



Striving to score



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

INTERIM REPORT 2004



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2004

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March,		Percentage change
	2004	2003	
Turnover (US\$'000)	1,258,368	1,241,714	1.3
Profit from operations (US\$'000)	150,100	153,534	(2.2)
Net profit for the period (US\$'000)	158,292	151,635	4.4
Basic earnings per share (US cents)	9.81	9.91	(1.0)
Dividend per share – Interim (HK\$)	0.25	0.23	8.7
Dividend per share – Special (HK\$)	–	0.37	–

* For identification 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, 2004 with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended 31st March,	
	2004	2003
	(unaudited)	(unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>
Turnover (<i>note 3</i>)	1,258,368	1,241,714
Cost of sales	(948,624)	(908,169)
Gross profit	309,744	333,545
Other operating income	46,671	45,465
Gain on disposal of investment securities (<i>note 11</i>)	26,330	–
Selling and distribution expenses	(51,030)	(43,334)
Administrative expenses	(117,532)	(111,436)
Other operating expenses (<i>note 4</i>)	(64,083)	(70,706)
Profit from operations	150,100	153,534
Finance costs	(6,727)	(7,856)
Share of results of associates	2,435	2,564
Share of results of jointly controlled entities	15,250	5,343
Profit before taxation	161,058	153,585
Income tax expense (<i>note 6</i>)	(1,645)	(1,303)
Profit before minority interests	159,413	152,282
Minority interests	(1,121)	(647)
Net profit for the period	<u>158,292</u>	<u>151,635</u>
Dividends (<i>note 7</i>)	<u>95,863</u>	<u>74,972</u>
Earnings per share (<i>note 8</i>)		
– Basic	<u>9.81 cents</u>	<u>9.91 cents</u>
– Diluted	<u>9.78 cents</u>	<u>9.74 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	At 31st March, 2004 (unaudited) US\$'000	At 30th September, 2003 (audited) US\$'000
Non-current assets		
Investment properties (<i>note 9</i>)	33,528	33,528
Property, plant and equipment (<i>note 9</i>)	1,103,227	1,087,126
Goodwill (<i>note 10</i>)	204,698	209,494
Interests in associates	88,165	33,181
Interests in jointly controlled entities	98,607	87,221
Investment securities (<i>note 11</i>)	4,143	47,705
	<u>1,532,368</u>	<u>1,498,255</u>
Current assets		
Inventories	335,545	320,497
Trade and other receivables (<i>note 12</i>)	411,473	365,544
Taxation recoverable	8,414	6,416
Other investments	25,231	1,634
Bank balances and cash	478,864	382,751
	<u>1,259,527</u>	<u>1,076,842</u>
Current liabilities		
Trade and other payables (<i>note 13</i>)	311,373	306,285
Taxation payable	3,300	1,789
Short-term bank and other borrowings (<i>note 14</i>)	132,274	146,045
	<u>446,947</u>	<u>454,119</u>
Net current assets	<u>812,580</u>	<u>622,723</u>
Total assets less current liabilities	<u>2,344,948</u>	<u>2,120,978</u>
Minority interests	<u>10,710</u>	<u>10,710</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	At 31st March, 2004 (unaudited) US\$'000	At 30th September, 2003 (audited) US\$'000
Non-current liabilities		
Long-term bank borrowings (<i>note 14</i>)	330,390	493,903
Convertible bonds (<i>note 15</i>)	314,147	–
Loans from minority shareholders of subsidiaries	10,785	10,461
Deferred taxation	3,627	3,594
	<hr/>	<hr/>
	658,949	507,958
	<hr/>	<hr/>
	<u>1,675,289</u>	<u>1,602,310</u>
Capital and reserves		
Share capital (<i>note 16</i>)	52,274	51,758
Reserves	1,623,015	1,550,552
	<hr/>	<hr/>
	<u>1,675,289</u>	<u>1,602,310</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Investment properties revaluation reserve	Goodwill reserve	Special reserve	Accumulated profits	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1st October, 2002	46,008	359,452	16,250	(150,120)	(16,688)	1,006,646	1,261,548
Issue of shares	5,141	217,232	-	-	-	-	222,373
Net profit for the period	-	-	-	-	-	151,635	151,635
Dividends (<i>note 7</i>)	-	-	-	-	-	(74,972)	(74,972)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	51,149	576,684	16,250	(150,120)	(16,688)	1,083,309	1,560,584
Revaluation decrease on investment properties not recognised in the income statement	-	-	(4,486)	-	-	-	(4,486)
Issue of shares	609	11,839	-	-	-	-	12,448
Net profit for the period	-	-	-	-	-	156,612	156,612
Dividends (<i>note 7</i>)	-	-	-	-	-	(122,848)	(122,848)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th September, 2003	51,758	588,523	11,764	(150,120)	(16,688)	1,117,073	1,602,310
Issue of shares	516	10,034	-	-	-	-	10,550
Net profit for the period	-	-	-	-	-	158,292	158,292
Dividends (<i>note 7</i>)	-	-	-	-	-	(95,863)	(95,863)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>52,274</u>	<u>598,557</u>	<u>11,764</u>	<u>(150,120)</u>	<u>(16,688)</u>	<u>1,179,502</u>	<u>1,675,289</u>

The goodwill reserve of the Group comprises approximately US\$151,447,000 (30th September, 2003: US\$151,447,000) in respect of goodwill and approximately US\$1,327,000 (30th September, 2003: 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

	For the six months ended 31st March,	
	2004	2003
	(unaudited)	(unaudited)
	<i>US\$'000</i>	<i>US\$'000</i>
Net cash from operating activities	129,815	131,229
Net cash used in investing activities	(77,728)	(307,781)
Net cash from financing activities	44,096	260,377
Net increase in cash and cash equivalents	96,183	83,825
Cash and cash equivalents brought forward	382,681	312,457
Cash and cash equivalents carried forward	<u>478,864</u>	<u>396,282</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	478,864	398,593
Bank overdrafts	–	(2,311)
	<u>478,864</u>	<u>396,282</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical costs convention, as modified for the revaluation of investment properties and investments in securities.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th September, 2003, except that the investment properties are not stated at their open market value based on independent professional valuations as at 31st March, 2004 as the directors are of the opinion that the market value of the investment properties at 31st March, 2004 is not materially different from their carrying value.

In the current period, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by HKSA. The term of HKFRS is inclusive of SSAPs and Interpretations approved by HKSA.

The principal effect of the implementation of SSAP 12 (Revised) “Income Taxes” is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

In addition, the Group has also adopted new accounting policy during the period in relation to convertible bonds. Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The discount on redemption of the convertible bonds is recognised in the income statement so as to produce a constant periodic rate of credit on the remaining balances of the convertible bonds for each accounting period. The cost incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

3. 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 operating results by geographical segments, irrespective of the origin of the goods, is presented below:

For the six months ended 31st March, 2004

	United States of America <i>US\$'000</i>	Europe <i>US\$'000</i>	Asia <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
TURNOVER	<u>508,376</u>	<u>359,681</u>	<u>315,377</u>	<u>74,934</u>	<u>1,258,368</u>
RESULTS					
Segment results	<u>41,631</u>	<u>29,548</u>	<u>18,368</u>	<u>6,162</u>	95,709
Other operating income					46,671
Gain on disposal of investment securities					26,330
Unallocated expenses					<u>(18,610)</u>
Profit from operations					150,100
Finance costs					(6,727)
Share of results of associates					2,435
Share of results of jointly controlled entities					<u>15,250</u>
Profit before taxation					<u>161,058</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

Geographical segments (continued)

For the six months ended 31st March, 2003

	United States of America <i>US\$'000</i>	Europe <i>US\$'000</i>	Asia <i>US\$'000</i>	Others <i>US\$'000</i>	Total <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>

4. OTHER OPERATING EXPENSES

	For the six months ended 31st March, 2004 <i>US\$'000</i>	2003 <i>US\$'000</i>
--	---	--------------------------------

Other operating expenses comprise of:

Amortisation of goodwill	5,531	5,384
Allowance for bad and doubtful debts	256	4,281
Research and development expenditure	<u>40,749</u>	<u>40,522</u>

5. DEPRECIATION AND AMORTISATION

During the period, charged against profit from operations was depreciation and amortisation of approximately US\$56,184,000 (2003: approximately US\$51,836,000) in respect of the Group's property, plant and equipment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

6. INCOME TAX EXPENSE

	For the six months ended 31st March,	
	2004	2003
	<i>US\$'000</i>	<i>US\$'000</i>
The charge (credit) comprises of:		
Hong Kong Profits Tax	60	22
Overseas taxation	1,110	991
Deferred taxation	33	–
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	1,203	1,013
Share of taxation attributable to associates	(11)	–
Share of taxation attributable to jointly controlled entities	453	290
	<hr/>	<hr/>
	<u>1,645</u>	<u>1,303</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the six months ended 31st March, 2004.

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 and at the balance sheet date.

During the period, Hong Kong Inland Revenue Department ("IRD") issued protective profits tax assessments relating to the year of assessment 1997/98, that is, for the financial year ended 30th September, 1997, against certain wholly-owned subsidiaries of the Company. The Company has been advised by its tax and legal advisers that profits tax for the year of assessment 1997/98 to which the subsidiaries in question could properly be subject (if the profits were derived in or from Hong Kong, which they were not) is approximately HK\$183,000,000 (equivalent to approximately US\$23,462,000). The Group lodged objections on 30th April, 2004 with the IRD against the protective assessments. The IRD agreed to hold over the tax claimed completely subject to tax reserve certificates (the "TRC") in the amount of HK\$48,000,000 (equivalent to approximately US\$6,154,000) being purchased by the Group. The TRC have been purchased by the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

6. INCOME TAX EXPENSE (continued)

In the opinion of the directors, the subsidiaries in question did not carry on any business and derived no profit in or from Hong Kong, or they only provided limited administrative services and have already paid Hong Kong Profits Tax. Together with the advice from the Company's tax and legal advisers, the directors believe the IRD should conclude that no profits tax is in fact payable by the Group for that year of assessment and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

7. DIVIDENDS

	For the six months ended 31st March,	
	2004	2003
	US\$'000	US\$'000
2003 Final dividend of HK\$0.46 (2002 final: HK\$0.375) per ordinary share (<i>note (i)</i>)	<u>95,863</u>	<u>74,972</u>
2004 Interim dividend of HK\$0.25 (2003 interim: HK\$0.23) per ordinary share (<i>note (ii)</i>)	<u>51,915</u>	<u>47,092</u>
2004 Special dividend of Nil (2003 special: HK\$0.37) per ordinary share (<i>note (iii)</i>)	<u>–</u>	<u>75,756</u>

Notes:

- (i) The final dividend for the year ended 30th September, 2003 and 2002 of US\$95,863,000 and US\$74,972,000, respectively, were approved after the balance sheet date. Under the Group's accounting policy, they were charged in the period in which they were proposed and approved.
- (ii) At a meeting on 14th June, 2004, the directors of the Company declared an interim dividend of HK\$0.25 per share for the year ending 30th September, 2004 (2003 interim dividend: HK\$0.23 per share). The interim dividend will be payable on 7th July, 2004 to the shareholders on the register of members of the Company on 2nd July, 2004.
- (iii) For the six months ended 31st March, 2003, the directors declared a special dividend of HK\$0.37 per share in addition to the interim dividend of HK\$0.23 per share.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE

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

	For the six months ended 31st March,	
	2004	2003
Earnings:		
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	<u>US\$158,292,000</u>	<u>US\$151,635,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,614,065,926	1,530,518,443
Effect of dilutive potential ordinary shares:		
Share options	4,334,024	26,362,237
Convertible bonds (<i>note</i>)	<u>–</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,618,399,950</u>	<u>1,556,880,680</u>

Note: The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since the exercise price of the Company's convertible bonds was higher than the average market price of the shares of the Company for the six months ended 31st March, 2004.

9. 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, 2004 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised 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\$77,472,000 (for the six months ended 31st March, 2003: US\$82,764,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

10. GOODWILL

	<i>US\$'000</i>
COST	
At 1st October, 2003	220,559
Arising on acquisition of a subsidiary (<i>note 18</i>)	<u>735</u>
At 31st March, 2004	<u>221,294</u>
AMORTISATION	
At 1st October, 2003	(11,065)
Provided for the period	<u>(5,531)</u>
At 31st March, 2004	<u>(16,596)</u>
NET BOOK VALUE	
At 31st March, 2004	<u><u>204,698</u></u>
At 30th September, 2003	<u><u>209,494</u></u>

Goodwill is amortised over its estimated useful life, on a straight line basis and the amortisation period for goodwill is 20 years.

11. INVESTMENT SECURITIES

During the period, the Group acquired investment securities of approximately US\$55,084,000 (for the six months ended 31st March, 2003: US\$6,909,000) and disposed of investment securities with a carrying value of US\$43,119,000 (for the six months ended 31st March, 2003: Nil) for a consideration of approximately US\$69,449,000. In addition, investment securities with a carrying value of approximately US\$54,792,000 and US\$735,000 were transferred to interests in associates and jointly controlled entities, respectively.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

12. 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\$272,842,000 (30th September, 2003: US\$261,196,000) and an aged analysis is as follows:

	At 31st March, 2004	At 30th September, 2003
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	193,230	184,256
31 to 90 days	66,888	69,997
Over 90 days	12,724	6,943
	<hr/>	<hr/>
	<u>272,842</u>	<u>261,196</u>

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$152,886,000 (30th September, 2003: US\$143,895,000) and an aged analysis is as follows:

	At 31st March, 2004	At 30th September, 2003
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	121,816	114,384
31 to 90 days	26,638	25,052
Over 90 days	4,432	4,459
	<hr/>	<hr/>
	<u>152,886</u>	<u>143,895</u>

14. BANK AND OTHER BORROWINGS

The Group made repayment of syndicated loan of US\$182 million during the period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

15. CONVERTIBLE BONDS

On 23rd December, 2003, the Company issued US\$300 million zero coupon convertible bonds due 2008 (“CB 2008”). The CB 2008 are listed on the Luxembourg Stock Exchange. They are convertible, at the option of their holders, into ordinary shares of HK\$0.25 each of the Company at an initial conversion price of HK\$27.33 per share at any time on or after 22nd January, 2004 up to, and including, the close of business on the business day seven days prior to 23rd December, 2008, with a fixed rate of exchange applicable on conversion of the CB 2008 of HK\$7.7622 to US\$1.00.

On 12th January, 2004, notice was given to the Company by Credit Suisse First Boston (Hong Kong) Limited to exercise in part of the over-allotment option in the aggregate principal amount of US\$17 million (out of the possible maximum of US\$50 million).

The CB 2008 do not bear interest. Unless previously redeemed, converted or purchased and cancelled, the CB 2008 will be redeemed by the Company at 98.76 per cent of their principal amount on 23rd December, 2008. All or some of these bonds may be redeemed at the option of the Company, in whole or in part, from time to time, (i) on or after 23rd December, 2005 when the closing price of the Company shares on The Stock Exchange of Hong Kong Limited shall have been at least 120 per cent of the conversion price for each of any 20 trading days during a 30 consecutive trading day period and (ii) at any time when at least 90% in principal amount of the CB 2008 has been converted, redeemed or purchased and cancelled and (in either case) prior to 16th December, 2008 at an early redemption amount. The bondholders may, at their option, require the Company to redeem all or some of the bonds on 23rd December, 2005 at an early redemption amount.

As at 31st March, 2004, none of the CB 2008 had been converted into ordinary shares of the Company.

16. SHARE CAPITAL

	No. of shares	Amounts <i>HK\$'000</i>
<i>Authorised:</i>		
Ordinary shares of HK\$0.25 each:		
At 30th September, 2003 and 31st March, 2004	2,000,000,000	500,000
	<u>2,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.25 each:		
At 1st October, 2003	1,603,748,986	400,937
Exercise of share options	16,000,000	4,000
	<u>1,619,748,986</u>	<u>404,937</u>
At 31st March, 2004	<u>1,619,748,986</u>	<u>404,937</u>
		<i>US\$'000</i>
Shown in the financial statements as at		
31st March, 2004		<u>52,274</u>
30th September, 2003		<u>51,758</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

16. SHARE CAPITAL (continued)

During the six months ended 31st March, 2004, 16,000,000 share options were exercised at a subscription price of HK\$5.11 per share, resulting in the issue of 16,000,000 ordinary shares of HK\$0.25 each in the Company.

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

17. CONTINGENCIES AND COMMITMENTS

	At 31st March, 2004	At 30th September, 2003
	<i>US\$'000</i>	<i>US\$'000</i>
Guarantees given to banks in respect of credit facilities extended to:		
– an associate	3,301	–
– jointly controlled entities	23,834	2,976
	<u>27,135</u>	<u>2,976</u>
Capital expenditure contracted for but not provided in the financial statements in respect of		
– construction of buildings	4,574	16,747
– acquisition of other property, plant and equipment	4,553	3,153
	<u>9,127</u>	<u>19,900</u>

18. ACQUISITION OF A SUBSIDIARY

On 5th January, 2004, the Group acquired an additional 50% equity interest in Cap Design Studio Industrial Limited, which was a 50% jointly controlled entity of the Group before this acquisition, for a cash consideration of US\$1.75 million. The transaction has been accounted for using the purchase method of accounting.

The subsidiary acquired during the six months ended 31st March, 2004 did not make any significant contribution to the results of the Group.

19. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (i) On 3rd March, 2004, a wholly owned subsidiary of the Company, Great Pacific Investments Ltd., entered into a subscription agreement with Eagle Nice (International) Holdings Limited (“Eagle Nice”), in relation to the subscription of 105,000,000 ordinary shares of HK\$0.01 each in the capital of Eagle Nice (“Eagle Nice Shares”) at HK\$1.06 per share, representing approximately 30.88% interest in Eagle Nice, and a convertible note in the principal amount of HK\$207.06 million with conversion rights for conversion, in whole or in part, into Eagle Nice Shares at a conversion price of HK\$2.38 per share on or before 15th April, 2007. Upon full conversion of the convertible note, a total of 87,000,000 Eagle Nice Shares will be issued, representing approximately 20.37% of the enlarged issued share capital of Eagle Nice.

The total consideration for the Eagle Nice Shares and the convertible note is HK\$318.36 million (equivalent to approximately US\$40.86 million), which is payable in cash upon the completion of the subscription agreement.

Eagle Nice is incorporated in the Cayman Islands with limited liability and the shares are listed on the Main Board of the Stock Exchange. It is principally engaged in the design and manufacture of sportswear for men, women and children on an OEM basis.

The transaction was completed in April 2004.

- (ii) On 7th May, 2004, Great Pacific Investments Ltd. entered into a joint venture agreement for acquisition of 30% issued share capital in Prosperous Industrial (Holdings) Limited (“PIHL”) for a consideration of US\$20 million with an option to acquire an additional 10% issued share capital in PIHL within a period of two years.

PIHL and its subsidiaries are principally engaged in the manufacturing of sport bags with main office in Taiwan and production base in the mainland China.

The transaction was completed in May 2004.

INTERIM DIVIDENDS

The directors are pleased to declare an interim dividend of HK\$0.25 per share for the year ending 30th September, 2004 to shareholders whose names appear on the Register of Members on Friday, 2nd July, 2004. The interim dividend will be paid on Wednesday, 7th July, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 29th June, 2004 to Friday, 2nd July, 2004, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Monday, 28th June, 2004.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

The Group's turnover increased by 1.3% to US\$1,258.4 million and net profit rose by 4.4% to US\$158.3 million respectively for the six months ended 31st March, 2004. Earnings per share declined by 1.0% to 9.81 U.S. cents compared with 9.91 U.S. cents in the same period last year. The Board of Directors has resolved to declare an interim dividend of HK\$0.25 per share, an increase of 8.7% compared with the regular interim dividend of HK\$0.23 per share last year.

The Group has achieved a steady growth in turnover and net profit during the period amidst a tough operating environment triggered by spiraling raw material costs. A surge in crude oil prices led to an increase in prices of petrochemical products such as EVA, Polyurethane, fabric, Phylon and synthetic leather, which are the major raw materials for making of soles and uppers in shoes. Prices of natural rubber and leather also recorded an increase.

On the other hand, the average selling prices (ASP) of the Group's product recorded a decline mainly due to diversifying into different product categories such as sports sandal and slippers. Coupled with the volatile raw material sourcing market, the gross profit margins for the Group's shoes manufacturing operations as well as the upstream businesses have been affected during the period under review. However, reflecting from the recent trend in the US retail market, there has been encouraging take up of high-end athletic shoes, in which the group has a larger market share. Thus, the Group will benefit from this trend and the decline of the ASP should narrow gradually.

Total number of shoes produced during the period reached 81.2 million pairs, an increase of 2% against the same period last year. Sales to Asia remained strong but sales to North America and Europe slowed down. The Group recorded growth in casual/outdoor shoes and sports sandals but there was a marginal decline in athletic shoes. The tables below show the breakdown of turnover by product category and geographical market.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Results (continued)

Total Turnover by Product Category

Six months ended 31st March

	2004		2003		y-o-y
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	% change
Athletic Shoes	791.5	62.9	825.2	66.4	(4.1)
Casual/Outdoor Shoes	216.9	17.2	199.4	16.1	8.8
Sports Sandals	26.3	2.1	20.5	1.7	28.3
Soles & Components	187.4	14.9	185.6	14.9	1.0
Retail Sales – Shoes & Apparel	29.8	2.4	11.0	0.9	170.9
Others	6.5	0.5	–	–	N/A
	<u>1,258.4</u>	<u>100.0</u>	<u>1,241.7</u>	<u>100.0</u>	<u>1.3</u>

Total Turnover by Geographical Market

Six months ended 31st March

	2004		2003		y-o-y
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	% change
U.S.A.	508.4	40.4	519.9	41.9	(2.2)
Canada	22.2	1.8	24.0	1.9	(7.5)
Europe	359.7	28.6	371.6	29.9	(3.2)
South America	23.9	1.9	21.0	1.7	13.8
Asia	315.4	25.0	281.6	22.7	12.0
Other Areas	28.8	2.3	23.6	1.9	22.0
	<u>1,258.4</u>	<u>100.0</u>	<u>1,241.7</u>	<u>100.0</u>	<u>1.3</u>

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Operations

As of March 2004, the Group maintained 298 production lines (September 2003: 290 lines) located in China, Vietnam and Indonesia. The capital investment made in expanding the Group's production base and other facilities as well as existing machinery replacement during the period amounted to US\$77 million.

The Group's wholesale and retail operations in China continued to grow recording a 170% year on year increase in turnover to US\$29.8 million for the six months to 31st March, 2004. The Group has established a wholesale network of about 790 distributors and operated around 250 retail stores/counters selling branded footwear and athletic apparel in major cities in China.

Sports apparel and accessories manufacturing is the Group's new business venture, which recorded a turnover of US\$6.5 million during the period under review. Contributions from this new venture will rise in the future following the recent acquisitions and most of these will be accounted for in the associates and jointly controlled entities level.

The contributions from associates and jointly controlled entities jumped to US\$17.7 million mainly due to strong performance of various joint ventures. Also, disposals of investment securities generated US\$26.3 million profits to the Group during the period under review.

During the period under review, the cost of goods sold has increased in light of price hike in petrochemical related products. There was also an increase in utilities costs due to rise in oil prices but the Group has been immune from power shortage problem in the Pearl River Delta, thanks to the Group's sufficient in-house power generating facilities.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Financial Review

The Group's financial position remains strong. As of 31st March, 2004, the Group had cash on hand of US\$479 million (30th September, 2003: US\$383 million) and total borrowings of US\$777 million including the US\$317 million convertible bonds (30th September, 2003: US\$640 million). This represents a gearing ratio of 46% (30th September, 2003: 40%) and a net debt-to-equity ratio of approximately 18% (30th September, 2003: 16%). 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.

The Group has completed the issue of convertible bonds with aggregate amount of US\$317 million including the exercise of an over-allotment option of US\$17 million. The proceeds have been partly used for repayment of term loan and partly used for general working capital.

Growth Strategy

The Group is committed to its well structure growth strategy through continued horizontal expansion and vertical integration. We have gradually built up a solid foundation facilitating future expansion. We believe that the newly acquired companies and joint ventures will buoy the Group's growth in the medium to long-term.

Following our dedicated horizontal expansion strategy, the Group has acquired a 30.88% stake in a listed apparel manufacturer called, Eagle Nice (International) Holdings Limited ("Eagle Nice"), for HK\$111.3 million in April 2004. The Group has also subscribed for the convertible bonds of HK\$207.06 million issued by Eagle Nice. Eagle Nice is specialized in sports apparel manufacturing with Nike as one of its major customers.

On the sports accessories front, the Group has bought a 30% interest in Prosperous Industrial (Holdings) Limited for US\$20 million, which is an OEM/ODM of sports bag, backpack and luggage. This joint venture will expand the Group's supply chain service into sports accessories to match with the key product categories of our major customers.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Growth Strategy (continued)

For the vertical integration, the Group has newly set up a paper package joint venture in Vietnam together with two listed Taiwan paper companies, Yuen Foong Yu Paper Manufacturing Company Limited and Taiwan Pulp and Paper Corporation, to strengthen the raw material supply chain there. In addition, Prime Asia Leather Corporation, the Group's upstream businesses subsidiary, has set up a leather processing operation in Vietnam in 1Q/2004.

Corporate Social Responsibility

The Group remains committed to promoting staff welfare and community projects as part of its corporate social responsibility (CSR) programs.

In China, the Group has implemented various personal development, education and vocational training programs for its staff such as "The Development through Education, Action and Leader Project" (DEAL) together with Nike and World Vision. Besides, the Group offers Evening High School for its staff in China and Vietnam. In China, we just commenced the fifth year and about 100 new students enrolled in the class during the period.

Also, the Group participated in the Global Alliance for Workers and Communities program, which is a unique partnership of private, public and non-governmental organisations aimed at improving the workplace experience and life opportunities of workers. During the period, focus has been on the management skill training programs to supervisors.

In Hong Kong, the Group has sponsored the Slam Dunk Basketball Challenge 2004 together with Nike Hong Kong and Save the Children Hong Kong and made donation to the Christmas festival trees event. In Vietnam, the Group cosponsored the "Operation Smile Vietnam" program, which aims at providing service to repair children's cleft lips and cleft palates. Also, the Group made donations in Vietnam for the construction of several housing facilities this year for the poor in the neighborhood.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

Looking Forward

Yue Yuen is well positioned to benefit from increasing spending in footwear and consumer sporting goods. The global economic environment is expected to continue its improvement in 2004, boosting consumer confidence and retail sales. As US economic growth continues to accelerate, the creation of new jobs will buoy personal consumption in North America.

The Chinese market for sporting goods is also growing in a rapid pace, riding on increased consumer spending power and programs aimed at promoting sports activities. In China, growth in the Group's wholesale and retail operations will be underpinned by gradual lifting of restrictions in wholesale and retail regulations, which are expected by the end of the year. The Group is committed to expanding its wholesale and retail network to become one of the largest sporting goods chain stores in China.

Although the new business in manufacturing sports apparel and accessories is still in its early stages, the Group believes its expertise in production management and close customer contacts will spearhead the growth of this new business area. More meaningful returns are expected from these new ventures in the medium term – especially following the removal of global quotas on textiles and apparel next year.

An increase in orders and the slowing decline of average selling prices are positive signs that will form the foundation of the Group's growth for the remainder of the year. This will be a challenging year in light of rising raw material costs and continued expansion through M&A activities. However, Yue Yuen is well poised to benefit from further consolidation in the consumer product supply chain, as well as the removal of global trade barriers.

We believe Yue Yuen will strive to enhance its return to shareholders through improvements in production efficiency and exploration into new product categories.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2004, the interests of the directors and chief executives of the Company in shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules were as follows:

Long Position

Ordinary shares of HK\$0.25 each of the Company

Name of director	Number of ordinary shares held			Total	Percentage of the issued share capital of the Company
	Beneficial owner	Held by controlled corporation	Held by a discretionary trust		
Tsai Chi Neng	–	–	–	–	–
David N.F. Tsai	–	–	–	–	–
Edward Y. Ku	–	–	–	–	–
Kuo Tai Yu	–	–	–	–	–
Lu Chin Chu	–	–	–	–	–
Kung Sung Yen	–	–	–	–	–
Chan Lu Min	110,458	–	–	110,458	0.007
Li I Nan, Steve	–	–	–	–	–
Choi Kwok Keung	–	–	42,041,120 (note)	42,041,120	2.596
Shih Hung	–	–	–	–	–
John J.D. Sy	–	–	–	–	–

Note: 30,360,000, 5,840,560 and 5,840,560 ordinary shares of HK\$0.25 each 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.

DIRECTORS' INTERESTS IN SECURITIES (continued)

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, chief executives and their associates, had any interest or short position as at 31st March, 2004 in any shares of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the register of substantial shareholders maintained under Section 336 of the SFO showed that other than the interests disclosed in "Directors' Interests in Securities", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long Position

Ordinary shares of HK\$0.25 each of the Company

Name of shareholder	Notes	Number of ordinary shares beneficially held
Pou Chen Corporation ("PCC")	(a)	808,916,335
Wealthplus Holdings Limited ("Wealthplus")	(a)	755,479,105
Max Creation Industrial Limited ("Max Creation")	(b)	319,365,500
Quicksilver Profits Limited ("Quicksilver")	(b)	149,494,822
Red Hot Investments Limited ("Red Hot")	(b)	152,467,440
World Future Investments Limited ("World Future")	(c)	319,365,500
Mr. Tsai Chi Jui	(c)	319,365,500

Notes:

- (a) Of the 808,916,335 ordinary shares beneficially owned by PCC, 755,479,105 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 319,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver, 152,467,440 ordinary shares were held by Red Hot (both are listed above) 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.

SUBSTANTIAL SHAREHOLDERS (continued)

- (c) World Future is deemed to be interested in 319,365,500 ordinary shares 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 319,365,500 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 or short position in the issued share capital of the Company as at 31st March, 2004.

SHARE OPTIONS

The following table discloses details of share options outstanding under the Company's share option scheme and movements during the six months period ended 31st March, 2004.

Employees	Date of grant	Exercise price per share HK\$	Exercisable period	Outstanding at 1.10.2003	Exercised during the period (Note)	Outstanding at 31.3.2004
Employees	12.12.1996	5.11	12.12.1996 to 11.12.2006	16,000,000	(16,000,000)	—

Note: The closing price of the Company's ordinary share immediately before the date on which the share options were exercised ranged from HK\$21.60 to HK\$21.80.

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

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.

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, 2004.

AUDIT COMMITTEE

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

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, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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, 14th June, 2004

Website: www.yueyuen.com