou Sheng, the Company and the underwriters in respect of the Global Offering becoming unconditional and the underwriting agreement not being terminated or before the dates and times to be specified therein.

Pursuant to Rule 13.36(1) of the Listing Rules and Practice Note 15 of the Listing Rules, the Proposed Spin-off will require the approval of Yue Yuen Shareholders. Pou Sheng is a major subsidiary of Yue Yuen under Rule 13.36(1) of the Listing Rules and the Proposed Spin-off will be a material dilution to Yue Yuen given the shares of Pou Sheng to be offered to the public in Hong Kong for subscription and for placing with certain professional, institutional and other investors at the time of Listing are expected to be mainly new Pou Sheng Shares. The Proposed Spin-off will also constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Proposed Spin-off is subject to the disclosure requirements under Chapter 14 of the Listing Rules.

**As the listing of the Pou Sheng Shares pursuant to the Proposed Spin-off is subject to, among others, the approval of Yue Yuen Shareholders and the Listing Committee, the final decision of the Board and the board of directors of Pou Sheng, the Proposed Spin-off may or may not occur. Yue Yuen Shareholders and other investors are reminded to exercise with caution when dealing in the securities of Yue Yuen.**

## **REORGANISATION**

In connection with the Proposed Spin-off, the Yue Yuen Group will undergo the Reorganisation so that the Pou Sheng Group will be principally engaged in the Retail Business and the Retained Group will be principally engaged in the OEM/ODM Business. The Reorganisation involved the acquisition by Pou Sheng from Jollyard, Sports Group and Mr. Huang of shares in certain subsidiaries of the Yue Yuen Group so that these relevant companies will become wholly-owned subsidiaries of Pou Sheng. In consideration of such acquisition, Pou Sheng will issue new Pou Sheng Shares to each of Jollyard, Sports Group and Mr. Huang.

As each of Jollyard, Sports Group and Mr. Huang is a substantial shareholder of certain subsidiaries of Yue Yuen and as Mr. Huang is also a director of Pou Sheng (a subsidiary of Yue Yuen) and a director of certain subsidiaries of Yue Yuen, they are connected persons of Yue Yuen. The entering into of the Reorganisation Agreement in relation the Reorganisation constitutes a connected transaction for Yue Yuen subject to disclosure, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Reorganisation Agreement is conditional on the passing of a resolution by Yue Yuen Shareholders (who are permitted to vote under the Listing Rules) at the SGM to approve and confirm the Reorganisation Agreement. The entering into of the Reorganisation Agreement also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and as such is subject to the applicable requirements under Chapter 14 of the Listing Rules.

## **ADOPTION OF POU SHENG SHARE OPTION SCHEME AND THE POU SHENG SHARE SUBSCRIPTION PLAN**

In connection with the Proposed Spin-off, it is proposed that the Pou Sheng Share Option Scheme and the Pou Sheng Share Subscription Plan be adopted by Pou Sheng. As Pou Sheng is a subsidiary of Yue Yuen, the adoption of the Pou Sheng Share Option Scheme is conditional on approval by the Yue Yuen Shareholders. Although the Pou Sheng Share Subscription Plan is not subject to the requirements of Chapter 17 of the Listing Rules, the Board has decided that, for good corporate governance practices, the Pou Sheng Share Subscription Plan will also be put forward to Independent Yue Yuen Shareholders for their approval at the SGM.

## **INVITATIONS TO CONNECTED PERSONS OF YUE YUEN UNDER THE POU SHENG SHARE SUBSCRIPTION PLAN**

Subject to obtaining the approval of the Yue Yuen Shareholders, the Board proposes to extend the Connected Invitations to certain eligible persons who are or proposed to become connected persons of Yue Yuen by virtue of each of them being a director of Pou Sheng and/or certain subsidiaries of Pou Sheng (a subsidiary of Yue Yuen). Such Connected Invitations will be put forward to Independent Yue Yuen Shareholders for their approval at the SGM by way of poll.

A circular containing further information on the Proposed Spin-off, the Reorganisation, the Pou Sheng Share Option Scheme, the Pou Sheng Share Subscription Plan and the Connected Invitations, a letter from the Independent Board Committee, a letter of advice from the Independent Financial Advisor, Somerley Limited, together with a notice of the SGM to be held in relation to the abovementioned matters, will be despatched to Yue Yuen Shareholders in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 21 May 2008 to Monday, 26 May 2008 (both days inclusive) for the purposes of determining the assured entitlements and rights to vote at the SGM, during which dates no transfer of shares of the Company will be effected. In order to qualify for the Preferential Offering and voting at the SGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 20 May 2008.

## **PROPOSED DISCLOSEABLE TRANSACTION BY WAY OF SPIN-OFF AND SEPARATE LISTING OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED AND ITS SUBSIDIARIES ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

The Proposed Spin-off is expected to be effected by way of the Global Offering, which will comprise the Hong Kong Public Offer and the International Placing, which also includes the Preferential Offer. Merrill Lynch has been appointed as the sole global coordinator of the Global Offering. The joint bookrunners, joint lead managers and joint sponsors of the Global Offering are Merrill Lynch and Morgan Stanley.

The listing of the Pou Sheng Shares on the main board of the Stock Exchange is conditional upon the fulfilment or waiver of the conditions set out in the paragraph headed "Conditions to the Proposed Spin-off" below. Immediately after completion of the Proposed Spin-off, approximately 25% (if the Over-allotment Option is not exercised) of the enlarged issued share capital of Pou Sheng will be held by the public and Pou Sheng will satisfy the public float requirement under Rule 8.08 of the Listing Rules. The Proposed Spin-off, if it proceeds, constitutes a material dilution of the Company's interest in Pou Sheng, and Pou Sheng will continue to be a subsidiary of the Company. The Proposed Spin-off will also constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Proposed Spin-off is subject to the disclosure requirements under Chapter 14 of the Listing Rules.

An application was made to the Stock Exchange on 12 December 2007 for the listing of, and permission to deal in, the Pou Sheng Shares in issue and to be issued pursuant to the Global Offering.

### **Structure of the Proposed Spin-off**

The Company intends to effect the Proposed Spin-off by way of the Global Offering.

The final structure and price range of the Global Offering will be decided by the Board and the board of directors of Pou Sheng. At present, it is expected that the Global Offering will be comprised of an offering of Pou Sheng Shares to the public in Hong Kong for subscription as well as a placing of Pou Sheng Shares with certain professional, institutional and other investors. The Global Offering will also include an offer of Pou Sheng Shares with assured allotments to the Qualifying Shareholders to subscribe for Pou Sheng Shares by way of preferred application under the Preferential Offer. The Pou Sheng Shares to be issued under the Global Offering will be issued at the Final Offer Price.

Immediately after completion of the Global Offering, Pou Sheng will remain a non-wholly owned subsidiary of the Company. On the assumption that the Over-allotment Option will not be exercised, it is currently expected that immediately after the Global Offering: (i) approximately 56.0% of the enlarged issued share capital of Pou Sheng will be retained by the Company (held through Major Focus), and (ii)

approximately 25.9% of the enlarged issued share capital of Pou Sheng will be held by applicants in the Global Offering and by partners of joint ventures who have granted call options, three of which are disclosed in the Company's announcement of 9 April 2008 and a joint venture partner of one of our subsidiaries with whom we have entered into a share swap agreement (the entering into which was not a notifiable transaction and was separated from the Global Offering). In addition, Mr. Huang and Sports Group are expected to own approximately 7.8% and Jollyard is expected to own approximately 10.3% of the enlarged issued share capital of Pou Sheng assuming no exercise of the Over-allotment Option.

The above percentages of shares of Pou Sheng to be issued under the Global Offering are indicative only and the final number of shares to be issued will be published in the Prospectus.

Further announcement(s) will be made to update Yue Yuen Shareholders and investors of any significant development relating to the Proposed Spin-off and/or the Global Offering (including its size and the indicative price range for the Global Offering) as and when appropriate.

Further, approximately 5% of the Pou Sheng Shares available under the Global Offering representing the Reserved Shares, will be available for application on an assured allotment basis by the Qualifying Shareholders at the Offer Price under the Preferential Offer (see "Preferential Offer" below for further details).

The Pou Sheng Shares to be offered pursuant to the Global Offering will rank *pari passu* in all respects with other Pou Sheng Shares then in issue.

The Yue Yuen Shares will continue to be listed on the main board of the Stock Exchange after the implementation of the Proposed Spin-off.

### **Conditions to the Proposed Spin-off**

It is currently expected that the Proposed Spin-off will be conditional on, among other things, the following:

- (i) the approval of the Proposed Spin-off by Shareholders of Yue Yuen;
- (ii) the Listing Committee granting the listing of, and permission to deal in, all the Pou Sheng Shares in issue and to be issued pursuant to the Global Offering; and
- (iii) the obligations of the underwriters under the underwriting agreements to be entered into among Pou Sheng, the Company and the underwriters in respect of the Global Offering becoming unconditional and the underwriting agreements not being terminated, on or before the dates and times to be specified therein.

If any of these and other applicable conditions are not fulfilled, the Proposed Spin-off will lapse, and the Stock Exchange will be notified immediately and an announcement will be published by the Company and/or Pou Sheng as soon as practicable following such lapse.

### *Non-compete undertaking and indemnity*

It is intended that after completion of the Proposed Spin-off, the Pou Sheng Group will be principally operating the Retail Business and the Group will be principally focusing on the OEM/ODM manufacturing business. To a much smaller scale, the Pou Sheng Group will also have manufacturing facilities in Taicang, PRC which manufacture sports footwear for certain brands being *Li Ning*, *ANTA*, *Kappa*, *361°* and *Umbro*, as well as one brand which is expected to be produced in the future, namely *XTEP* (together the “Taicang Brands”). The Taicang manufacturing facilities are intended to serve a complementary role only to the retail business of the Pou Sheng Group.

In order to clearly separate the manufacturing businesses of the Group and the Pou Sheng Group after the Proposed Spin-off, the Company and Pou Sheng propose to enter into the Business Separation Deed which will be conditional upon the completion of the Global Offering.

### **Business Separation Deed**

Under the Business Separation Deed, amongst other things:–

- (A) Pou Sheng will undertake to manufacture only for the six Taicang Brands.
- (B) The Company will undertake not to solicit or manufacture for the Taicang Brands under any circumstances.
- (C) If any brands other than the Taicang Brands request Pou Sheng to manufacture for them, Pou Sheng must first confirm with the Company whether the Company will pursue such business opportunities. If the Company does, Pou Sheng will use its reasonable efforts to persuade the brand owners to give the Company the business. If the Company does not take up the business opportunity, Pou Sheng may then manufacture for such brands.

Under the Business Separation Deed, the above undertakings will survive for a period of five years from Listing and will be automatically renewed every five years unless a majority of the independent non-executive directors of Pou Sheng decide at the end of any given five year period that the Business Separation Deed shall not be renewed. The Business Separation Deed may also be terminated on the earlier of the date when Yue Yuen ceases to be a controlling shareholder of Pou Sheng or the date when the shareholders of Yue Yuen and Pou Sheng who do not have a material interest in the transaction decide by ordinary resolution that the Business Separation Deed shall be terminated.

Notwithstanding the above undertakings, Pou Sheng may directly or indirectly engage in the sportswear or footwear manufacturing business by holding of not more than 5% of any class of listed securities issued by a company which directly or indirectly engages in the sportswear or footwear manufacturing business.

The Company and Pou Sheng will each agree to the following during the term of the above undertakings:

- (1) In respect of scenario (B) set out above the Company will confirm in its annual reports that the Company has not, under any circumstances, solicited or manufactured for any of the Taicang Brands.

- (2) In respect of scenario (C) set out above Pou Sheng will confirm in its annual reports compliance with the following:
- (i) if any brands other than the Taicang Brands approach Pou Sheng, and after the Company has confirmed that it wishes to pursue such business opportunities, whether Pou Sheng has used reasonable efforts to convince such brand owners to give the business opportunity to the Company; and
  - (ii) the independent non-executive directors of Pou Sheng have reviewed the steps taken to convince such brand owners and are satisfied that reasonable efforts have been made. Pou Sheng will provide sufficient information to its independent non-executive directors upon request in order for them to conduct this review.

The Company will put forward to Yue Yuen Shareholders the Business Separation Deed for their approval at the SGM.

### *Indemnities*

In connection with the Proposed Spin-off, the Company will provide certain indemnities to the Pou Sheng Group in relation to certain tax liabilities of the Pou Sheng Group. Under the Deed of Indemnity, each of the Company, Jollyard, Sports Group and Mr. Huang (the “Indemnifiers”) will give indemnities, on a joint and several basis, to the Pou Sheng Group in relation to taxation which might be payable by any member of the Pou Sheng Group in respect of, amongst others, any income, profits or gains earned, accrued or received on or before the Effective Date.

The Deed of Indemnity does not cover any claim and the Indemnifiers will not be liable in respect of any taxation in certain circumstances including:–

- a) to the extent that provision has been made for such taxation in the audited accounts of any member of the Pou Sheng Group up to 30 September 2007 and for the three months ended 31 December 2007, for those members that have a financial year end of 30 September, and for the year ended 31 December 2007, for all other members;
- b) to the extent that such taxation arises as a result of any retrospective change in the law or the interpretation or practice thereof by any relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the Effective Date or to the extent such taxation arises or is increased by an increase in rates of taxation with retrospective effect;
- c) to the extent of any provision or reserve made for taxation in the relevant accounts which is an over-provision or an excessive reserve in which case the Indemnifiers’ liability shall be reduced accordingly; and
- d) relating to Hong Kong profits tax falling on any Group Member in respect of any transaction after the Effective Date unless that liability would not have arisen but for some act or omission of, or transaction entered into by, any Group Member otherwise than in the course of normal day to day operations on or before the Effective Date.

In addition, the Company will also indemnify the Pou Sheng Group in respect of the losses, if any, arising from title defects related to the land and buildings which are owned or leased or occupied by the Pou Sheng Group and set out in the property valuation report contained in the Prospectus.

Under the Deed of Indemnity, the Indemnifiers will provide indemnities on a joint and several basis in connection with:

- (a) any losses, damages, liabilities, costs or expenses suffered or incurred by any member of the Pou Sheng Group whereby any member of the Pou Sheng Group is prohibited from using or occupying or being evicted from any one or more of the properties currently leased and/or occupied by any member of the Pou Sheng Group in the PRC whether by the landlord or any third party whatsoever (including without limitation any government authorities or other competent authorities in the PRC) on the grounds that the relevant lease is invalid or unenforceable or has been breached (other than a breach occurred on or prior to the date on which the Global Offering becomes unconditional as a result of any action or inaction of any member of the Pou Sheng Group) or the relevant landlord has not obtained the requisite licences, permits and/or title certificates or any requisite procedure (including but not limited to registration or filing with the relevant government authorities in the PRC) has not been completed; and
- (b) any relocation costs and expenses, operating and business losses, liabilities and damages suffered or incurred by any member of the Pou Sheng Group as a result of or in connection with, whether directly or indirectly, the events referred to in (a) above.

### **Intended use of proceeds**

#### *Net proceeds from the Global Offering*

Pou Sheng presently intends that the anticipated net proceeds from the Global Offering will be applied as follows:

- (a) as to approximately 50% of the net proceeds, for the expansion of retail network and geographical coverage for the Retail Business of the Pou Sheng Group;
- (b) as to approximately 24% of the net proceeds, for repayment of bank borrowings;
- (c) as to approximately 10% of the net proceeds, for selective strategic investments;
- (d) as to approximately 5% of the net proceeds, for paying down the cash portion of the call option premium which the Pou Sheng Group has agreed to provide to some of the partners of joint ventures who have granted call options;
- (e) as to approximately 4% of the net proceeds, for promotional and marketing activities of the Retail Business of the Pou Sheng Group;
- (f) as to approximately 2% of the net proceeds, for expanding manufacturing capacity at the Taicang factory of the Pou Sheng Group; and
- (g) as to approximately 5% of the net proceeds, for working capital and other general corporate purposes.

## **PREFERENTIAL OFFER**

Subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Pou Sheng Shares on the Stock Exchange, approximately 5% of the Pou Sheng Shares available under the Global Offering representing the Reserved Shares will be available for subscription by Qualifying Shareholders at the Offer Price under the Preferential Offer. The Reserved Shares will be offered under the International Placing. Qualifying Shareholders will be entitled to subscribe on an assured basis.

Qualifying Shareholders will be permitted to apply for a number of Reserved Shares which is less than, or equal to, their assured allotments under the Preferential Offer. A valid application in respect of a number of Reserved Shares equal to or less than a Qualifying Shareholder's assured allotments will be accepted in full, subject to the terms and conditions mentioned in the blue application form. Where a Qualifying Shareholder applies for a number of Reserved Shares which is greater than his or her assured allotment, his or her assured allotment will be satisfied in full, subject as mentioned above, but the excess portion of such application will not be met and the excess application monies will be refunded. Qualifying Shareholders may, in addition to applying for Reserved Shares, also apply for Pou Sheng Shares under the Hong Kong Public Offer. The joint bookrunners will allocate any assured allotments not taken up by the Qualifying Shareholders to the International Placing.

**Yue Yuen Shareholders should note that assured allotments to Reserved Shares may not represent a multiple of a full board lot of Pou Sheng Shares (currently expected to be 1,000) or a whole number of Pou Sheng Shares and will be rounded down to the closest whole number if required, and that dealings in odd lots of the Pou Sheng Shares may be at a price below the prevailing market price for full board lots.**

Entitlements to apply for the Reserved Shares will not be transferable and there will be no trading in nil paid entitlements on the Stock Exchange. Any Pou Sheng Shares issued pursuant to the Preferential Offer will be fully paid, ranking pari passu in all respects with other Pou Sheng Shares then in issue.

## **FINANCIAL INFORMATION ON POU SHENG GROUP**

According to the audited consolidated financial statements of the Pou Sheng Group for the two financial years ended 30 September 2006 and 2007 and for the three months ended 31 December 2007, the consolidated total revenue were US\$373 million, US\$556 million and US\$185 million respectively. According to the audited consolidated financial statements of the Pou Sheng Group for the two years ended 30 September 2007, the audited net profit before and after taxation for the financial year ended 30 September 2006 were approximately US\$28 million and approximately US\$21 million respectively and the audited net profit before and after taxation for the financial year ended 30 September 2007 were approximately US\$58 million and approximately US\$44 million respectively. According to the audited consolidated financial statements of the Pou Sheng Group for the three months ended 31 December 2007, the audited net profit before and after taxation for the three months ended 31 December 2007 were approximately US\$24 million and US\$20 million respectively.

## **FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF**

### **(a) Net assets**

The audited consolidated net assets after deducting minority interests of the Group was approximately US\$1,927 million, US\$2,091 million and US\$2,419 million as at 30 September 2005, 2006 and 2007 respectively. The audited consolidated net asset of the Pou Sheng Group attributable to Yue Yuen was approximately US\$23 million, US\$36 million and US\$138 million as at 30 September 2005, 2006 and 2007 respectively, and was approximately US\$169 million as at 31 December 2007.

### **(b) Earnings**

The audited consolidated profits of the Pou Sheng Group attributable to Yue Yuen was approximately US\$3 million, US\$11 million, US\$32 million and US\$16 million for the three financial years ended 30 September 2005, 2006 and 2007, and for the three months ended 31 December 2007 respectively. The audited consolidated profits before taxation of the Pou Sheng Group was approximately US\$8 million, US\$28 million, US\$58 million and US\$24 million for the three financial years ended 30 September 2005, 2006 and 2007, and for the three months ended 31 December 2007 respectively.

The unaudited consolidated profits attributable to the shareholders of Yue Yuen (excluding the interest of Yue Yuen in the Pou Sheng Group) was approximately US\$295 million, US\$342 million and US\$328 million and US\$84 million for the three financial years ended 30 September 2005, 2006 and 2007 and for the three months ended 31 December 2007 respectively.

The following estimated financial effect to the Company as a result of the Proposed Spin-off is for sole illustration only and does not represent any indication about the Final Offering Price of the Global Offering.

As a result of the Proposed Spin-off, the Company is expected to recognize a gain in its income statement. Based on the current estimated minimum market capitalisation of approximately US\$1.4 billion for Pou Sheng and the current proposed structure of the Global Offering, the amount of expected gain to the Company resulting from the Proposed Spin-off is estimated to be approximately US\$157 million assuming the Over-allotment Option is not exercised.

However, the expected gain is estimated based on a number of assumptions, including, among other things, the actual pricing, the Global Offering completing before 30 September 2007 and has not taken into account the financial position of the Pou Sheng Group after that. Accordingly, the actual gain to be recognized by the Company, which will be calculated by reference to, amongst other things, the financial position of the Pou Sheng Group at the time of completion of the Global Offering, may be different from the above estimation. Assuming the Proposed Spin-off is completed by the end of 30 September 2008, such gain will be recognized in the results of Yue Yuen for the financial year ending 30 September 2008.

Upon completion of the Proposed Spin-off, the Pou Sheng Group will remain as a subsidiary of the Company. Accordingly, the financial results of Pou Sheng Group will continue to be consolidated into those of the Group.

Further information concerning the effect of the Proposed Spin-off on the earnings and assets and liabilities of the Yue Yuen Group will be disclosed in the circular to be despatched to Yue Yuen Shareholders in compliance with the requirements of the Listing Rules.

## REASONS FOR THE SPIN-OFF

The Board believes that the separate listing of Pou Sheng will be beneficial to the Group as the Proposed Spin-off will enable Pou Sheng to better focus on the Retail Business and for the Retained Group to better focus on the OEM/ODM manufacturing business. The Proposed Spin-off is also expected to increase management focus and motivation, provide new sources of capital, enhance valuation and provide incentives to executives and staff.

These reasons are disclosed in detail in the Company's announcement dated 12 December 2007.

## LISTING RULES IMPLICATIONS

Pursuant to Rule 13.36(1) of the Listing Rules and Practice Note 15 of the Listing Rules, the Proposed Spin-off will require the approval of Yue Yuen Shareholders. Pou Sheng is a major subsidiary of Yue Yuen under Rule 13.36(1) of the Listing Rules and the Proposed Spin-off, if it proceeds, will be a material dilution to Yue Yuen given the shares of Pou Sheng Group to be offered to the public in Hong Kong for subscription and for placing with certain professional, institutional and other investors at the time of Listing are expected to be mainly new Pou Sheng Shares. No Yue Yuen Shareholders are expected to have a material interest in the Proposed Spin-off and, therefore, no Yue Yuen Shareholders will be required to abstain from voting on the resolution seeking shareholders' approval on the Proposed Spin-off in the SGM. The Proposed Spin-off will also constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Proposed Spin-off is subject to disclosure requirements under Chapter 14 of the Listing Rules. A circular containing further information on the Proposed Spin-off and related matters will be despatched to Yue Yuen Shareholders in due course. The Directors (except the independent non-executive Directors who will provide their recommendation after reviewing the letter from the Independent Financial Advisor) considered that the Proposed Spin-Off and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and are in the interests of the Company and its shareholders as a whole.

**As the listing of the Pou Sheng Shares pursuant to the Proposed Spin-off is subject to, among others, the approval of Yue Yuen Shareholders and the Listing Committee, the final decision of the Board and the board of directors of Pou Sheng, the Proposed Spin-off may or may not occur. Yue Yuen Shareholders and other investors are reminded to exercise with caution when dealing in the securities of Yue Yuen.**

### Adjustments to conversion price

The Company has in issue (i) US\$300 million (HK\$2,340 million) initial principal amount zero coupon convertible bonds due 2008 convertible into Yue Yuen Shares, at a current conversion price of HK\$27.33 per Share with a fixed rate of exchange applicable on the conversion of the bonds of HK\$7.7622 to US\$1.00, subject to anti-dilutive adjustments, up to and including the close of business on the business day seven days prior to 23 December 2008; and (ii) HK\$2,100 million initial principal amount zero coupon convertible bonds due 2011 convertible into Yue Yuen Shares, at a current conversion price of HK\$26.75 per Share, subject to anti-dilutive adjustments, at any time up to and including 7 November 2011. The conversion price under both series of bonds will or may be adjusted as a result of the Proposed Spin-off and the Company may appoint independent investment banks to advise on any such adjustment. An announcement will be made at the appropriate time whether any adjustment is required under each series of bonds and, if so, the adjustment made and its effective date.

# PROPOSED DISCLOSEABLE AND CONNECTED TRANSACTIONS INVOLVING ACQUISITION OF SHARES FROM AND ISSUE OF NEW SHARES TO CERTAIN CONNECTED PERSONS OF YUE YUEN

## The Reorganisation

### *Background*

Prior to the Global Offering, a number of restructuring steps have been undertaken or will be undertaken with a view to transferring certain companies within the Group to the Pou Sheng Group in preparation for the Proposed Spin-off. The objective of the Reorganisation is to establish Pou Sheng as the holding company for the Retail Business.

The Reorganisation will be effected by Yue Yuen, Pou Sheng, Jollyard, Sports Group and Mr. Huang Tsung Jen (“Mr. Huang”), whereby:–

- (i) Jollyard, Sports Group and Mr. Huang agree to dispose of all their interests in the Relevant Subsidiaries of the Company to Pou Sheng or its subsidiaries; and
- (ii) in consideration of the disposal of shareholding in the Relevant Subsidiaries to Pou Sheng or its subsidiaries, Pou Sheng agrees to issue new Pou Sheng shares to Jollyard, Sports Group and Mr. Huang, so that Jollyard, Sports Group and Mr. Huang will each become a shareholder of Pou Sheng before Listing.

The initial investment amount by Jollyard, Sports Group and Mr. Huang in the Relevant Subsidiaries at the time of establishment of the Relevant Subsidiaries are set out below.

Names of Relevant Subsidiary	Date of establishment	Initial investment amount contributed by		
		Jollyard	Sports Group	Mr. Huang
A-Grade Holdings Limited	10 October 2003	US\$15	US\$15	n/a
Charming Technology Limited	2 January 2004	US\$49	n/a	US\$49
Dedicated Group Limited	28 November 2001	US\$15	US\$15	n/a
Selangor Gold Limited	12 June 1998	US\$25	n/a	US\$25
Wellmax Business Group Limited	20 October 2000	US\$15	US\$15	n/a

The consideration under the Reorganisation Agreement is to be satisfied by the issue and allotment of Pou Sheng Shares to each of Major Focus, Jollyard, Mr. Huang (and Sports Group). Such Pou Sheng Shares will be issued credited as fully paid before completion of the Global Offering. The aggregate value of the consideration to be paid for the acquisition by Pou Sheng is calculated by multiplying the expected market capitalisation of Pou Sheng by the expected percentage of the equity interest to be owned by Jollyard and Mr. Huang (and Sports Group) immediately after the Global Offering. Based on the currently estimated minimum market capitalisation of approximately US\$1.4 billion for Pou Sheng and the current proposed structure of the Global Offering, the aggregate value of consideration to be paid for the acquisition is expected to be approximately US\$253 million. The determination of the Final Offer Price of each Pou Sheng Share under the Global Offering is subject to the final structure and price range of the Global Offering which will be decided by the Board and the board of directors of Pou Sheng.

Set out below are the unaudited net profits before and after taxation of each Relevant Subsidiary for the two financial years ended 30 September 2006 and 2007:

	<b>For the year ended 30 September</b>			
	<b>2006</b>		<b>2007</b>	
	<b>Net profit before tax (US\$'000)</b>	<b>Net profit after tax (US\$'000)</b>	<b>Net profit before tax (US\$'000)</b>	<b>Net profit after tax (US\$'000)</b>
Selangor Gold Limited	22,207	18,331	28,765	21,473
A-Grade Holdings Limited	(1,607)	(1,672)	7,402	5,642
Dedicated Group Limited	6,796	3,779	2,266	1,105
Wellmax Business Group Limited	302	(305)	14,488	10,944
Charming Technology Limited	15	15	3	3

The net profit of the Relevant Subsidiaries attributable to Jollyard and Mr. Huang (and Sports Group) was approximately US\$8 million and US\$10 million for the financial years ended 30 September 2006 and 30 September 2007, respectively. However, the shareholdings in the Relevant Subsidiaries were restructured in 2006. The net profit of the Relevant Subsidiaries attributable to Jollyard and Mr. Huang (and Sports Group) listed above is therefore not representative of the current shareholdings of Jollyard and Mr. Huang (and Sports Group) in the Relevant Subsidiaries immediately prior to the restructuring in 2006. The equity interests of Jollyard and Mr. Huang (and Sports Group) in each of the Relevant Subsidiaries immediately prior to the above shareholding restructuring in 2006 are shown in the following table.

<b>Relevant Subsidiaries</b>	<b>Shareholding of Relevant Subsidiaries owned by</b>		
	<b>Jollyard</b>	<b>Sports Group</b>	<b>Mr. Huang</b>
A-Grade Holdings Limited	15%	15%	n/a
Charming Technology Limited	24.5%	n/a	24.5%
Dedicated Group Limited	15%	15%	n/a
Selangor Gold Limited	24.5%	n/a	24.5%
Wellmax Business Group Limited	15%	15%	n/a

The respective shareholding of Jollyard, Sports Group and Mr. Huang to be disposed to Pou Sheng under the Reorganisation is set out below.

<b>Relevant Subsidiaries</b>	<b>Shareholding of Relevant Subsidiaries to be disposed to Pou Sheng</b>		
	<b>Jollyard</b>	<b>Sports Group</b>	<b>Mr. Huang</b>
A-Grade Holdings Limited	17.5%	12.5%	–
Charming Technology Limited	17.5%	–	12.5%
Dedicated Group Limited	17.5%	12.5%	–
Selangor Gold Limited	17.5%	–	12.5%
Wellmax Business Group Limited	17.5%	12.5%	–

The total unaudited net asset value of the Relevant Subsidiaries attributable to Jollyard and Mr. Huang (and Sports Group) to be acquired was approximately US\$35 million as at 31 December 2007.

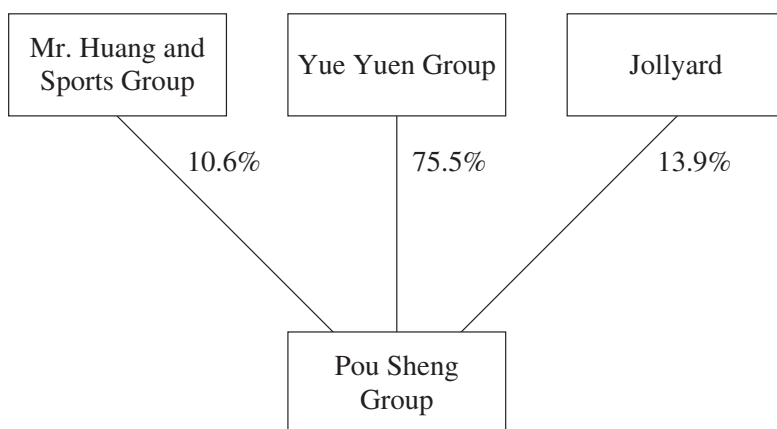
All Pou Sheng Shares to be issued to Major Focus, Jollyard or Mr. Huang (and Sports Group) will be subject to restrictions on sale or disposal within six months of Listing Date.

Immediately following the completion of the Reorganisation, Pou Sheng's shareholding structure is expected to be as follows:–

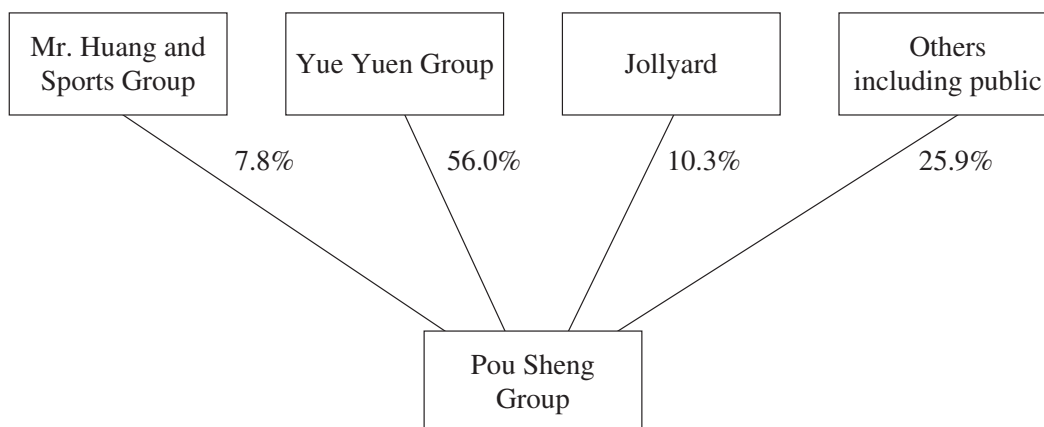
- (A) 75,493 Pou Sheng Shares will be held by Yue Yuen through Major Focus, representing approximately 75.5% of its issued share capital;
- (B) 13,944 Pou Sheng Shares will be held by Jollyard, representing approximately 13.9% of its issued share capital; and
- (C) 10,563 Pou Sheng Shares will be held by Mr. Huang (and Sports Group), representing approximately 10.6% of its issued share capital.

*Structure chart*

Set out below is the simplified shareholding structure of the Pou Sheng Group immediately after the Reorganisation and before the Proposed Spin Off:



Set out below is the simplified shareholding structure of the Pou Sheng Group immediately after the Reorganisation and the Proposed Spin-off (on the assumption that the Over-allotment Option is not exercised):



The Relevant Subsidiaries namely Wellmax Business Group Limited, A-Grade Holdings Limited, Dedicated Group Limited, Selangor Gold Limited and Charming Technology Limited and their subsidiaries principally engage in the Retail Business. Charming Technology Limited and its subsidiaries are companies which are primarily responsible for the development of information technology system for the Pou Sheng Group.

As each of Jollyard, Sports Group and Mr. Huang is a substantial shareholder of certain subsidiaries of Yue Yuen and as Mr. Huang is also a director of Pou Sheng (a subsidiary of Yue Yuen) and director of certain subsidiaries of Yue Yuen, they are connected persons of Yue Yuen. The entering into of the Reorganisation Agreement in relation to the Reorganisation constitutes a connected transaction for Yue Yuen subject to disclosure, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The entering into of the Reorganisation Agreement also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and as such is subject to the applicable requirements under Chapter 14 of the Listing Rules. The Directors (except the independent non-executive Directors who will provide their recommendation after reviewing the letter from the Independent Financial Advisor) considered that the Reorganisation and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and are in the interests of the Company and its shareholders as a whole.

The Reorganisation Agreement is conditional on the passing of a resolution by Independent Yue Yuen Shareholders (who are permitted to vote under the Listing Rules) at the SGM to approve and confirm the Reorganisation Agreement. According to the register of members of the Company, none of Jollyard, Mr. Huang or Sports Group held any Yue Yuen Shares as at the date of this announcement. If they become shareholders of the Company on the Record Date, they will be required to abstain from voting on the Proposed Spin-off (including the Reorganisation Agreement).

## **ADOPTION OF POU SHENG SHARE OPTION SCHEME**

In connection with the Proposed Spin-off, it is proposed that Pou Sheng adopts the Pou Sheng Share Option Scheme which is designed to provide its directors and employees and the directors and employees of its subsidiaries with the opportunity to acquire proprietary interests in Pou Sheng, which will encourage the grantees of such options to work towards enhancing the value of Pou Sheng and benefit Pou Sheng as a whole.

The Pou Sheng Share Option Scheme shall take effect subject to:–

- (a) the passing of a resolution of Pou Sheng to approve and adopt the Pou Sheng Share Option Scheme and to authorise the board of directors of Pou Sheng to grant options under the scheme and to allot and issue Pou Sheng Shares pursuant to the exercise of any options;
- (b) the passing of a resolution by shareholders of Yue Yuen to approve the Pou Sheng Share Option Scheme;
- (c) the Listing Committee (as defined in the Listing Rules) of the Stock Exchange granting the listing of, and permission to deal in, the Pou Sheng Shares which may fall to be issued pursuant to the exercise of any options (subject to an initial limit of 10 per cent of the aggregate number of Pou Sheng Shares in issue on the date of listing and Pou Sheng Shares which may be allotted and issued under the Over-allotment Option); and

(d) the commencement of dealings in Pou Sheng Shares on the main board of the Stock Exchange.

Further information on the terms of the Pou Sheng Share Option Scheme will be set out in the circular to be despatched to Yue Yuen Shareholders in due course.

### **ADOPTION OF POU SHENG SHARE SUBSCRIPTION PLAN**

In connection with the Proposed Spin-off, it is proposed that the Pou Sheng Share Subscription Plan be adopted under which invitations may be made to eligible persons inviting them to subscribe for Pou Sheng Shares at a price which represents a discount of 30% to the final offer price of the Pou Sheng Shares in the Global Offering. The relevant invitations will be made subject to the fulfilment of vesting conditions in relation to service period. HK\$1.00 will be paid to the Company by each eligible person accepting the relevant invitation. The Pou Sheng Share Subscription Plan is in all respects administered under the directions of the board of Pou Sheng or a commission of the board, including but not limited to matters relating to variation of terms of invitations made or cancellation thereof.

The Pou Sheng Share Subscription Plan shall take effect subject to:-

- (a) the passing of the resolution of Pou Sheng to approve and adopt the Pou Sheng Share Subscription Plan and to authorise the board of directors of Pou Sheng to make invitations under the Plan and to allot and issue Pou Sheng Shares pursuant to the subscriptions;
- (b) the passing of the resolution by shareholders of Yue Yuen to approve the Pou Sheng Share Subscription Plan;
- (c) the Listing Committee (as defined in the Listing Rules) of the Stock Exchange granting the listing of, and permission to deal in, the Pou Sheng Shares which may fall to be issued pursuant to any subscriptions under the Pou Sheng Share Subscription Plan; and
- (d) the commencement of dealings in Pou Sheng Shares on the main board of the Stock Exchange.

### **INVITATIONS TO CONNECTED PERSONS OF YUE YUEN UNDER THE POU SHENG SHARE SUBSCRIPTION PLAN**

Invitations to subscribe for Pou Sheng Shares will be made to eligible persons before the listing of the Pou Sheng Shares on the main board of the Stock Exchange. Such invitations will have to be accepted before listing but the relevant eligible persons may not subscribe for the Pou Sheng Shares until and unless the vesting conditions to which his or her invitation is subject have been satisfied or waived. No more invitations under the Pou Sheng Share Subscription Plan will be made after Listing.

Assuming there is no change in the issued share capital of Pou Sheng immediately after listing (assuming the Over-allotment Option is not exercised), a total number of 124,252,000 Pou Sheng Shares will be under invitations representing approximately 3.5% of the total issued share capital of Pou Sheng immediately after the completion of the Global Offering but taking no account of any Pou Sheng Shares which may be issued pursuant to an exercise of the Over-allotment Option).

After accepting an invitation to subscribe under the Pou Sheng Share Subscription Plan, the eligible person will be obliged to subscribe for such number of Pou Sheng Shares in respect of which he or she has accepted an invitation to subscribe after satisfaction or waiver of any vesting conditions. In particular, a portion of the invitations (representing rights to subscribe approximately 2% of the total issued share capital of Pou Sheng immediately after the completion of the Global Offering but taking no account of any Pou Sheng Shares which may be issued pursuant to an exercise of the Over-allotment Option) impose

a condition of a vesting period of five years with the first vesting on the first anniversary of the relevant invitation and one-fifth of the Pou Sheng Shares under the relevant invitation vesting annually. The remaining portion (representing approximately 1.5% of the total issued share capital of Pou Sheng immediately after the completion of the Global Offering but taking no account of any Pou Sheng Shares which may be issued pursuant to an exercise of the Over-allotment Option) of the invitations impose a vesting period of ten years with the first vesting on the first anniversary of the relevant invitation and one-tenth of the Pou Sheng Shares under the relevant invitation vesting annually. The eligible person must subscribe for his or her respective number of Pou Sheng Shares within the period specified in the invitation.

All invitations which Pou Sheng intended to make under the Pou Sheng Share Subscription Plan will have been made before the issue of the Prospectus and disclosed in this announcement and the Prospectus.

Invitations are expected to be made to the below directors and members of the senior management of Pou Sheng to subscribe for Pou Sheng Shares set out next to each of them representing a total of approximately 2.13% of the total issued share capital of Pou Sheng immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

<b>Name</b>	<b>Title/Position</b>	<b>Number of Pou Sheng Shares under invitations</b>	<b>Percentage of total issued share capital of Pou Sheng (%)</b>
Lee Chung Wen	Executive director of Pou Sheng	18,638,000	0.525
Huang Chun Hua	Executive director of Pou Sheng	12,425,000	0.350
Chang Karen Yi-Fen	Executive director of Pou Sheng	14,910,000	0.420
Lu Ning	General Manager	15,975,000	0.450
Ku Wen Hao	General Manager	13,668,000	0.385

In addition, there are a total of six other employees of the Pou Sheng Group who will be extended invitations to subscribe for a total of approximately 1.37% of the total issued share capital of Pou Sheng immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

<b>Name</b>	<b>Title/Position</b>	<b>Number of Pou Sheng Shares under invitations</b>	<b>Percentage of total issued share capital of Pou Sheng (%)</b>
Luke Chu	Investor Relations Manager and Investment Associate Director	5,325,000	0.150
Phil Yang	Head of Internal Audit	8,875,000	0.250
Hu Jia He	Special Assistant to Chairman and Non-executive Directors of Pou Sheng	13,135,000	0.370
Judy Shih	Special Assistant to chief executive officer of Pou Sheng	6,213,000	0.175
George Zhang	Head of Retail South Region Management Team	9,763,000	0.275
Chen Jian Zhi	Head of information technology of Pou Sheng	5,325,000	0.150

As each of Lee Chung Wen, Huang Chun Hua, Lu Ning and Ku Wen Hao are directors of certain subsidiaries of the Pou Sheng Group and Chang Karen Yi-Fen is a proposed director of Pou Sheng, they are connected persons of the Company. The Connected Invitations made to these connected persons will be made subject to compliance with applicable requirements under Chapter 14A of the Listing Rules including obtaining approval from Independent Yue Yuen Shareholders by way of poll. For this purpose, all the persons who have been extended the Connected Invitations are considered as having a material interest in the transaction and therefore are required to abstain from voting at the SGM in respect of such Connected Invitations and the Pou Sheng Share Subscription Plan. According to the register of members of the Company, none of the above connected persons or the other six employees (who are not connected persons of the Company) held any Yue Yuen Shares as at the date of this announcement. If they become shareholders of the Company before the SGM, they will be required to abstain from voting on the Proposed Spin-off, the Reorganisation Agreement, the Pou Sheng Share Subscription Plan and the Connected Invitations. In addition, the other six employees who are expected to be extended invitations are also considered to be having a material interest in the transaction and therefore will be required to abstain from voting on the Proposed Spin-off, the Reorganisation Agreement, the Pou Sheng Share Subscription Plan and the Connected Invitations. There will not be further re-compliance with the announcement and independent shareholders approval requirements if such Connected Invitations are approved at the SGM. Pou Sheng will include in its annual report the status of all invitations made under the Pou Sheng Share Subscription Plan including the Connected Invitations.

## **REASONS FOR THE INVITATIONS**

The purpose of the Pou Sheng Share Subscription Plan is to recognise the contributions of eligible persons (including employees and directors of members of the Pou Sheng Group) and to seek to retain them for the continued operation and development of the Pou Sheng Group. Through the Pou Sheng Share Subscription Plan, eligible persons are encouraged to re-invest part of their remuneration by way of equity participation into Pou Sheng, thus closely aligning their goals and interests with those of Pou Sheng and its shareholders as a whole. The Directors (except the independent non-executive Directors who will provide their recommendation after reviewing the letter from the Independent Financial Advisor) consider that the Connected Invitations and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and are in the interests of the Company and its shareholders as a whole.

Application will be made to the Stock Exchange for listing of and permission to deal in the Pou Sheng Shares to be issued under the Connected Invitations.

## **INFORMATION ON POU SHENG**

Pou Sheng was incorporated in Bermuda with limited liability on 14 November 2007 and is currently a wholly-owned subsidiary of Yue Yuen. Pou Sheng is a leading sportswear retailer in the PRC, and directly operated 1,324 retail outlets in the PRC as at 31 December 2007. Pou Sheng's retail network in the Greater China Region also includes 79 directly operated retail outlets in Hong Kong and Taiwan. Pou Sheng distributes sportswear products for some of the leading international and domestic sportswear brands in the PRC, offering a wide range of sports footwear, apparel and accessories. Its brand portfolio includes leading international and domestic brands such as *Nike*, *Adidas*, *Li Ning*, *Kappa*, *Reebok*, *PUMA*, *Converse*, *Hush Puppies*, *Nautica*, *Wolverine* and *Asics*. Pou Sheng also has investments in certain regional joint ventures which directly operated 1,936 retail outlets in the PRC and two retail outlets in Hong Kong as at 31 December 2007.

## GENERAL

The Yue Yuen Group is principally engaged in the businesses of original equipment manufacturing and original design manufacturing of athletic and casual footwear for export sales to major international brand owners such as *Nike, Adidas, Reebok, Asics, New Balance, Puma, Timberland* and *Rockport*.

No final decision has been made by Yue Yuen yet as to whether and when the Proposed Spin-off will be effected. There is also no assurance that the approval of the Listing Committee for the Proposed Spin-off and the listing of, and permission to deal in, the Pou Sheng Shares on the main board of the Stock Exchange will be granted. Announcements in relation to the Proposed Spin-off will be made by Yue Yuen if and when appropriate.

**As the listing of the Pou Sheng Shares pursuant to the Proposed Spin-off is subject to, among other things, the approval of Yue Yuen Shareholders and the Listing Committee, the final decision of the Board and the board of directors of Pou Sheng, the Proposed Spin-off may or may not occur. Yue Yuen Shareholders are reminded to exercise caution when dealing in the securities of Yue Yuen.**

## SPECIAL GENERAL MEETING

A circular containing further information on the Proposed Spin-off, the Reorganisation Agreement, the Pou Sheng Share Option Scheme, the Pou Sheng Share Subscription Plan and the Connected Invitations, a letter from the Independent Board Committee, a letter of advice from the Independent Financial Advisor, together with a notice of the SGM to be held for the purpose of considering and, if thought fit, passing the resolutions in relation to the abovementioned matters, will be despatched to Yue Yuen Shareholders in due course.

All the persons who are expected to be extended (invitations (including the Connected Invitations) are considered as having a material interest in the transaction and therefore are required to abstain from voting at the SGM in respect of the Proposed Spin-off, the Reorganisation Agreement, Connected Invitations and the Pou Sheng Share Subscription Plan. Each of Jollyard, Mr. Huang and Sports Group is required to abstain from voting at the SGM in respect of the Proposed Spin-off (including the Reorganisation Agreement), if they become a shareholder of Yue Yuen as at the date of the SGM.

The Independent Board Committee has been formed to advise the Independent Yue Yuen Shareholders in connection with the Proposed Spin-off, the Reorganisation Agreement, the Pou Sheng Share Subscription Plan and the Connected Invitations. Somerley Limited has been appointed Independent Financial Advisor to advise the Independent Board Committee and Independent Yue Yuen Shareholders in this respect.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 21 May 2008 to Monday, 26 May 2008 (both days inclusive) for the purposes of determining the assured entitlements and rights to vote at the SGM, during which dates no transfer of shares of the Company will be effected. In order to qualify for the Preferential Offering and voting at the SGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company's Share Registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 20 May 2008.

## DEFINITIONS

In this announcement the following terms have the meanings set opposite them:

“Board”	the board of Directors
“Business Separation Deed”	a deed to be entered into between Yue Yuen and Pou Sheng governing certain aspects of their manufacturing operations
“Company” or “Yue Yuen”	Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Connected Invitations”	invitations proposed to be made to certain connected persons of the Company to subscribe for Pou Sheng Shares under the Pou Sheng Share Subscription Plan
“connected person(s)”	the meaning given to it in Chapter 14A of the Listing Rules
“Deed of Indemnity”	a deed of indemnity to be entered into by Yue Yuen, Jollyard, Sports Group and Mr. Huang in favor of Pou Sheng for itself and as trustee for its subsidiaries containing certain indemnities in relation to taxation and properties of the Pou Sheng Group
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the conditions to which the Global Offering is subject are fulfilled
“Final Offer Price”	the final price per Pou Sheng Share fixed at a HK\$ amount (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at which the Pou Sheng Shares are to be offered pursuant to the Global Offering, as described in the Prospectus
“Global Coordinator”	the global coordinator of the Global Offering
“Global Offering”	the Hong Kong Public Offering and the International Offering, which include the Preferential Offering
“Group” or “Yue Yuen Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offer”	the offer of the Pou Sheng Shares to the public in Hong Kong for subscription pursuant to the listing of the Pou Sheng Shares on the main board of the Stock Exchange

“Independent Board Committee”	an independent board committee comprising the Company independent non-executive Directors appointed to advise the Independent Yue Yuen Shareholders of the Proposed Spin-off, Reorganisation Agreement, Pou Sheng Share Option Scheme, Pou Sheng Share Subscription Plan and the Connected Invitations
“Independent Financial Advisor”	Somerley Limited
“Independent Yue Yuen Shareholders”	holders of Yue Yuen Shares who do not have an interest in the Proposed Spin-off, Reorganisation Agreement, Pou Sheng Share Option Scheme, Pou Sheng Share Subscription Plan and the Connected Invitations that is different to the interests of Yue Yuen Shareholders generally
“International Placing”	the placing of the Pou Sheng Shares with certain professional, institutional and other investors in connection with to the listing of the Pou Sheng Shares on the main board of the Stock Exchange
“Jollyard”	Jollyard Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is a substantial holder of certain subsidiaries of the Group and whose principal business is investment holding
“Listing”	the listing of Pou Sheng Shares on the main board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date on which the Pou Sheng Shares are listed on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Major Focus”	Major Focus Management Limited, a company incorporated in the British Virgin Islands and which a wholly-owned subsidiary of Yue Yuen
“Merrill Lynch”	Merrill Lynch Far East Limited
“Morgan Stanley”	Morgan Stanley Asia Limited
“Mr. Huang”	Mr. Huang Tsung Jen, a director of certain subsidiaries of the Yue Yuen Group
“OEM/ODM Business”	the businesses of original equipment manufacturing and original design manufacturing of athletic and casual footwear for export sales to major international brand owners such as <i>Nike, Adidas, Reebok, Asics, New Balance, Puma, Timberland</i> and <i>Rockport</i>

“Over-allotment Option”	the option to be granted by Yue Yuen exercisable by the Global Coordinator on behalf of the international purchasers pursuant to which Pou Sheng may be required to sell issue certain additional Pou Sheng Shares at the Final Offer Price to cover the over-allocations in connection with the Global Offering
“Pou Sheng”	Pou Sheng International (Holdings) Limited, a company incorporated in Bermuda and currently a subsidiary of the Company
“Pou Sheng Group”	Pou Sheng and its subsidiaries (assuming that the Reorganisation is completed)
“Pou Sheng Shares”	ordinary shares of HK\$0.01 each in the capital of Pou Sheng
“Pou Sheng Share Option Scheme”	the share option scheme of Pou Sheng under which share options may be granted, the exercise of which will entitle the holders thereof to subscribe for Pou Sheng Shares, which is subject to the approval of Yue Yuen Shareholders
“Pou Sheng Share Subscription Plan”	the share subscription plan of Pou Sheng under which invitations may be made to eligible persons to invite them to subscribe for shares in Pou Sheng, which is subject to the approval of Yue Yuen Shareholders
“PRC”	The People’s Republic of China
“Preferential Offer”	the preferential offer of the Pou Sheng Shares to the Qualifying Shareholders
“Proposed Spin-off”	the proposed spin-off of certain interests in the Retail Business currently operated by the Group for the separate listing on the main board of the Stock Exchange which will involve, amongst other things, the entering into by the Company of the Reorganisation Agreement, the Business Separation Deed and the Deed of Indemnity
“Prospectus”	the prospectus proposed to be issued by Pou Sheng in relation to the Global Offering
“Qualifying Shareholders”	Yue Yuen Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date (excluding certain overseas shareholders, if any, subject to compliance with rule 13.36(2)(a) of the Listing Rules)
“Record Date”	the record date to be determined by the Company, tentatively at 5:00 p.m. on 21 May 2008 (or such later date(s) as may be determined and announced by the Company), for ascertaining the Qualifying Shareholders who shall be entitled to assured allotments under the Preferential Offer

“Relevant Subsidiaries”	Wellmax Business Group Limited, A-Grade Holdings Limited, Dedicated Group Limited, Selangor Gold Limited and Charming Technology Limited, all of which are non-wholly owned subsidiaries of the Group before the Reorganisation
“Reorganisation”	the restructuring exercise that has been and will be undertaken in contemplation of the Proposed Spin-off pursuant to which amongst other things Pou Sheng will become the holding company of primarily the Retail Business of the Yue Yuen Group
“Reorganisation Agreement”	a reorganisation agreement dated 29 April 2008 entered into by Yue Yuen, Pou Sheng, Sports Group, Jollyard and Mr. Huang in relation to the Reorganisation
“Reserved Shares”	Pou Sheng Shares, representing approximately 5% of the Pou Sheng Shares available under the Global Offering (assuming that the Over-allotment Option is not exercised), subject to adjustment, being offered pursuant to the Preferential Offer
“Retail Business”	the business of the retail and wholesale of branded sportswear products (including sports, casual/outdoor shoes, sports apparel and accessories) in the PRC, Taiwan and Hong Kong
“Retained Group”	the Group excluding the Pou Sheng Group
“SFC”	The Securities and Futures Commission of Hong Kong
“SGM”	special general meeting of Yue Yuen to be convened to consider and if thought fit approve the Proposed Spin-off, Reorganisation Agreement, Pou Sheng Share Option Scheme, Pou Sheng Share Subscription Plan and the Connected Invitations
“Share(s)” or “Yue Yuen Share(s)”	ordinary share(s) of HK\$0.25 each in the capital of the Company
“Shareholder(s)” or “Yue Yuen Shareholder(s)”	the shareholder(s) of the Company
“Sports Group”	Sports Group Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by Mr. Huang Tsung Jen and a substantial shareholder of certain subsidiaries of the Group and whose principal business is investment holding

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“subsidiary”

the meaning ascribed to that term in the Listing Rules

“%”

per cent

By order of the board of  
**Yue Yuen Industrial (Holdings) Limited**  
**Tsai Chi Neng**  
Chairman

*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.*

Hong Kong, 29 April 2008

Website: [www.yueyuen.com](http://www.yueyuen.com)