



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



# Responding to Challenges

Interim Report 2005



# 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, 2005

### GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 31st March,		Percentage change
	2005	2004	
Turnover (US\$ million)	1,477.9	1,258.4	17.4
Profit from operations (US\$ million)	146.1	150.1	(2.7)
Net profit for the period (US\$ million)	152.3	158.3	(3.8)
Basic earnings per share (US cents)	9.4	9.8	(4.1)
Interim dividend per share (HK\$)	0.27	0.25	8.0

\* 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, 2005 with comparative figures for the corresponding period in 2004.

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 31st March, 2005*

	Six months ended	
	31st March,	
	2005	2004
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Turnover	1,477,897	1,258,368
Cost of sales	(1,121,024)	(948,624)
Gross profit	356,873	309,744
Other operating income	48,297	46,671
Gain on disposal of investment securities	–	26,330
Selling and distribution expenses	(60,574)	(51,030)
Administrative expenses	(120,824)	(117,532)
Other operating expenses ( <i>note 4</i> )	(77,694)	(64,083)
Profit from operations	146,078	150,100
Finance costs	(6,615)	(6,727)
Share of results of associates	7,494	2,435
Share of results of jointly controlled entities	10,027	15,250
Profit before taxation	156,984	161,058
Income tax expense ( <i>note 6</i> )	(3,075)	(1,645)
Profit before minority interests	153,909	159,413
Minority interests	(1,572)	(1,121)
Net profit for the period	<u>152,337</u>	<u>158,292</u>
Dividends ( <i>note 7</i> )	<u>95,529</u>	<u>95,863</u>
Earnings per share ( <i>note 8</i> )		
– Basic	<u>9.4 cents</u>	<u>9.8 cents</u>
– Diluted	<u>8.8 cents</u>	<u>9.8 cents</u>

# CONDENSED CONSOLIDATED BALANCE SHEET

At 31st March, 2005

	<b>31st March, 2005 (unaudited) US\$'000</b>	<b>30th September, 2004 (audited) US\$'000</b>
Non-current assets		
Investment properties ( <i>note 9</i> )	31,723	31,723
Property, plant and equipment ( <i>note 9</i> )	1,112,560	1,086,559
Deposits made for acquisition of properties ( <i>note 10</i> )	15,894	5,000
Goodwill ( <i>note 11</i> )	193,638	199,171
Interests in associates ( <i>note 12</i> )	175,456	152,711
Interests in jointly controlled entities	133,467	117,556
Investment securities	38,348	38,320
	<hr/>	<hr/>
	1,701,086	1,631,040
	<hr/>	<hr/>
Current assets		
Inventories	407,422	358,159
Trade and other receivables ( <i>note 13</i> )	535,399	456,073
Taxation recoverable	7,812	12,576
Other investments	576	576
Bank balances and cash	392,731	465,856
	<hr/>	<hr/>
	1,343,940	1,293,240
	<hr/>	<hr/>
Current liabilities		
Trade and other payables ( <i>note 14</i> )	385,541	348,759
Taxation payable	3,728	2,176
Short-term bank borrowings	270,173	188,552
	<hr/>	<hr/>
	659,442	539,487
	<hr/>	<hr/>
Net current assets	684,498	753,753
	<hr/>	<hr/>
Total assets less current liabilities	2,385,584	2,384,793
	<hr/>	<hr/>
Minority interests	14,182	14,545
	<hr/>	<hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)*At 31st March, 2005*

	<b>31st March, 2005 (unaudited) US\$'000</b>	<b>30th September, 2004 (audited) US\$'000</b>
Non-current liabilities		
Convertible bonds ( <i>note 15</i> )	313,627	313,703
Long-term bank borrowings	218,657	274,326
Loans from minority shareholders of subsidiaries	10,397	10,306
Deferred taxation	3,888	3,888
	<hr/> 546,569	<hr/> 602,223
	<hr/> <b>1,824,833</b>	<hr/> <b>1,768,025</b>
Capital and reserves		
Share capital ( <i>note 16</i> )	52,274	52,274
Reserves	1,772,559	1,715,751
	<hr/> 1,824,833	<hr/> 1,768,025
	<hr/> <b>1,824,833</b>	<hr/> <b>1,768,025</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2005

	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	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, 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)
At 31st March, 2004	52,274	598,557	11,764	(150,120)	(16,688)	1,179,502	1,675,289
Revaluation decrease on investment properties not recognised in the income statement	-	-	(366)	-	-	-	(366)
Net profit for the period	-	-	-	-	-	145,045	145,045
Dividends ( <i>note 7</i> )	-	-	-	-	-	(51,943)	(51,943)
At 30th September, 2004	52,274	598,557	11,398	(150,120)	(16,688)	1,272,604	1,768,025
Net profit for the period	-	-	-	-	-	152,337	152,337
Dividends ( <i>note 7</i> )	-	-	-	-	-	(95,529)	(95,529)
At 31st March, 2005	<u>52,274</u>	<u>598,557</u>	<u>11,398</u>	<u>(150,120)</u>	<u>(16,688)</u>	<u>1,329,412</u>	<u>1,824,833</u>

The goodwill reserve of the Group comprises approximately US\$151,447,000 (30th September, 2004: US\$151,447,000) in respect of goodwill and approximately US\$1,327,000 (30th September, 2004: 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 in 1992.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 31st March, 2005*

	Six months ended	
	31st March,	
	2005	2004
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Net cash from operating activities	125,028	129,815
Net cash used in investing activities	(120,041)	(77,728)
Net cash (used in) from financing activities	(78,112)	44,096
Net (decrease) increase in cash and cash equivalents	(73,125)	96,183
Cash and cash equivalents brought forward, analysed as bank balances and cash	465,856	382,681
Cash and cash equivalents carried forward, analysed as bank balances and cash	392,731	478,864

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 31st March, 2005*

### **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”, which is one of the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### **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, 2004.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and HKFRSs (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ending 30th September, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results of operation and financial position are prepared and presented.



## 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, 2005

	<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>595,293</u>	<u>399,711</u>	<u>389,596</u>	<u>93,297</u>	<u>1,477,897</u>
RESULTS					
Segment results	<u>52,471</u>	<u>35,204</u>	<u>18,077</u>	<u>8,221</u>	113,973
Other operating income					48,297
Unallocated expenses					<u>(16,192)</u>
Profit from operations					146,078
Finance costs					(6,615)
Share of results of associates					7,494
Share of results of jointly controlled entities					<u>10,027</u>
Profit before taxation					156,984
Income tax expenses					<u>(3,075)</u>
Profit before minority interests					153,909
Minority interest					<u>(1,572)</u>
Net profit for the period					<u>152,337</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 3. SEGMENT INFORMATION (continued)

#### Geographical segments (continued)

#### For the six months ended 31st March, 2004

	<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>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					161,058
Income tax expenses					<u>(1,645)</u>
Profit before minority interests					159,413
Minority interest					<u>(1,121)</u>
Net profit for the period					<u>158,292</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 4. OTHER OPERATING EXPENSES

	Six months ended 31st March,	
	2005	2004
	US\$'000	US\$'000
Other operating expenses included:		
Amortisation of goodwill	5,533	5,531
Allowance for bad and doubtful debts	744	256
Research and development expenditure	<u>46,786</u>	<u>40,479</u>

### 5. DEPRECIATION AND AMORTISATION

During the period, charged against profit from operations was depreciation and amortisation of approximately US\$58,690,000 (2004: approximately US\$56,184,000) in respect of the Group's property, plant and equipment.

### 6. INCOME TAX EXPENSE

	Six months ended 31st March,	
	2005	2004
	US\$'000	US\$'000
The charge (credit) comprises of:		
Hong Kong Profits Tax	35	60
Overseas taxation	2,159	1,110
Deferred taxation	<u>–</u>	<u>33</u>
Taxation attributable to the Company and its subsidiaries	2,194	1,203
Share of taxation attributable to associates	544	(11)
Share of taxation attributable to jointly controlled entities	<u>337</u>	<u>453</u>
	<u>3,075</u>	<u>1,645</u>

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 6. INCOME TAX EXPENSE (continued)

In March 2004 and 2005, Hong Kong Inland Revenue Department (“IRD”) issued protective profits tax assessments of approximately HK\$183,000,000 (equivalent to approximately US\$23,462,000) and HK\$224,000,000 (equivalent to approximately US\$28,766,000) relating to the year of assessment 1997/98 and 1998/99, that is, for the financial year ended 30th September, 1997 and 1998, respectively, against certain wholly-owned subsidiaries of the Company. The Group lodged objections with the IRD against the protective assessments. The IRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing tax reserve certificates (the “TRC”) of HK\$48,000,000 (equivalent to approximately US\$6,154,000) and HK\$62,526,000 (equivalent to approximately US\$8,016,000) for the year of assessment 1997/98 and 1998/99, respectively. These TRC have been purchased by the Group.

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 that no profits tax is in fact payable by the Group for those years of assessment and no provision for Hong Kong Profits Tax in respect of the protective assessments is considered necessary.

### 7. DIVIDENDS

	<b>Six months ended</b>	
	<b>31st March,</b>	
	<b>2005</b>	<b>2004</b>
	<i>US\$’000</i>	<i>US\$’000</i>
2004 Final dividend of HK\$0.46 (2003 final: HK\$0.46) per ordinary share paid ( <i>note (i)</i> )	<u>95,529</u>	<u>95,863</u>
2005 Interim dividend of HK\$0.27 (2004 interim: HK\$0.25) per ordinary share declared ( <i>note (ii)</i> )	<u>56,068</u>	<u>51,943</u>

#### *Notes:*

- (i) The final dividend for the year ended 30th September, 2004 and 2003 of US\$95,529,000 and US\$95,863,000, respectively, were approved after the balance sheet date. Under the Group’s accounting policy, they were charged in the period in which they were approved.
- (ii) At a meeting on 13th June, 2005, the directors of the Company declared an interim dividend of HK\$0.27 per share for the year ending 30th September, 2005 (2004 interim dividend: HK\$0.25 per share). The interim dividend will be payable on 14th July, 2005 to the shareholders on the register of members of the Company on 7th July, 2005.

## 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:

	<b>Six months ended 31st March,</b>	
	<b>2005</b>	<b>2004</b>
	<i>US\$</i>	<i>US\$</i>
Earnings:		
Net profit for the purpose of basic earnings per share	152,337,000	158,292,000
Effect of dilutive potential ordinary shares:		
Unamortised arrangement costs	(2,325,000)	–
Release of discount on redemption of convertible bonds	(393,000)	–
	<hr/>	<hr/>
Net profit for the purpose of diluted earnings per share	<u>149,619,000</u>	<u>158,292,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,619,748,986	1,614,065,926
Effect of dilutive potential ordinary shares:		
Share options	N/A	4,334,024
Convertible bonds	90,033,568	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,709,782,554</u>	<u>1,618,399,950</u>

### 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, 2005 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\$91,127,000 (for the six months ended 31st March, 2004: US\$77,472,000).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 10. DEPOSITS MADE FOR ACQUISITION OF PROPERTIES

During the period, the Group made deposits in connection with the acquisition of properties in Vietnam and Yangzhou, the People's Republic of China, of approximately US\$10,894,000. The amount committed at 31st March, 2005 is shown as a capital commitment in note 17.

### 11. GOODWILL

	<i>US\$'000</i>
<b>COST</b>	
At 1st October, 2004 and 31st March, 2005	221,294
<b>AMORTISATION</b>	
At 1st October, 2004	22,123
Provided for the period	5,533
At 31st March, 2005	27,656
<b>NET BOOK VALUE</b>	
At 31st March, 2005	<u>193,638</u>
At 30th September, 2004	<u>199,171</u>

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

### 12. INTERESTS IN ASSOCIATES

In 2004, the Group entered into a subscription agreement with Eagle Nice (International) Holdings Limited ("Eagle Nice"), a company with its shares listed on the Stock Exchange and engages in the manufacture and trading of sportswear and garments, for the subscription of 105,000,000 ordinary shares of HK\$0.01 each ("Eagle Nice Share") and the subscription of a convertible note at a subscription price of HK\$207.06 million (equivalent to approximately US\$26,578,000) (the "Convertible Note"). The Convertible Note is convertible at a conversion price of HK\$2.38 per Eagle Nice Share, in whole or in parts, during the 30-day period prior to and including its maturity date, 15th April, 2007, and is interest-free.

On 28th December, 2004, the Group entered into an amendment agreement ("Amendment Agreement") with, among other parties, Eagle Nice to amend the conversion period of the Convertible Note. The Amendment Agreement was completed on 15th March, 2005 and the conversion of the Convertible Note took place on 17th March, 2005. On the conversion of the Convertible Note, the Group's interest in Eagle Nice was increased from 30.88% to 44.96%.

Details of the Amendment Agreement and the conversion of Convertible Note were set out in the joint announcements of the Company and Eagle Nice dated 29th December, 2004 and 17th March, 2005 respectively.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 13. 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\$357,354,000 (30th September, 2004: US\$332,753,000) and an aged analysis is as follows:

	<b>31st March, 2005</b>	<b>30th September, 2004</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	234,513	243,610
31 to 90 days	113,127	69,918
Over 90 days	9,714	19,225
	<u>357,354</u>	<u>332,753</u>

### 14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$215,143,000 (30th September, 2004: US\$181,876,000) and an aged analysis is as follows:

	<b>31st March, 2005</b>	<b>30th September, 2004</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 to 30 days	152,615	132,719
31 to 90 days	48,811	41,853
Over 90 days	13,717	7,304
	<u>215,143</u>	<u>181,876</u>

### 15. CONVERTIBLE BONDS

In accordance with the terms of the convertible bonds 2008 ("CB 2008"), 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. Unless previously redeemed, converted or purchased and cancelled, the CB 2008 of the Company will be redeemed on 23rd December, 2008. In the opinion of the directors, it is not probable that the bondholders will redeem the CB 2008 on 23rd December, 2005. Accordingly, the CB 2008 is included in the balance sheet as non-current.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 16. SHARE CAPITAL

	Number of shares	Amounts HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.25 each:		
At 30th September, 2004 and 31st March, 2005	<u>2,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.25 each:		
At 30th September, 2004 and 31st March, 2005	<u>1,619,748,986</u>	<u>404,937</u>
		<i>US\$'000</i>
Shown in the financial statements as at 30th September, 2004 and 31st March, 2005		<u>52,274</u>

### 17. CONTINGENCIES AND COMMITMENTS

	31st March, 2005 <i>US\$'000</i>	30th September, 2004 <i>US\$'000</i>
Guarantees given to banks in respect of credit facilities extended to:		
– an associate	3,347	1,284
– jointly controlled entities	<u>21,201</u>	<u>20,866</u>
	<u>24,548</u>	<u>22,150</u>
Capital expenditure contracted for but not provided in the financial statements in respect of		
– construction of buildings	30,773	9,453
– acquisition of property, plant and equipment	<u>7,736</u>	<u>11,721</u>
	<u>38,509</u>	<u>21,174</u>



## **INTERIM DIVIDENDS**

The Directors are pleased to declare an interim dividend of HK\$0.27 per share for the year ending 30th September, 2005 to shareholders whose names appear on the Register of Members on Thursday, 7th July, 2005. The interim dividend will be paid on Thursday, 14th July, 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 4th July, 2005 to Thursday, 7th July, 2005, 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 of not later than 4:00 p.m. on Thursday, 30th June, 2005.

## **FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW**

### **Results**

The Group's turnover rose year-on-year by 17.4% to US\$1,477.9 million and net profit fell year-on-year by 3.8% to US\$152.3 million for the six months ended 31st March, 2005. Earnings per share declined by 4.1% to 9.4 U.S. cents compared with 9.8 U.S. cents for the same period last year. The net profit would have increased by 15.4% for the first half of fiscal year 2005 when not taking into account the US\$26.3 million contribution from disposal of investment securities for the corresponding period last year.

### **Operations**

During the period, the Group recorded strong revenue growth from its core manufacturing operation and retail sales in greater China. The operating environment for footwear manufacturing remained difficult due to the increase in crude oil prices and labor costs in the Pearl River Delta region. The Group has kept up the effort to contain the increase in overall production overheads and selling and administrative expenses but the market resistance remained strong. In addition, the moderate rise in average selling price could only partially offset the general increase in material prices.

Total number of shoes produced during the period increased year-on-year by 11.4% to 90.4 million pairs compared with 81.2 million pairs last year. The various product categories faced balanced growth. There was encouraging growth in all major markets by geographical distribution and sales to North America were particularly strong. Additionally, the growth momentum for retail sales operation in greater China and apparel manufacturing remained intact. Retail sales now accounted for over 4% of the Group's total revenue.

As of March 2005, the Group operated about 330 production lines (30th September, 2004: 309 lines) located in China, Vietnam and Indonesia. The increase in production capacity was in line with the strong volume growth. The Group established a wholesale network of about 900 distributors for its licensed brands and operated about 480 retail stores/counters selling branded athletic footwear and apparel in major cities in China.

Combined contributions from associates and jointly controlled entities amounted to US\$17.5 million for the period under review compared with US\$17.7 million last year. However, there was a one-off contribution of about US\$4.5 million last year from the disposal of investment securities by one of our jointly controlled entities, Symphony Holdings Limited.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW (continued)

### Operations (continued)

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

#### Turnover by Product Category

##### Six months ended 31st March

	2005		2004		y-o-y
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	<i>% change</i>
Athletic Shoes	919.4	62.2	791.5	62.9	16.2
Casual/Outdoor Shoes	254.0	17.2	216.9	17.2	17.1
Sports Sandals	31.5	2.1	26.3	2.1	19.8
Soles & Components	193.9	13.1	187.4	14.9	3.5
Retail Sales – Shoes & Apparel	65.5	4.5	29.8	2.4	119.8
Others	13.6	0.9	6.5	0.5	109.2
Total Turnover	<u>1,477.9</u>	<u>100.0</u>	<u>1,258.4</u>	<u>100.0</u>	<u>17.4</u>

#### Turnover by Geographical Market

##### Six months ended 31st March

	2005		2004		y-o-y
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	<i>% change</i>
U.S.A.	595.3	40.3	508.4	40.4	17.1
Canada	26.2	1.8	22.2	1.8	18.0
Europe	399.7	27.0	359.7	28.6	11.1
South America	29.3	2.0	23.9	1.9	22.6
Asia	389.6	26.4	315.4	25.0	23.5
Other Areas	37.8	2.5	28.8	2.3	31.3
Total Turnover	<u>1,477.9</u>	<u>100.0</u>	<u>1,258.4</u>	<u>100.0</u>	<u>17.4</u>

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

### **Financial Review**

The Group maintains a healthy financial position. As at 31st March, 2005, the Group had cash on hand of US\$393 million (30th September, 2004: US\$466 million) and total borrowings of US\$803 million including the convertible bonds (30th September, 2004: US\$777 million). This represents a gearing ratio of 44% (30th September, 2004: 44%) and a net debt-to-equity ratio of approximately 22% (30th September, 2004: 18%). 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. On 1st June, 2005, the Group concluded a 5-year Term Loan and Revolving Credit Facility of US\$420 million and the proceeds will be used for general corporate funding requirements including refinancing of its existing facilities.

### **Corporate Social Responsibility**

To improve the standard of corporate social responsibility (CSR) remains a core objective for the Group and we believe a good CSR program helps create a pleasant and harmonious working environment, which can enhance production efficiency and product quality. The Group will keep up its efforts to make continuous improvement in this area.

It is the Group's policy to take the initiation to improve workers' health, safety and benefits as well as environmental protection. To improve the standard, the Group's production facilities and labor practices are frequently reviewed and evaluated internally and by external parties. Our efforts have been recognized and we received awards from government authorities and some of our customers for the outstanding standards that we have achieved. Nonetheless, there is room for further improvement in some of our factories.

Several events were worth mentioning during the period:

1. The Group donated US\$70,000 through its Indonesian subsidiary company and the Hong Kong office to the relief fund for those affected by the South Asia tsunami in December 2004. In addition, our Indonesian employees together with the Group's matching funds, made a total contribution of US\$8,000 for the same relief purpose.

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

### **Corporate Social Responsibility (continued)**

2. In Hong Kong, the Group has continued to sponsor, together with Nike Hong Kong Ltd. and Save the Children Hong Kong, the “Slam Dunk Basketball Challenge” including the one in 2005 which attracted about a thousand teenagers participating in the competition. With the active participation in community services and employees’ enrichment programs, we were bestowed the “Caring Company 2004/2005” logo by the Hong Kong Council of Social Service.
3. In May this year, our Indonesian subsidiary company set up a vocational training centre for the youngsters in the nearby villages to help them acquire basic skills in stitching and cutting, enhancing their chances of employment in the area.

### **Looking Forward**

The Group’s revenue growth momentum continues to be strong. For the period from April to May 2005 in the third quarter of fiscal year 2005, the Group’s revenue grew year-on-year by 11.9% to approximately US\$558.3 million despite being on a higher base of comparison. Back-to-school orders remain healthy, and the Group is confident in recording encouraging revenue growth for the full year.

Crude oil prices remain buoyant but fluctuations in material prices have tapered off. The Group should be in a better position to manage the change in material prices. On the production side, the Group maintains production bases in three countries. In the meantime, the Group will closely monitor the development of trade disputes on Chinese exports. The potential revaluation of Renminbi, if any, will be a matter of mutual concern among the Group and its customers.

The consumer spending power in China continues to grow and the Group will capture this opportunity through its comprehensive retail sales operations. The Group’s number of store/counter increased to 480 in March 2005 from 350 in September 2004. In addition, the Group extended its wholesale operations into Taiwan and Hong Kong. We are committed to opening over 1,000 stores/counters in China by 2008.

The Group achieved impressive growth amidst a tough environment for the period under review due to its dynamic management and well-structured production facilities. We will strive to improve the production efficiency further with valuable contribution from our dedicated and innovative team. In addition, we will continue the expansion strategy of diversifying product categories.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2005, the interests of the Company's directors, chief executives and their associates in shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange were as follows:

### Long Position

#### 1. Ordinary shares of HK\$0.25 each of the Company

Name of director	Beneficial owner	Number of ordinary shares held			Total	Percentage of the issued share capital of the Company
		Held by spouse and/or children under 18	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	-	-	-	-	-	-
Tsai Pei Chun, Patty	-	-	-	-	-	-
Choi Kwok Keung	-	-	-	42,041,120 (note 1)	42,041,120	2.596
Shih Hung	-	-	-	-	-	-
John J.D. Sy	-	-	-	-	-	-
So Kwan Lok	-	-	-	-	-	-
Poon Yiu Kin, Samuel	1,600 (note 2)	1,600 (note 2)	-	-	1,600	0.0001

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**  
(continued)

**Long Position** (continued)

**1. Ordinary shares of HK\$0.25 each of the Company** (continued)

*Notes:*

- 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.
- 1,600 ordinary shares of HK\$0.25 each were jointly held by Mr. Poon Yiu Kin, Samuel and his spouse, Ms. Yuen Oi Chun, Josephine.

**2. Ordinary shares of NT\$10 each of Pou Chen Corporation ("PCC"), the ultimate holding company**

Name of director	Beneficial owner	Number of ordinary shares held			Total	Percentage of the issued share capital of PCC
		Held by spouse and/or children under 18	Held by controlled corporation	Held by discretionary trust		
Tsai Chi Neng	10,957,015	63,790	-	-	11,020,805	0.53
David N. F. Tsai	7,244,867	-	-	-	7,244,867	0.35
Edward Y. Ku	25,958	408,400	-	-	434,358	0.02
Kuo Tai Yu	1,216,082	3,164	-	-	1,219,246	0.06
Lu Chin Chu	1,361,223	204,214	-	-	1,565,437	0.07
Kung Sung Yen	1,268,613	410,847	-	-	1,679,460	0.08
Chan Lu Min	1,050,923	-	-	-	1,050,923	0.05
Li I Nan, Steve	123,075	-	-	-	123,075	0.006
Tsai Pei Chun, Patty	518,574	-	-	-	518,574	0.025
Choi Kwok Keung	-	-	-	-	-	-
Shih Hung	-	-	-	-	-	-
John J.D. Sy	-	-	-	-	-	-
So Kwan Lok	-	-	-	-	-	-
Poon Yiu Kin, Samuel	-	-	-	-	-	-

Save as disclosed above and other than certain nominee shares in the Company's subsidiaries held by Mr. Choi Kwok Keung in trust for the Group, none of the directors, the chief executives and their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 31st March, 2005.

## SHARE OPTIONS

The following table discloses movement of the directors and the chief executives in the share options granted under the share option scheme of PCC during the period.

Name of director	Date of grant	Exercise price per share NT\$	Exercisable period	Number of share options		
				Outstanding at 1.10.2004	Exercised during the period	Outstanding at 31.3.2005
David N. F. Tsai	6.8.2002	14.20	6.8.2002 to 5.8.2012	1,000,000	–	1,000,000
Kuo Tai Yu	6.8.2002	14.20	6.8.2002 to 5.8.2012	830,000	–	830,000
Lu Chin Chu	6.8.2002	14.20	6.8.2002 to 5.8.2012	700,000	–	700,000
Kung Sung Yen	6.8.2002	14.20	6.8.2002 to 5.8.2012	800,000	–	800,000
Chan Lu Min	6.8.2002	14.20	6.8.2002 to 5.8.2012	800,000	–	800,000

Share options can be exercised every year up to one-third of the granted options, no earlier than two years from the date of grant. After four years from the date of grant, the option holders are eligible to exercise all the options granted.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save for the share options disclosed above, at no time during the period was the Company or any of its holding companies, fellow subsidiaries and 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.



## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in “Directors’ and Chief Executives’ 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	Percentage of the issued share capital of the Company
PCC	(a)	824,143,835	50.88
Wealthplus Holdings Limited (“Wealthplus”)	(a)	767,707,605	47.40
Max Creation Industrial Limited (“Max Creation”)	(b)	269,365,500	16.63
Quicksilver Profits Limited (“Quicksilver”)	(b)	149,494,822	9.23
Red Hot Investments Limited (“Red Hot”)	(b)	102,467,440	6.33
World Future Investments Limited (“World Future”)	(c)	269,365,500	16.63
Mr. Tsai Chi Jui	(c)	269,365,500	16.63

*Notes:*

- (a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 767,707,605 ordinary shares were held by Wealthplus as listed above, 49,127,532 ordinary shares were held by Win Fortune Investments Limited (“Win Fortune”) and 7,308,698 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 269,365,500 ordinary shares beneficially owned by Max Creation, 149,494,822 ordinary shares were held by Quicksilver, 102,467,440 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 269,365,500 ordinary shares by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, brother of Mr. Tsai Chi Neng, is also deemed to be interested in 269,365,500 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 positions in the issued share capital of the Company as at 31st March, 2005.

## **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, 2005.

## **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, 2005, 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.

## **DIRECTORS**

As at the date of this report, Tsai Chi Neng (Chairman), David N. F. Tsai (Managing Director), Edward Y. Ku, Kuo Tai Yu, Lu Chin Chu, Kung Sung Yen, Chan Lu Min, Li I Nan, Steve and Tsai Pei Chun, Patty are the Executive Directors of the Company, Choi Kwok Keung (Vice Chairman) and John J.D. Sy are the Non-executive Directors and Shih Hung, So Kwan Lok and Poon Yiu Kin, Samuel are the Independent Non-executive Directors.

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

Hong Kong, 13th June, 2005

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