



PRESS RELEASE

Yue Yuen Announces 2006 Interim Results

Persistent Sales Improvement

(Hong Kong, 19 June 2006) – **Yue Yuen Industrial (Holdings) Limited** (“the Group”, stock code: 551) today announced its unaudited consolidated results for the six months ended 31st March, 2006. Turnover surged year-on-year by 16.5% to US\$1,722.2 million and net profit increased by 15.1% year-on-year to US\$168.3 million. Upon adopting the new Hong Kong Financial Reporting Standards (“HKFRS”), there was an aggregate one-time gain of US\$10.2 million related to the derivatives and convertible bonds issued in 2003. Excluding this gain, net profit would have increased by 8.1% year-on-year to US\$158.1 million.

The Board of Directors has resolved to recommend the payment of an interim dividend of HK\$0.29 per share, an increase of 7.4% from HK\$0.27 per share last year.

Operations

For the period under review, the Group has continued to record steady sales growth in the footwear manufacturing operation and strong growth momentum in the Greater China wholesale and retail contributions. The Group has produced a total of 96.6 million pairs of shoes, an increment of 6.9% compared with last year. By the end of March 2006, the Group was operating about 359 production lines, an addition of 17 lines over the last six months. In light of soaring fuel costs and increasing labor expenses, the operating environment has been volatile. The Group’s gross profit margin still faced pressure, declining year-on-year by 0.8 percentage point to 23.4% during the period under review. However, the Group continues to work very closely with customers and suppliers to cope with the impact of rising production and input costs.

The Group had experienced a stable growth in the core athletic and casual/outdoor shoes segments. Turnover from wholesale and retail operations rose year-on-year by 110.7% to US\$138.0 million, underpinned the Group’s overall sales growth. By the end of March 2006, the Group was managing about 600 self-run and 200 franchised shops/counters in mainland China. Also, the Group has maintained about 1,800 distributors for the three licensee brands, Converse, Hush Puppies and Wolverine in the greater China region.

As a continuous effort to expand horizontally into different footwear product categories, sports apparel and accessories manufacturing, the contributions from associates and jointly controlled entities started to kick in with a total contributions of US\$29.5 million compared to US\$16.6 million in the corresponding period last year.



Total Turnover by Product Category

Six months ended 31st Mar	2006		2005		<i>y-o-y</i>
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	<i>% change</i>
Athletic Shoes	1,017.7	59.1	919.4	62.2	10.7
Casual/Outdoor Shoes	293.9	17.1	254.0	17.2	15.7
Sports Sandals	34.4	2.0	31.5	2.1	9.2
Soles & Components	213.9	12.4	193.9	13.1	10.3
Retail Sales - Shoes & Apparel	138.0	8.0	65.5	4.5	110.7
Others	24.3	1.4	13.6	0.9	78.7
Total Turnover	1,722.2	100.0	1,477.9	100.0	16.5

Sales from athletic shoes accounted for 59.1% of total sales, compared to 62.2% last year. The decline in contribution from the core manufacturing operation was mainly due to accelerating sales from wholesale and retail operations, which accounted for 8% of total sales, up from 4.5% last year. There were also encouraging growth in the sole and components and others (mainly sports apparel manufacturing) categories during the period under review. Turnover distribution among three major markets, the USA, Europe and Asia has also become more balanced.

Total Turnover by Geographical Market

Six months ended 31st Mar	2006		2005		<i>y-o-y</i>
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	<i>% change</i>
U.S.A.	648.7	37.7	595.3	40.3	9.0
Canada	34.4	2.0	26.2	1.8	31.3
Europe	448.3	26.0	399.7	27.0	12.2
South America	39.3	2.3	29.3	2.0	34.1
Asia	502.9	29.2	389.6	26.4	29.1
Other Areas	48.6	2.8	37.8	2.5	28.6
Total Turnover	1,722.2	100.0	1,477.9	100.0	16.5

Looking Forward

Following a 16.5% year-on-year growth in sales in the first half of FY2006, the momentum of the sales growth continued to be resilient in the first two months of the third quarter of FY2006 (April and May of 2006). Total turnover for April and May 2006 amounted to about US\$669.7 million, an increase of 20% year-on-year. Healthy growth in the core manufacturing and the wholesale and retail operations is expected to supplement the Group's sales growth in the second half of FY2006.

The Group is committed to further expand its production capacity to accommodate customers' expansion plans. However, mounting pressure from rising material costs and labor expenses is still expected. The Group will continue to quest for improvement in production efficiency and flexibility to mitigate the impact from rising production costs and the trade dispute.

"The Group has maintained a healthy growth in sales amid a competitive environment. It is well positioned to further expand the business horizon, aiming for persistent improvement in its business operations," said Mr. Tsai Chi Neng, Chairman of the Group.



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Consolidated Income Statement

For the six months ended 31st March, 2006

	For the six months ended 31 March,	
	2006 (Unaudited) US\$'000	2005 (Unaudited & restated) US\$'000
Turnover	1,722,234	1,477,897
Cost of sales	<u>(1,319,928)</u>	<u>(1,121,024)</u>
Gross profit	402,306	356,873
Other income	63,275	48,297
Selling and distribution expenses	(71,744)	(60,574)
Administrative expenses	(153,505)	(120,824)
Other expenses	(83,993)	(78,334)
Net gain on derivatives and convertible bonds	10,182	-----
Impairment loss on amount due from an associate	(2,600)	-----
Finance costs	(18,594)	(12,082)
Share of results of associates	15,019	6,950
Share of results of jointly controlled entities	<u>14,451</u>	<u>9,690</u>
Profit before taxation	174,798	149,996
Income tax expense	<u>(4,069)</u>	<u>(2,194)</u>
Profit for the period	<u>170,729</u>	<u>147,802</u>
Profit attributable to:		
Equity holders of the Company	168,251	146,230
Minority interests	<u>2,478</u>	<u>1,572</u>
	<u>170,729</u>	<u>147,802</u>
Earnings per share		
-Basic	<u>10.4 US cents</u>	<u>9.0 US cents</u>
-Diluted	<u>10.3 US cents</u>	<u>8.9 US cents</u>