

INTERIM REPORT 2003

二 零 零 三 年 中 期 報 告



Always A Step Ahead



裕元工業（集團）有限公司  
Yue Yuen Industrial (Holdings) Limited



# YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司\*

*(incorporated in Bermuda with limited liability)*

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2003

### GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March,		Percentage
	2003	2002	increase
Turnover (US\$'000)	1,241,714	909,199	37%
Profit from operations (US\$'000)	153,534	115,876	33%
Net profit for the period (US\$'000)	151,635	110,570	37%
Basic earnings per share (US cents)	9.91	7.86	26%
Dividend per share – Interim (HK\$)	0.23	0.20	15%
Dividend per share – Special (HK\$)	0.37	Nil	–

\* *For identification purpose only*

## INTERIM RESULTS

The Directors of Yue Yuen Industrial (Holdings) Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31st March, 2003 with comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<b>For the six months ended 31st March,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Turnover ( <i>Note 2</i> )	1,241,714	909,199
Cost of sales	(908,169)	(666,457)
Gross profit	333,545	242,742
Other operating income	45,465	26,927
Selling and distribution expenses	(43,334)	(30,269)
Administrative expenses	(111,436)	(85,153)
Other operating expenses ( <i>Note 3</i> )	(70,706)	(38,371)
Profit from operations	153,534	115,876
Finance costs	(7,856)	(6,801)
Share of results of associates	2,564	(473)
Share of results of jointly controlled entities	5,343	1,733
Profit before taxation	153,585	110,335
Income tax expense ( <i>Note 5</i> )	(1,303)	(586)
Profit before minority interests	152,282	109,749
Minority interests	(647)	821
Net profit for the period	<u>151,635</u>	<u>110,570</u>
Dividends ( <i>Note 6</i> )		
Final dividend	74,972	54,137
Interim dividend	47,025	36,525
Special dividend	75,648	–
	<u>197,645</u>	<u>90,662</u>
Earnings per share ( <i>Note 7</i> )		
– Basic	<u>9.91 US cents</u>	<u>7.86 US cents</u>
– Diluted	<u>9.74 US cents</u>	<u>7.71 US cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<b>At 31st March, 2003 (unaudited) US\$'000</b>	<b>At 30th September, 2002 (audited) US\$'000</b>
Non-current assets		
Investment properties ( <i>Note 8</i> )	32,503	60,694
Property, plant and equipment ( <i>Note 8</i> )	1,059,747	944,671
Goodwill ( <i>Note 9</i> )	209,686	671
Interests in associates	34,011	9,058
Interests in jointly controlled entities	65,689	50,557
Investments securities	45,020	44,027
	<u>1,446,656</u>	<u>1,109,678</u>
Current assets		
Inventories	307,204	208,264
Trade and other receivables ( <i>Note 10</i> )	400,142	297,080
Taxation recoverable	7,639	6,421
Other investments	1,199	2,110
Bank balances and cash	398,593	312,466
	<u>1,114,777</u>	<u>826,341</u>
Current liabilities		
Trade and other payables ( <i>Note 11</i> )	283,641	240,181
Taxation payable	3,332	1,744
Short-term bank and other borrowings	212,785	155,009
	<u>499,758</u>	<u>396,934</u>
Net current assets	<u>615,019</u>	<u>429,407</u>
Total assets less current liabilities	<u>2,061,675</u>	<u>1,539,085</u>
Minority interests	<u>4,432</u>	<u>1,733</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

	<b>At 31st March, 2003 (unaudited) US\$'000</b>	<b>At 30th September, 2002 (audited) US\$'000</b>
Non-current liabilities		
Long-term bank borrowings	483,020	266,000
Other long-term borrowings	–	161
Loans from minority shareholders of subsidiaries	10,045	6,049
Deferred taxation	3,594	3,594
	<hr/>	<hr/>
	496,659	275,804
	<hr/>	<hr/>
	<b><u>1,560,584</u></b>	<b><u>1,261,548</u></b>
Capital and reserves		
Share capital ( <i>Note 12</i> )	51,149	46,008
Reserves	1,509,435	1,215,540
	<hr/>	<hr/>
	<b><u>1,560,584</u></b>	<b><u>1,261,548</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Investment properties revaluation reserve <i>US\$'000</i>	Goodwill reserve <i>US\$'000</i>	Special reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>
At 1st October, 2001	45,463	348,859	15,450	(149,327)	(16,688)	868,736	1,112,493
Issue of shares	96	1,869	-	-	-	-	1,965
Released on partial disposal of interest in an associate	-	-	(13)	(42)	-	-	(55)
Net profit for the period	-	-	-	-	-	110,570	110,570
Dividends ( <i>Note 6</i> )	-	-	-	-	-	(54,137)	(54,137)
<b>At 31st March, 2002</b>	<b>45,559</b>	<b>350,728</b>	<b>15,437</b>	<b>(149,369)</b>	<b>(16,688)</b>	<b>925,169</b>	<b>1,170,836</b>
Revaluation increase on investment properties not recognised in income statement	-	-	1,054	-	-	-	1,054
Issue of shares	449	8,724	-	-	-	-	9,173
Share of post-acquisition reserve movement of a jointly controlled entity	-	-	-	(4)	-	-	(4)
Released on disposal of interest in an associate	-	-	(241)	(747)	-	-	(988)
Net profit for the period	-	-	-	-	-	118,002	118,002
Dividends ( <i>Note 6</i> )	-	-	-	-	-	(36,525)	(36,525)
<b>At 30th September, 2002</b>	<b>46,008</b>	<b>359,452</b>	<b>16,250</b>	<b>(150,120)</b>	<b>(16,688)</b>	<b>1,006,646</b>	<b>1,261,548</b>
Issue of shares	5,141	217,232	-	-	-	-	222,373
Net profit for the period	-	-	-	-	-	151,635	151,635
Dividends ( <i>Note 6</i> )	-	-	-	-	-	(74,972)	(74,972)
<b>At 31st March, 2003</b>	<b>51,149</b>	<b>576,684</b>	<b>16,250</b>	<b>(150,120)</b>	<b>(16,688)</b>	<b>1,083,309</b>	<b>1,560,584</b>

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

The goodwill reserve of the Group comprises approximately US\$151,447,000 (30th September, 2002: US\$151,447,000) in respect of goodwill and approximately US\$1,327,000 (30th September, 2002: US\$1,327,000) in respect of negative goodwill.

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1992.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 31st March,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Net cash from operating activities	131,229	115,719
Net cash used in investing activities	(307,781)	(79,174)
Net cash from financing activities	<u>260,377</u>	<u>14,846</u>
Net increase in cash and cash equivalents	83,825	51,391
Cash and cash equivalents brought forward	<u>312,457</u>	<u>131,415</u>
Cash and cash equivalents carried forward	<u><u>396,282</u></u>	<u><u>182,806</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	398,593	182,806
Bank overdrafts	<u>(2,311)</u>	<u>–</u>
	<u><u>396,282</u></u>	<u><u>182,806</u></u>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

In the opinion of the Directors, the accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 30th September, 2002, except that the investment properties are not stated at their open market value based on independent professional valuations as at 31st March, 2003 as the Directors are of the opinion that the market value of the investment properties at 31st March, 2003 is not materially different from their carrying value. In addition, in the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details on the impact of adopting these new and revised SSAPs are as follows:

#### Foreign Currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period and now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s subsidiaries are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the translation, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognized as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

#### Cash Flow Statements

Under SSAP 15 (Revised) “Cash Flow Statements”, cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations and subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The adoption of this revised SSAP has resulted in the change of format of presentation and no significant effect on the results for the current or prior accounting periods.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### Employee Benefits

SSAP 34 “Employee Benefits” introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any significant effect on the results for the current or prior accounting periods.

## 2. SEGMENT INFORMATION

### Business segments

No business segment analysis is presented as less than 10% of the Group’s turnover and contribution to results are contributed by activities other than the manufacture and marketing of footwear products.

### Geographical segments

An analysis of the Group’s turnover and contribution to profit before taxation by geographical segments, irrespective of the origin of the goods, is presented below:

#### For the six months ended 31st March, 2003

	<b>United States of America</b>	<b>Europe</b>	<b>Asia</b>	<b>Others</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
TURNOVER	<u>519,893</u>	<u>371,574</u>	<u>281,649</u>	<u>68,598</u>	<u>1,241,714</u>
RESULTS					
Segment results	<u>52,586</u>	<u>37,604</u>	<u>26,424</u>	<u>6,942</u>	123,556
Other operating income					45,465
Unallocated expenses					<u>(15,487)</u>
Profit from operations					153,534
Finance costs					(7,856)
Share of results of associates					2,564
Share of results of jointly controlled entities					<u>5,343</u>
Profit before taxation					<u>153,585</u>

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

**For the six months ended 31st March, 2002**

	<b>United States of America</b> <i>US\$'000</i>	<b>Europe</b> <i>US\$'000</i>	<b>Asia</b> <i>US\$'000</i>	<b>Others</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
TURNOVER	<u>471,180</u>	<u>244,407</u>	<u>125,142</u>	<u>68,470</u>	<u>909,199</u>
RESULTS					
Segment results	<u>48,024</u>	<u>24,911</u>	<u>12,755</u>	<u>6,978</u>	92,668
Other operating income					26,927
Unallocated expenses					<u>(3,719)</u>
Profit from operations					115,876
Finance costs					(6,801)
Share of results of associates					(473)
Share of results of jointly controlled entities					<u>1,733</u>
Profit before taxation					<u>110,335</u>

**3. OTHER OPERATING EXPENSES**

**For the six months  
ended 31st March,**  
**2003**                      **2002**  
*US\$'000*                      *US\$'000*

Other operating expenses comprise of:

Amortisation of goodwill	5,384	–
Allowance for bad and doubtful debts	4,281	269
Research and development expenditure	<u>40,522</u>	<u>31,940</u>

**4. DEPRECIATION AND AMORTISATION**

During the period, charged against profit from operations was depreciation and amortisation of approximately US\$51,836,000 (2002: approximately US\$41,416,000) in respect of the Group's property, plant and equipment.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 5. INCOME TAX EXPENSE

	For the six months ended 31st March,	
	2003	2002
	US\$'000	US\$'000
The charge comprises of:		
Hong Kong Profits Tax	22	20
Overseas taxation	991	274
Share of taxation of an associate	–	184
Share of taxation of jointly controlled entities	290	108
	<u>1,303</u>	<u>586</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period.

A substantial portion of the Group's profits neither arose in, nor was derived from, Hong Kong and therefore was not subject to Hong Kong Profits Tax.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

The Group had no significant unprovided deferred taxation for the period.

### 6. DIVIDENDS

	For the six months ended 31st March,	
	2003	2002
	US\$'000	US\$'000
2002 Final dividend of HK\$0.375 (2001 final: HK\$0.30) per ordinary share ( <i>Note (i)</i> )	<u>74,972</u>	<u>54,137</u>
2003 Interim dividend of HK\$0.23 (2002 interim: HK\$0.20) per ordinary share ( <i>Note (ii)</i> )	<u>47,025</u>	<u>36,525</u>
2003 Special dividend of HK\$0.37 (2002 special: Nil) per ordinary share ( <i>Note (iii)</i> )	<u>75,648</u>	<u>–</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### Notes:

- (i) The final dividend of the year ended 30th September, 2001 and 30th September, 2002 of US\$54,137,000 and US\$74,972,000, respectively, were approved after the balance sheet date. Under the Group's accounting policy, they were now charged in the period in which they were proposed and approved. Of the final dividend paid for the year ended 30th September, 2002, US\$30,129,000 was satisfied by way of cash payment and US\$44,843,000 was satisfied by scrip shares of HK\$0.25 each. In addition, the dividend per share has been adjusted for the effect of the Company's share subdivision as set out in Note 12.
- (ii) At a meeting on 9th June, 2003, the Directors of the Company declared an interim dividend of HK\$0.23 for the year ending 30th September, 2003 (2002 interim dividend: HK\$0.20) per share. The interim and special dividends will be payable on 2nd July, 2003 to shareholders whose names appear on the Register of Members of the Company on 30th June, 2003.
- (iii) After much consideration, the Board of Directors has resolved to declare a special dividend of HK\$0.37 per share in addition to the interim dividend of HK\$0.23 per share.

## 7. EARNINGS PER SHARE

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

	<b>For the six months ended 31st March,</b>	
	<b>2003</b>	<b>2002</b> <i>(Note)</i>
Earnings:		
Net profit for the period for the purpose of basic and diluted earnings per share	<u>US\$151,635,000</u>	<u>US\$110,570,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,530,518,443	1,407,526,742
Effect of dilutive potential ordinary share in respect of share options	<u>26,362,237</u>	<u>27,323,064</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,556,880,680</u>	<u>1,434,849,806</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

*Note:* The weighted average number of ordinary shares used for the purpose of calculating basic and diluted earnings per share for the period ended 31st March, 2002 has been retrospectively adjusted for the effect of the subdivision of shares on the basis of one ordinary share of the Company of HK\$0.50 each into two new ordinary shares of HK\$0.25 each.

### 8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Directors are of the opinion that the market value of the Group's investment properties as at 31st March, 2003 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognized in respect of the Group's investment properties in the period.

During the period, the Group acquired property, plant and equipment for an amount of approximately US\$82,764,000 (2002: approximately US\$47,722,000).

### 9. GOODWILL

	<i>US\$'000</i>
<b>COST</b>	
At 1st October, 2002	706
Arising on acquisition of subsidiaries	<u>214,399</u>
At 31st March, 2003	<u>215,105</u>
<b>AMORTISATION</b>	
At 1st October, 2002	(35)
Provided for the period	<u>(5,384)</u>
At 31st March, 2003	<u>(5,419)</u>
<b>NET BOOK VALUE</b>	
At 31st March, 2003	<u><u>209,686</u></u>
At 30th September, 2002	<u><u>671</u></u>

Goodwill is amortised on a straight line basis and the amortisation period for goodwill is 20 years.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 10. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US\$291,797,000 (30th September, 2002: US\$226,971,000) and their aging analysis is as follows:

	<b>At 31st March, 2003</b>	<b>At 30th September, 2002</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	186,220	163,923
31 to 90 days	98,072	54,697
Over 90 days	7,505	8,351
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	<b>291,797</b>	<b>226,971</b>
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### 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$135,077,000 (30th September, 2002: US\$124,012,000) and their aging analysis is as follows:

	<b>At 31st March, 2003</b>	<b>At 30th September, 2002</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	96,246	81,272
31 to 90 days	35,767	38,548
Over 90 days	3,064	4,192
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	<b>135,077</b>	<b>124,012</b>
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

12. SHARE CAPITAL

	No. of Ordinary Shares	Amounts <i>HK\$'000</i>
<i>Authorised:</i>		
Ordinary shares of HK\$0.50 each		
– balance at 1st October, 2002	<u>1,000,000,000</u>	<u>500,000</u>
Ordinary shares of HK\$0.25 each		
Subdivision of each share of HK\$0.50 into 2 shares of HK\$0.25 each and ordinary shares of HK\$0.25 each at 31st March, 2003	<u>2,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.50 each		
– balance at 1st October, 2002	712,180,953	356,090
– issue of shares in consideration for the acquisition of subsidiaries ( <i>Note (i)</i> )	60,000,000	30,000
– exercise of share options ( <i>Note (ii)</i> )	<u>7,466,666</u>	<u>3,734</u>
– balance prior to subdivision of shares	779,647,619	389,824
Ordinary shares of HK\$0.25 each		
Reduction of nominal value of shares of HK\$0.50 each to HK\$0.25 each ( <i>Note (iii)</i> )	779,647,619	–
– issue of scrip shares ( <i>Note (iv)</i> )	<u>25,453,748</u>	<u>6,363</u>
– balance at 31st March, 2003	<u>1,584,748,986</u>	<u>396,187</u>
		<i>US\$'000</i>
Shown in the financial statements as at 31st March, 2003		<u>51,149</u>
30th September, 2002		<u>46,008</u>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### Notes:

During the period, the following changes in the authorised and issued share capital of the Company took place:

- (i) In September 2002, the Company entered into an agreement with Pou Chen Corporation (“PCC”) and its subsidiaries (together the “PCC Group”) for the acquisition by the Company of the issued share capital of certain companies indirectly owned by PCC (the “Target Group”) and the shareholders’ loans of approximately US\$62.4 million. The consideration was satisfied by the issue of 60 million shares of HK\$0.50 each in the Company to PCC (the “Consideration Shares”) and the payment of US\$240.2 million in cash, subject to adjustments.

Details of this acquisition are set out in a circular issued by the Company to shareholders dated 8th October, 2002.

- (ii) During the period, 6,000,000 and 1,466,666 shares options were exercised at a subscription price of HK\$10.22 and HK\$6.35 per share, respectively, resulting in the issue of 7,466,666 ordinary shares of HK\$0.50 each in the Company.
- (iii) Pursuant to an ordinary resolution passed at the annual general meeting held on 24th February, 2003, each issued and unissued share of HK\$0.50 in the share capital of the Company was subdivided into two shares of HK\$0.25 each.
- (iv) During the period, 25,453,748 scrip shares of HK\$0.25 each were allotted.

All the ordinary shares issued during the period rank *pari passu* with the then existing ordinary shares in all respects.

### 13. CONTINGENCIES AND COMMITMENTS

	<b>At 31st March, 2003</b>	<b>At 30th September, 2002</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Guarantees given to banks in respect of credit facilities extended to jointly controlled entities	<u>3,044</u>	<u>426</u>
Capital expenditure contracted for but not provided in the financial statements in respect of		
– amount committed for construction of buildings	13,418	14,245
– acquisition of property, plant and equipment	<u>6,252</u>	<u>3,177</u>
	<u>19,670</u>	<u>17,422</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 14. ACQUISITION OF SUBSIDIARIES

On 16th September, 2002, the Company entered into an agreement with the PCC Group for the acquisition by the Company of the issued share capital of the Target Group and the shareholders' loans of approximately US\$62.4 million. The consideration was satisfied by the issue of 60 million shares of HK\$0.50 each in the Company and the payment of US\$240.2 million in cash, subject to adjustments. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>US\$'000</i>
Net assets acquired	206,813
Goodwill arising on the acquisition	214,046
	<u>420,859</u>
Satisfied by:	
Shares issued by the Company	168,474
Cash consideration	240,200
Purchase price adjustment payable to PCC Group	9,570
Related expenses paid on the acquisition	2,615
	<u>420,859</u>
Net cash outflow arising on the acquisition	
Cash consideration	(240,200)
Cash paid on the acquisition	(2,615)
Bank balances and cash acquired	25,422
	<u>(217,393)</u>

The Target Group made approximately US\$22,456,000 contribution to the results of the Group during the period.

Details of transactions are set out in a circular issued by the Company dated 8th October, 2002.

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

### **15. DISPOSAL OF A SUBSIDIARY**

In December 2002, the Company disposed of 100% interests in Inluck Investments Limited together with a shareholder's loan of approximately US\$4.9 million to a third party for a total consideration of US\$6.5 million. Upon completion of the disposal, a gain on disposal of a subsidiary amounted to approximately US\$0.9 million was recognised in the consolidated income statement.

The subsidiary disposed of during the period did not have any significant impact on the Group's cash flows.

### **16. POST BALANCE SHEET EVENT**

The Company's wholly owned subsidiary, Great Pacific Investments Limited ("Great Pacific") entered into an agreement with Victorway Trading Limited, a wholly owned subsidiary of PCC on 30th April, 2003 for the acquisition of 73.0434% equity interest of Pro Kingtex Industrial Company Limited ("Pro Kingtex") at a consideration of US\$3,770,397 which would be satisfied by the Group's internal resources. Pro Kingtex is principally engaged in the manufacturing and sale of casual wear and sportswear. Details of this connected transaction was disclosed in a press announcement dated 30th April, 2003.

## **INTERIM AND SPECIAL DIVIDENDS**

The Directors are pleased to declare an interim dividend of HK\$0.23 per share for the year ending 30th September, 2003 and a special dividend of HK\$0.37 per share to shareholders whose names appear on the Register of Members on Monday, 30th June, 2003. The interim and special dividends will be paid on Wednesday, 2nd July, 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 24th June, 2003 to Monday, 30th June, 2003, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration of not later than 4:00 p.m. on Monday, 23rd June, 2003.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

### Results

The Group recorded an encouraging growth for the six months ended 31st March 2003. During this period, overall turnover increased by 36.6% to US\$1,241.7 million, which includes sales of finished shoes, sole and components and footwear-related material. The net profit during the period rose 37.1% to US\$151.6 million due to strong contributions from the shoe manufacturing business as well as the newly acquired upstream business. Earnings per share rose 26% to 9.91 U.S. cents compared with 7.86 U.S. cents in the previous corresponding period, after dilution by the issue of shares for the acquisition of upstream business. The Board of Directors has resolved to declare an interim dividend of HK\$0.23 per share and a special dividend of HK\$0.37 per share.

The increase in turnover reflected the strong growth in the shoe manufacturing business as well as the maiden contributions from the upstream business acquired in October 2002. Excluding newly acquired upstream business, the Group recorded a turnover of US\$1,124.7 million in this period. This is a 23.7% increase from the US\$909.2 million recorded in the corresponding period last year. Adjusting for intra-group sales, the turnover of the upstream business totaled to US\$117 million to external customers during the period under review.

In order to make a year on year comparison on the same bases, the tables below show the total turnover by product categories and geographical market excluding newly acquired upstream business. For the product categories, two new items – sports sandals and retail sales – shoes & apparel have been added to reflect the diversification of product mix and new business expansion.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

### Total Turnover by Product Categories (Excluding the Upstream Business)

#### Six months ended 31st March

	2003		2002		y-o-y
	<i>US\$ million</i>	%	<i>US\$ million</i>	%	% change
Athletic Shoes	825.2	73.4	695.7	76.5	18.6
Casual/Outdoor Shoes	199.4	17.7	154.1	16.9	29.4
Sports Sandals	20.5	1.8	–	–	–
Sole & Components	68.6	6.1	59.4	6.6	15.5
Retail Sales – Shoes & Apparel	11.0	1.0	–	–	–
	<u>1,124.7</u>	<u>100.0</u>	<u>909.2</u>	<u>100.0</u>	<u>23.7</u>

### Total Turnover by Geographical Market (Excluding the Upstream Business)

#### Six months ended 31st March

	2003		2002		y-o-y
	<i>US\$ million</i>	%	<i>US\$ million</i>	%	% change
U.S.A	518.2	46.1	471.2	51.8	10.0
Canada	24.0	2.1	18.7	2.1	28.4
Europe	371.4	33.0	244.4	26.9	52.0
South America	21.0	1.9	27.8	3.1	(24.5)
Asia	166.5	14.8	125.1	13.8	33.0
Other Area	23.6	2.1	22.0	2.3	7.5
	<u>1,124.7</u>	<u>100.0</u>	<u>909.2</u>	<u>100.0</u>	<u>23.7</u>

## **FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)**

### **Operations**

As of March 2003, the Group operated 279 production lines (September 2002: 254 lines) located in China, Vietnam and Indonesia. During the six-month period, 25 lines were added. The capital investment made in expanding the Group's production base and other facilities as well as machinery replacement during the period amounted to US\$82.8 million. Total number of shoes produced during the period was 79.6 million pairs, an increase of 30.1% against the corresponding period last year.

In the China market, the Group has established a wholesale network of 550 distributors and over 150 retail chain stores selling branded athletic footwear and apparel in major cities in China through its subsidiaries and jointly controlled entities. For the six months ended 31st March, 2003, the business recorded a turnover of US\$22.4 million, about half of which was incorporated in the Group's turnover. With the upcoming Beijing Olympics 2008, we anticipate increasing sports sentiment and a growing demand for branded athletic footwear and apparel in China.

### **Financial Position**

The Group maintains a satisfactory financial position derived from the steady growth of its business. As of 31st March, 2003, the Group had cash on hand of US\$398.6 million (September 2002: US\$312.5 million) and total borrowings of US\$695.8 million (September 2002: US\$421.2 million). The increase in bank borrowings was mainly to finance the acquisition of the upstream business. This represents a gearing ratio of 45% (September 2002: 33%) and a net debt-to-equity ratio of approximately 19% (September 2002: 9%). The gearing ratio is based on total borrowings to shareholders' equity and the net debt-to-equity ratio is based on total borrowings net of cash on hand to shareholders' equity.

### **Growth Strategy**

The Group has established strong fundamentals to facilitate its future growth strategy through continued horizontal expansion and vertical integration.

In October 2002, the Group completed its acquisition of 67 companies of upstream business which was satisfied by cash and issue of 60 million shares of HK\$0.50 each. The upstream business has accounted for 9% of total turnover during the period.

## **FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)**

In line with the Group's expansion plans, the Group has acquired a majority stake of Pro Kingtex, an apparel manufacturing company in May 2003. The acquisition was a natural extension of the Group's existing footwear manufacturing operation, expanding the product range to meet the demands of its existing clientele. Through the acquisition, the Group could get an immediate access to the apparel manufacturing sector and offer our customers a total product portfolio that encompassed their demand for sportswear garments. In addition, the Group will continue to expand its product category in the core footwear operation.

Also, the Group will continue to invest in the upstream material supplies operations in China and Vietnam. For the downstream logistics operation, the Group's joint venture will continue to strengthen the logistics platform providing cost-efficient solutions for our customers.

### **Corporate Social Responsibility**

The Group has continuously reviewed and implemented its corporate social responsibility (CSR) programs to promote the welfare, safety, health and personal development of employees, environmental protection as well as the well being of the community.

During the period under review, the Group has provided extensive educational and professional training as well as counseling to its employees promoting employees' self-development and awareness of workplace safety.

The Group had recently made a total donation of HK\$500,000 to the Community Chest of Hong Kong Operation UNITE fund to combat SARS and distributed thermometers to the public and social welfare organizations. Through the distribution of thermometers, the Group hopes to emphasize the importance for the Hong Kong community to remain alert and for everyone sustain the habit of daily temperature checks, so as to protect themselves as well as the community.

### **Severe Acute Respiratory Syndrome (SARS)**

As a part of the CSR program, the Group has taken extra preventive and precaution measures to minimize the impact of Severe Acute Respiratory Syndrome (SARS). The measures are in line with the Group's advocacy of prevention being better than cure. On the preventive side, the working environmental hygiene standard has been upgraded and all employees have to check their body temperature daily. For its contingency strategy, the Group has formulated action plans such as backup tech packs and production protocols for special production arrangements. There have been no cases of SARS in the Group. SARS does not have any adverse impact on the Group's operations.

### **Looking Forward**

We are pleased to have been recently named as one of the constituent stocks of Hang Seng Index (HSI) and to have been selected as one of Morgan Stanley Capital International (MSCI) World Index, reflecting the recognition of the Group's dedicated effort to deliver consistent earnings growth and solid business performance.

The global economic climate has been subdued, affected by international and domestic uncertainties. There are signs of improvement due to the end of the Iraq War and the containing of the SARS outbreak. However, the remainder of the year is not without challenges and the Group will continue to strive for further expansion in product categories and new business development. The Group will also leverage on the synergy created through the newly acquired upstream business. In addition, retail sales in China and apparel operation will provide new opportunities for the Group's continuous growth.

The Group is well positioned to continue its growth momentum along with the industry trends of continued consolidation of the footwear manufacturing sector as well as the outsourcing trend of various brands, in particular the casual lines, that have yet to outsource to manufacturers in Asia.



## DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2003, the interests of the Directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Tsai Chi Neng	–	–	–	–
David N.F. Tsai	–	–	–	–
Edward Y. Ku	–	–	–	–
Kuo Tai Yu	–	–	–	–
Lu Chin Chu	–	–	–	–
Kung Sung Yen	–	–	–	–
Chan Lu Min	205,458	–	–	–
	<i>(Note (1))</i>			
Li I Nan, Steve	–	–	–	–
Choi Kwok Keung	–	–	–	42,041,120
				<i>(Notes (1) &amp; (2))</i>
Shih Hung	–	–	–	–
John J.D. Sy	–	–	–	–

### Notes:

- (1) Pursuant to an ordinary resolution passed at the annual general meeting held on 24th February, 2003, each issued and unissued share of HK\$0.50 in the share capital of the Company was subdivided into two shares of HK\$0.25 each (the "Share Subdivision").
- (2) 30,360,000, 5,840,560 and 5,840,560 ordinary shares were held by Hearty Choice Limited, Golden Path Company Limited and Grand Scope Company Limited respectively, all of which were ultimately held by HSBC International Trustee Limited as trustee for a discretionary trust. The discretionary objects of the trust include children of Mr. Choi Kwok Keung.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Choi Kwok Keung in trust for the Group, none of the Directors nor any of their associates, had any interest as at 31st March, 2003 in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons, in addition to the Directors as stated under “Directors’ interests in securities”, had an interest of 10% or more of the issued share capital of the Company.

<b>Name of shareholder</b>	<b>Notes</b>	<b>Number of ordinary shares beneficially held</b>
Pou Chen Corporation (“PCC”)	(a)	781,703,335
Wealthplus Holdings Limited (“Wealthplus”)	(a)	728,266,105
Max Creation Industrial Limited (“Max Creation”)	(b)	349,365,500
Quicksilver Profits Limited (“Quicksilver”)	(b)	179,494,822
World Future Investments Limited (“World Future”)	(c)	349,365,500
Mr. Tsai Chi Jui	(c)	349,365,500

### *Notes:*

- (a) Of the 781,703,335 ordinary shares beneficially owned by PCC, 728,266,105 ordinary shares were held by Wealthplus as listed above, 49,127,532 ordinary shares were held by Win Fortune Investments Limited (“Win Fortune”) and 4,309,698 ordinary shares were held by Top Score Investments Limited (“Top Score”). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC and Top Score is a 97.63% owned subsidiary of PCC.
- (b) Of the 349,365,500 ordinary shares beneficially owned by Max Creation, 179,494,822 ordinary shares were held by Quicksilver as listed above, 152,467,440 ordinary shares were held by Red Hot Investments Limited (“Red Hot”) and 17,403,238 ordinary shares were held by Moby Dick Enterprises Limited (“Moby Dick”). Quicksilver, Red Hot and Moby Dick are wholly owned subsidiaries of Max Creation.
- (c) World Future is deemed to be interested in 349,365,500 ordinary shares under section 8(3) of the SDI Ordinance by virtue of its interest in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui is also deemed to be interested in 349,365,500 ordinary shares under the same section as he holds 100% of the issued share capital in World Future.

Other than the interests disclosed above, the Company has not been notified of any other interests as at 31st March, 2003 representing 10% or more of the issued share capital of the Company.

## SHARE OPTIONS

As at 31st March, 2003, the following options to subscribe shares in the Company were outstanding under the Company's share option scheme as follows:

Directors/Employees	Date of grant	Exercise price per share prior to the Share Subdivision HK\$	Exercise price per share adjusted for the effect of the Share Subdivision HK\$	Exercise period	Outstanding	Exercised	Outstanding
					at 1.10.2002 (Note (i))	during the period (Notes (i) and (ii))	at 31.3.2003
David N. F. Tsai (Director)	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	12,000,000	(12,000,000)	–
Kuo Tai Yu (Director)	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	–	5,000,000
Lu Chin Chu (Director)	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	–	5,000,000
Kung Sung Yen (Director)	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	5,000,000	–	5,000,000
Li I Nan, Steve (Director)	28.04.1993	6.35	3.175	28.04.1993 to 27.04.2003	2,933,332	(2,933,332)	–
All other employees	12.12.1996	10.22	5.110	12.12.1996 to 11.12.2006	20,000,000	–	20,000,000
					49,933,332	(14,933,332)	35,000,000

### Notes:

- (i) The exercise price per share and the number of share options brought forward from last period have been adjusted to reflect the effect of the Share Subdivision during the period.
- (ii) The closing prices of the Company's ordinary share immediately before the date on which 12,000,000 and 2,933,332 share options were exercised were HK\$13.90 and HK\$11.65, respectively.

No options were granted, cancelled and lapsed during the period.

## **SHARE OPTIONS** (continued)

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate. Similarly, none of the spouses or children under the age of 18 of the directors had any rights to subscribe for securities of the Company or had exercised any such rights during the period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st March, 2003.

## **AUDIT COMMITTEE**

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

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, was not for any part of the six months ended 31st March, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **ACKNOWLEDGEMENT**

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

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

Hong Kong, 9th June, 2003

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