



PRESS RELEASE

Yue Yuen Announces FY2006 Results

Increased contributions from China retails

(Hong Kong, 18 January 2007) – **Yue Yuen Industrial (Holdings) Limited** (“the Group”, stock code: 551) today announced its audited consolidated results for the year ended 30th September, 2006. It was an encouraging year for the Group. Total turnover surged year on year by 15.9% to approximately US\$3,657.4 million and net profit attributable to equity holders of the Company increased year on year by 18.7% to approximately US\$353.6 million, respectively. Basic earnings per share increased by 18.5% year on year to US21.8 cents. One notable change in our turnover breakdown was the increase in revenue from the wholesale and retail operations in the Greater China region, which climbed 80.4% year-on-year to US\$305.0 million.

During the year under review, the Group booked an aggregate profit of US\$11.3 million from increase in fair value of investment properties and the net gain on derivative and modification/redemption of convertible bonds. Excluding these non-recurrent profits, the Group’s net profit attributable to equity holders of the Company would have increased by 14.9%.

The Directors have resolved to recommend the payment of a final dividend of HK\$0.51 per share, against HK\$0.48 per share in FY2005. (Interim dividend in FY2006: HK\$0.29 per share vs FY2005: HK\$0.27 per share). The total dividend for the year amounts to HK\$0.80 per share, an increase of 6.7% compared with HK\$0.75 cents in FY2005.

Operations

The Group recorded sustained sales growth in light of the increase of its footwear manufacturing business and strong contributions from its Greater China wholesale and retail operations. The contribution from associates and jointly controlled entities, with part of them also involving in China retail projects, increased on the back of the Group’s vertical and horizontal expansion strategy. There was a balanced increase in the production of athletic shoes and casual/outdoor shoes, which grew by 11.1% and 12.0% respectively in fiscal 2006.

Total Turnover by Product Category

| | 2006 | | 2005 | | <i>y-o-y % change</i> |
|--------------------------------|----------------------|--------------|----------------------|--------------|---------------------------|
| | <i>US\$ millions</i> | % | <i>US\$ millions</i> | % | |
| Athletic Shoes | 2,109.7 | 57.7 | 1,899.0 | 60.2 | 11.1 |
| Casual/Outdoor Shoes | 651.6 | 17.8 | 581.8 | 18.4 | 12.0 |
| Sports Sandals | 45.9 | 1.3 | 43.9 | 1.4 | 4.6 |
| Soles & Components | 483.5 | 13.2 | 415.0 | 13.1 | 16.5 |
| Retail Sales - Shoes & Apparel | 305.0 | 8.3 | 169.1 | 5.4 | 80.4 |
| Others | 61.7 | 1.7 | 46.0 | 1.5 | 34.2 |
| Total Turnover | 3,657.4 | 100.0 | 3,154.8 | 100.0 | 15.9 |

Turnover distribution among the three major markets – the US, Asia and Europe – became more balanced. Strong growth in Asia was mainly due to the surge in China retail sales and the increase from the sole and component operations.



Total Turnover by Geographical Market

| For the year ended 30th Sept | 2006 | | 2005 | | y-o-y |
|------------------------------|----------------|--------------|----------------|--------------|-------------|
| | US\$ millions | % | US\$ millions | % | % change |
| U.S.A. | 1,391.2 | 38.0 | 1,255.2 | 39.8 | 10.8 |
| Canada | 67.3 | 1.9 | 58.7 | 1.9 | 14.7 |
| Europe | 904.5 | 24.7 | 834.6 | 26.4 | 8.4 |
| South America | 94.4 | 2.6 | 65.0 | 2.1 | 45.2 |
| Asia | 1,097.0 | 30.0 | 862.4 | 27.3 | 27.2 |
| Other Areas | 103.0 | 2.8 | 78.9 | 2.5 | 30.5 |
| Total Turnover | 3,657.4 | 100.0 | 3,154.8 | 100.0 | 15.9 |

The Group produced a total of 196.4 million pairs of shoes, a rise of 5.6% compared with the previous year. The average selling price continued its upward trend, reflecting the product mix change and the increase in underlying material costs. Turnover at the soles and components division rose 16.5% year-on-year to US\$483.5 million. This was the result of increased efforts in soliciting new customers in the upstream business and material supplies segments.

Retail sales in the Greater China region rose 80.4% year-on-year to US\$305 million. This was due to the strong growth in the retail sales operation in mainland China and the increased contributions from the wholesale operations in Taiwan and Hong Kong. There was a double-digit increase in same-store sales in most of the shops operated for more than one year. The sports apparel and accessories manufacturing operation under the “others category” recorded a 34.2% increase in turnover to US\$61.7 million in fiscal 2006.

During the year under review, the Group installed an additional 31 production lines, evenly spread among the three production bases, and taking the total number of lines to 373.

The Group’s efforts to expand horizontally into different footwear product categories, sports apparel and accessories manufacturing began to bear fruit. Contributions from associates and jointly controlled entities last year amounted to US\$67.8 million, up from US\$34.1 million in the corresponding period in the previous year.

Looking Forward

The Group’s turnover growth momentum remained steady in the first quarter of fiscal 2007. For the three months ended December 2006, the Group recorded 10% year-on-year growth in turnover to approximately US\$962 million. This was due to sustained volume growth in the core manufacturing business and an increase in the contribution of the China retail sales operation.

We expect the footwear-manufacturing sector continue facing market pricing pressure, as there is constant demand for value-added services and cost savings along the supply chain, particularly on the manufacturing front. Oil prices have dropped from their peak in the third quarter of 2006 but there is continued rising pressure on wages, as well as currency fluctuations and international trade disputes. The Group has experienced a tough operating environment since mid-2004 and has demonstrated its ability to weather challenges. Indeed, the Group has consistently gained market share in the last three years. Further consolidation in the footwear-manufacturing sector will provide an opportunity for the Group to expand production capacity.



Yue Yuen Industrial (Holdings) Limited

We have been investing in Vietnam since 1995 and now operate three industrial estates there. Our early commitment to Vietnam will bear fruit with the country's entry into the World Trade Organization (WTO) in January 2007.

China domestic consumption will continue to be robust and that the 2008 Beijing Olympics will be a catalyst for increased sporting goods sales in China. The Group will earmark more resources to expand its market share in the Greater China region.

By the end of September 2006, the Group operated about 640 self-run stores/counters and maintained about 270 franchised stores/counters in mainland China. On our wholesales operations, the total number of distribution points amounted to 2,100 in the Greater China region. Our goal of opening 1,000 stores/counters by 2008 is on track. The sporting goods retail sales business remains very competitive. However, we believe we are well-placed to face the competition due to our experience and commitment. Also, the capital base of the China retail sales was recently enlarged to facilitate rapid expansion.

“We are looking to expand our business horizons. Through co-operation with customers and suppliers, the Group will continue to provide efficient and value-added services. We expect to maintain our business growth in 2007 and will work hard to enhance shareholder value,” said Mr. Tsai Chi Neng, Chairman of the Group.

Yue Yuen Industrial (Holdings) Ltd.

www.yueyuen.com

Terry Ip

Investor Relations Director

Tel: 3183 0821

Fax: 3183 0808

E-mail: terry.ip@yueyuen.com



Consolidated Income Statement

For the year ended 30th September, 2006

| | For the year ended 30th September, | |
|--|---------------------------------------|--|
| | 2006 (Audited) US\$'000 | 2005 (Audited & restated) US\$'000 |
| Turnover | 3,657,379 | 3,154,835 |
| Cost of sales | <u>(2,815,959)</u> | <u>(2,427,728)</u> |
| Gross profit | 841,420 | 727,107 |
| Other income | 133,850 | 110,943 |
| Increase in fair value of investment properties | 1,931 | ----- |
| Net gain on derivative and modification/redemption of convertible bonds | 9,368 | ----- |
| Selling and distribution expenses | (154,154) | (130,830) |
| Administrative expenses | (299,988) | (243,007) |
| Other expenses | (182,783) | (163,917) |
| Finance costs | (41,855) | (27,566) |
| Gain on disposal of a jointly controlled entity | ----- | 750 |
| Share of results of associates | 24,758 | 11,898 |
| Share of results of jointly controlled entities | <u>43,057</u> | <u>22,238</u> |
| Profit before taxation | 375,604 | 307,616 |
| Income tax expense | <u>(9,257)</u> | <u>(4,284)</u> |
| Profit for the period | <u>366,347</u> | <u>303,332</u> |
| Attributable to: | | |
| Equity holders of the Company | 353,591 | 297,912 |
| Minority interests | <u>12,756</u> | <u>5,420</u> |
| | <u>366,347</u> | <u>303,332</u> |
| Dividends recognized as distribution during the year | <u>160,708</u> | <u>151,761</u> |
| Earnings per share | | |
| -Basic | <u>21.8 cents</u> | <u>18.4 cents</u> |
| -Diluted | <u>21.1 cents</u> | <u>18.1 cents</u> |