



PRESS RELEASE

Yue Yuen Announces 2004 Interim Results

Steady growth in a challenging operating environment

(Hong Kong, 14 June, 2004) – **Yue Yuen Industrial (Holdings) Limited** (“the Group”) today announced its unaudited consolidated results for the six months ended 31st March, 2004.

Overall 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.

Operations

Yue Yuen achieved 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 commodities and petrochemical products such as rubber, EVA, fabric, Phylon and synthetic leather, which are the major raw materials for making of soles and uppers in shoes. As a result, the gross profit margins for the shoes manufacturing operations as well as the upstream businesses have been negatively affected during the period under review.

Total number of shoes produced during the period reached 81.2million 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 sales of casual/outdoor shoes and sports sandals but there was a marginal decline in athletic shoes.

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

During the period under review, 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.

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

Total Turnover by Product Category

Six months ended 31st March	2004		2003		y-o-y % change
	US\$ millions	%	US\$ millions	%	
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	27.9
Soles & Components	187.4	14.9	185.6	14.9	1.0
Retail Sales - Shoes & Apparel	29.8	2.4	11.0	0.9	170.4
Others	6.5	0.5	N/A	--	N/A
Total Turnover	1,258.4	100.0	1,241.7	100.0	1.3

Total Turnover by Geographical Market

Six months ended 31st March	2004		2003		y-o-y % change
	US\$ millions	%	US\$ millions	%	
U.S.A.	508.4	40.4	519.9	41.9	(2.2)
Canada	22.2	1.8	24.0	1.9	(7.6)
Europe	359.7	28.6	371.6	29.9	(3.2)
South America	23.9	1.9	21.0	1.7	14.2
Asia	315.4	25.0	281.6	22.7	12.0
Other Areas	28.8	2.3	23.6	1.9	21.9
Total Turnover	1,258.4	100.0	1,241.7	100.0	1.3

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



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. Mr. Tsai Chi Neng, Chairman of Yue Yuen Industrial (Holdings) Limited, commented, "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 positioned to benefit from further consolidation in the consumer product supply chain, as well as the removal of global trade barriers."

Mr. Tsai concluded, "Yue Yuen will strive to enhance its return to shareholders through improvements in production efficiency and exploration into new product categories."

Yue Yuen Industrial (Holdings) Ltd.

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Consolidated Income Statement

For the six months ended 31st March, 2004

	For the six months ended	
	31st March,	
	2004	2003
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Turnover	1,258,368	1,241,714
Cost of sales	<u>(948,624)</u>	<u>(908,169)</u>
Gross profit	309,744	333,545
Other operating income	46,671	45,465
Gain on disposal of investment securities	26,330	----
Selling and distribution expenses	(51,030)	(43,334)
Administrative expenses	(117,532)	(111,436)
Other operating expenses	<u>(64,083)</u>	<u>(70,706)</u>
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	<u>15,250</u>	<u>5,343</u>
Profit before taxation	161,058	153,585
Income tax expense	<u>(1,645)</u>	<u>(1,303)</u>
Profit before minority interests	159,413	152,282
Minority interests	<u>(1,121)</u>	<u>(647)</u>
Net profit for the period	<u>158,292</u>	<u>151,635</u>
Earnings per share		
-Basic	<u>9.81 cents</u>	<u>9.91 cents</u>
-Diluted	<u>9.78 cents</u>	<u>9.74 cents</u>