EAST ASIA SECURITIES COMPANY LIMITED
9/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 3608 8000 Research: 3608 8098 Facsimile: 3608 6132

HONG KONG RESEARCH
Analyst: Kelvin Li
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Yue Yuen Industrial (Holdings) Limited (裕元工業)

Sector	:	Industrials
HKSE Code	:	0551
Market Price	:	HK$26.40 (17/01/2008)
HSI	:	25,114.98 (17/01/2008)
Shares Issued	:	1,663.628 million
Mkt. Cap.	:	HK$43,919.8 million
52 weeks Hi/ Lo	:	HK$29.45/HK$21.50

Chairman : Tsai Chi Neng

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 30TH SEPTEMBER 2007

Final Results Highlights

	FY2006/07 US$ m	FY2005/06 US$ m	*Change*
• Turnover	4,114.1	3,657.4	*+12.5%*
• Gross profit	970.5	841.4	*+15.3%*
• Share of results of associates	24.7	24.8	*-0.3%*
• Share of results of jointly controlled entities	(5.9)	43.1	*-113.8%*
• **Profit attributable to shareholders**	**359.4**	**353.6**	***+1.7%***
• *Underlying profit**	*334.7*	*318.3*	*+5.2%*
• EPS – basic	US¢21.6	US¢21.8	*-0.9%*
• DPS – interim	HK¢31	HK¢29	*+6.9%*
• DPS – final	HK¢53	HK¢51	*+3.9%*
• DPS – total	HK¢84	HK¢80	*+5.0%*

Remark: (*) Excluding gain or loss related to the convertible bonds.

- Yue Yuen Industrial reported a 1.7% y-o-y rise in net profit to US$359.4 million for the year ended 30th September 2007, worse than consensus forecast of US$379 million. Stripping out gains or losses from convertible bonds, the Group's underlying profit would have grown by 5.2% y-o-y.

- Turnover increased by 12.5% y-o-y to US$4,114 million in FY06/07, thanks to better sales growth in athletic shoes as well as a larger contribution from its retail operations in the Mainland. The Group's gross profit margin slightly improved to 23.59% in FY06/07 from 23.01% a year earlier on better returns of its retail business.

- EPS was US¢21.6 in FY06/07, down slightly from US¢21.8 a year earlier. Yue Yuen proposed a final dividend of HK¢53 per share, compared with a final DPS of HK¢51 in FY06/07. Along with the interim dividend, the full-year dividend payout ratio was at 49.9%, up mildly from 47.0% a year ago.

- As at 30/09/2007, the Group has a net debt (including the convertible bonds) of US$548 million, compared with a net debt of US$487 million a year earlier. As a result, the Group's net debt to shareholders' equity ratio fell to 22.7% by the end of FY06/07 from 23.3% a year ago.

Business Review

- Breakdown of turnover by product categories

	FY2006/07 (US$ million)	%	FY2005/06 (US$ million)	%	*Change*
Athletic shoes	2,333.8	57%	2,109.7	58%	*+10.6%*
Casual/outdoor shoes	713.2	17%	651.6	18%	*+9.5%*
Sports sandals	62.5	2%	45.9	1%	*+36.2%*
Sole & components	466.9	11%	483.5	13%	*-3.4%*
Retail sales – shoes & apparel	488.4	12%	328.8	9%	*+48.5%*
Others	49.3	1%	38.5	1%	*+28.1%*
Total	**4,114.1**	**100%**	**3,658.0**	**100%**	***+12.5%***

- Breakdown of turnover by geographical markets

	FY2006/07 (US$ million)	%	FY2005/06 (US$ million)	%	*Change*
U.S.A.	1,441.4	35%	1,391.2	38%	*+3.6%*
Europe	987.7	24%	904.5	25%	*+9.2%*
China	828.2	20%	666.1	18%	*+24.3%*
Rest of Asia	555.6	14%	430.9	12%	*+28.9%*
Others	301.2	7%	264.7	7%	*+13.8%*
Total	**4,114.1**	**100%**	**3,657.4**	**100%**	***+12.5%***

- Sales amounted to US$4.11 billion in FY06/07, up 12.5% y-o-y. Athletic shoes, the major revenue contributor, generated sales of US$2.33 billion, up 10.6% y-o-y and accounting for 57% of the Group's total (FY05/06: 58%).
- The Group's Mainland retail operation continued to shine, with sales up 48.5% y-o-y to US$488 million, accounting for 12% of the Group's total (FY05/06: 9%). The Group's retail sales network in the Mainland grew fast during the second half. The total number of retail outlets stood at about 3,000 by the end of FY06/07, up from 2,200 as at the end of the first half.
- In geographical terms, the China and the Rest of Asia markets showed a solid performance in FY06/07, with sales surging 24.3% and 28.9% y-o-y, respectively. Sales from the two markets accounted for more than one-third of the Group's total, up from 30% a year earlier. The US and the European markets showed much more sluggish sales growth in FY06/07, mainly due to an economic downturn in the regions.
- In FY06/07, the Group added 25 new production lines (of which 14 were added during 1H06/07), bringing the total to 398 as of 30/09/2007.

Outlook & Prospects

- ***Average Selling Price stays weak*** Retail expansion helped revive the Group's sales growth after a weak first half, but the overall momentum stayed weak when compared with previous years. In fact, the average selling price of the Group's products was estimated to have dropped by 6% y-o-y in FY06/07, largely to the softening consumer sentiment in the US and Europe.
- ***Improvement in profit margin not yet confirmed*** The Group's gross profit margin improved slightly amid retail expansion in the Mainland. Nonetheless, we stayed cautious about the outlook of profit margins, as raw materials costs stay high on record oil prices and wage pressure is also seen intensifying in the Mainland.
- ***Unimpressive results*** Trading at 13x FY07/08E P/E, the market is expecting pleasant growth and contribution from the Group's retail operations amid the Beijing Olympic Games. Nonetheless, the Group's key revenue-generator – the US market – is still struggling from slowing down or even recession on the subprime crisis, while the overall business picture may stay weak beyond the Olympic Games. Accordingly, we recommend a SELL on the counter.

Recommendation: SELL

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