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## **YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED**

**裕元工業（集團）有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 551)**

### **ANNOUNCEMENT**

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

**Financial Advisor to Yue Yuen**



**Merrill Lynch**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

The Board is pleased to announce that on 12 December 2007, Pou Sheng submitted an advance booking form for an application for the listing of, and permission to deal in, the Pou Sheng Shares on the main board of the Stock Exchange.

Following the completion of the Restructuring, Pou Sheng Group will be principally engaged in the Retail Business.

It is intended that assured entitlement to certain Pou Sheng Shares will be provided to the existing Shareholders by way of preferred application in any offering of new Pou Sheng Shares in Pou Sheng. The final terms of such assured entitlement to the new Pou Sheng Shares will be announced in due course, but in any event all Shareholders will be treated equally.

\* For identification only

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

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

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

This announcement is made pursuant to Rule 13.09 of the Listing Rules. The Board wishes to announce that on 12 December 2007, Pou Sheng submitted an advance booking form for an application for the listing of, and permission to deal in, the Pou Sheng Shares on the main board of the Stock Exchange.

#### **INFORMATION ON POU SHENG**

Pou Sheng was incorporated in Bermuda with limited liability on 14 November 2007 and is currently a wholly-owned subsidiary of Yue Yuen. Pursuant to the Proposed Spin-off, the Group will undergo a restructuring to effectively consolidate the Retail Business under the Pou Sheng Group (the "Restructuring"). A reorganisation will be effected by Yue Yuen, Pou Sheng, Jollyard, Sports Group and Mr. Huang Tsung Jen, whereby:—

- (i) Jollyard, Sports Group and Mr. Huang Tsung Jen will dispose of all their interests in the relevant subsidiaries of the Group to Pou Sheng or its subsidiaries; and
- (ii) in consideration of the disposal of such relevant subsidiaries to Pou Sheng or its subsidiaries, Yue Yuen agrees to procure that new shares in Pou Sheng be issued to Jollyard, Sports Group and Mr. Huang Tsung Jen, so that Jollyard, Sports Group and Mr. Huang Tsung Jen will each become a shareholder of Pou Sheng before Listing.

Following the completion of the Restructuring, Pou Sheng Group will be principally engaged in the Retail Business.

#### **INFORMATION ON THE PROPOSED SPIN-OFF**

It is currently proposed that, pursuant to the Share Offer, Pou Sheng Shares will be offered to the public in Hong Kong for subscription and for placing with certain professional, institutional and other investors. It is expected that the Group's percentage interest in the share capital of Pou Sheng will be reduced but Pou Sheng is expected to remain as a subsidiary of Yue Yuen upon completion of the Share Offer.

## **RATIONALE AND BENEFITS OF THE PROPOSED SPIN-OFF**

The Board proposes the separate listing of Pou Sheng as it believes that the separate listing of Pou Sheng will be beneficial to the Group for the following reasons:

- (a) **Fostering operational focus:** The Proposed Spin-off will allow Yue Yuen and Pou Sheng Group to focus better on the OEM/ODM Business and the Retail Business respectively, and to deploy their respective capital more efficiently. This will enable the management teams of the Group and the Pou Sheng Group to adopt different business and financing strategies in order to better suit their businesses.
- (b) **Increasing management focus and motivation:** The Listing will lead to a more direct alignment of Pou Sheng Group's management responsibilities and accountability with the operating and financial performance of Pou Sheng Group. This will result in enhanced management focus, which should in turn lead to improved decision-making processes, faster response-times to market changes and increased operational efficiency. The top management of Pou Sheng will be under increased scrutiny from the investor community and it will be possible to measure their performance against the stock market performance of Pou Sheng relative to Pou Sheng's industry peers listed on the Stock Exchange and other international stock exchanges. It will also be possible to link management incentives to such performance, thereby increasing management motivation and commitment.
- (c) **Providing new sources of capital:** The Listing will enable Pou Sheng to have the flexibility to directly and independently access both equity and debt capital markets, as well as secure bank credit facilities.
- (d) **Enhancement of valuation:** Given the positive investment sentiments toward the retail sector in the PRC, Taiwan and Hong Kong, the Proposal Spin-off is expected to unlock the value of Pou Sheng Group and thereby enhancing the valuation of the Group.
- (e) **Incentivising executives and staff:** Following the Listing, Pou Sheng would be able to offer equity based incentive programs (such as stock option scheme) that correlate directly to the performance of the Retail Business to its employees and would therefore be in a better position to motivate its employees with incentive programs that closely align with the objective of shareholder value creation. It will also enhance Pou Sheng's ability to recruit the best talents available.
- (f) **Benefiting through Listing of Pou Sheng Group:** Yue Yuen will remain the majority shareholder of Pou Sheng after the Proposed Spin-off and will be able to enjoy the benefits of the development of the Retail Business.

## **ASSURED ENTITLEMENT AND FURTHER ANNOUNCEMENT**

The Board will give due regard to the interests of the Shareholders by providing the existing Shareholders with assured entitlement by way of preferred application in any offering of new shares in Pou Sheng. The final terms of such assured entitlement to the new Pou Sheng Shares will be announced in due course, but in any event all Shareholders will be treated equally.

## **APPROVAL REQUIRED FROM THE SHAREHOLDERS**

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

## GENERAL

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

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

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

## DEFINITIONS

“Board”	the board of directors of Yue Yuen
“Director”	the directors of Yue Yuen
“Group”	Yue Yuen and its subsidiaries
“Jollyard”	Jollyard Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is a substantial holder of certain subsidiaries of the Group
“Listing”	the proposed separate listing of Pou Sheng Group on the main board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“OEM/ODM Business”	the businesses of original equipment manufacturing and original design manufacturing of athletic and casual footwear for export sales to major international brand owners such as <i>Nike, Adidas, Reebok, Asics, New Balance, Puma, Timberland</i> and <i>Rockport</i>
“Pou Sheng”	Pou Sheng International (Holdings) Limited, a company incorporated in Bermuda with limited liability and a wholly owned subsidiary of Yue Yuen as at the date of this announcement
“Pou Sheng Group”	Pou Sheng and its subsidiaries (assuming that the Restructuring is completed)
“Pou Sheng Shares”	ordinary shares in the capital of Pou Sheng
“PRC”	the People’s Republic of China
“Proposed Spin-off”	the proposed spin-off of the interests in the Retail Business currently operated by the Group for the separate listing on the main board of the Stock Exchange

“Restructuring”	the restructuring to be undergone by the Group whereby all the subsidiaries of the Group which are engaged in the Retail Business will be acquired by Pou Sheng
“Retail Business”	the business of the retail and wholesale of sportswear (including sports footwear, apparel and accessories) in the PRC, Taiwan and Hong Kong
“Share Offer”	the offer of the Pou Sheng Shares to the public in Hong Kong for subscription, the potential offer of the Pou Sheng Shares to the existing Shareholders by way of preferred application in any offering of new Pou Sheng Shares, and the placing of the Pou Sheng Shares with certain professional, institutional and other investors pursuant to the listing of the Pou Sheng Shares on the main board of the Stock Exchange
“Shareholders”	the shareholders of Yue Yuen
“Sports Group”	Sports Group Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by Mr. Huang Tsung Jen and a substantial shareholder of certain subsidiaries of the Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yue Yuen”	Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange

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

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

Hong Kong, 12 December 2007

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

“Please also refer to the published version of this announcement in South China Morning Post.”