



## **PRESS RELEASE**

### **Yue Yuen Announces FY2005 Final Results**

#### ***Growth momentum remains strong***

(Hong Kong, 17 January 2006) – **Yue Yuen Industrial (Holdings) Limited** (“the Group”, stock code: 551) today announced its audited consolidated results for the year ended 30th September, 2005. Turnover rose year-on-year by 16% to US\$3,155 million and net profit increased by 2.2% year-on-year to US\$310.1 million for the fiscal year 2005. Earnings per share increased 2.0% to US19.14 cents, from US18.76 cents in 2004. Excluding a one-off US\$26.2 million contribution from the disposal of securities investments in 2004, net profit would have increased by 11.9% year-on-year.

The Directors have resolved to recommend the payment of a final dividend of HK\$0.48 per share; this compares with HK\$0.46 per share in 2004. (Interim dividend in 2005: HK\$0.27 per share; in 2004 HK\$0.25 per share). Taking into account the interim dividend declared, the total dividend payment for the year amounts to HK\$0.75 per share.

#### **Operations**

The Group achieved encouraging results for the period under review despite a challenging and increasingly demanding operating environment. During the year, the Group made further progress in improving production efficiency as well as in achieving economies of scale from continued sales growth. Its commitment to research and development investment remained firm, while stringent cost-control measures were implemented, yielding satisfactory results.

During the year, the surge in oil and petrochemical derivative prices, increases in labor costs, higher utility costs and the appreciation pressure of the Chinese yuan resulted in the contraction of the Group’s gross profit margin by 0.82 percentage point year-on-year to 23.05% in fiscal 2005. However, the production costs could not have been contained at such current level without the dedication and hard work of our staff as well as much closer working relationships with our customers.

The Group focused not only on the manufacturing end of the supply-chain, but also on the retail end. The move into the mainland China retail market has borne fruit, resulting in a 128% jump in turnover for that business during the year. By the end of September 2005, the Group operated about 520 shops/counters in the mainland and its wholesale business encompassed the Greater China region with about 1,600 distribution points. The horizontal expansion into sports apparel and accessory manufacturing remained on track. The Group’s stake in Eagle Nice, an associate company engaged in sport apparel manufacturing, increased to 45% from 31% following the early conversion of convertible notes in March 2005.

Total shoe production volume during the period climbed 11.2% year-on-year to 185.9 million pairs. As at the end of fiscal 2005, the Group maintained 342 production lines, 33 more than in the previous year.



**Total Turnover by Product Category**

Year ended 30th September	2005		2004		<i>y-o-y</i> % change
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	
Athletic Shoes	1,899.0	60.2	1,665.1	61.2	14.0
Casual/Outdoor Shoes	581.8	18.4	502.3	18.5	15.8
Sports Sandals	43.9	1.4	38.6	1.4	13.8
Soles & Components	415.0	13.1	405.8	14.9	2.3
Retail Sales - Shoes & Apparel	169.1	5.4	74.2	2.7	127.9
Others	46.0	1.5	34.0	1.3	35.2
<b>Total Turnover</b>	<b>3,154.8</b>	<b>100.0</b>	<b>2,720.0</b>	<b>100.0</b>	<b>16.0</b>

Athletic shoes remained the Group's major product, accounting for 60.2% of total sales. There was strong growth in the casual/outdoor shoes and sandals categories. The Group achieved a balanced distribution of products by geographical region with satisfactory growth in all major areas. The Group also expanded its wholesale operation into Taiwan and Hong Kong, which underpinned the increase in retail sales turnover.

**Total Turnover by Geographical Market**

Year ended 30th September	2005		2004		<i>y-o-y</i> % change
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	
U.S.A.	1,255.2	39.8	1,121.3	41.2	11.9
Canada	58.7	1.9	45.3	1.7	29.5
Europe	834.6	26.4	734.3	27.0	13.7
South America	65.0	2.1	56.0	2.0	16.0
Asia	862.4	27.3	701.1	25.8	23.0
Other Areas	78.9	2.5	62.0	2.3	27.4
<b>Total Turnover</b>	<b>3,154.8</b>	<b>100.0</b>	<b>2,720.0</b>	<b>100.0</b>	<b>16.0</b>

**Looking Forward**

The year 2006 is likely to be demanding. The outlook for material prices is uncertain, while labor and energy costs are still on a rising trend. Currency fluctuations and trade disputes are expected to continue to overhang the operating environment. However, the Group is well positioned to face the challenges ahead, and to deliver sustained business growth. The Group's continuous probing into innovative production processes and facilities should enhance cost efficiency and competitiveness.

The Group is optimistic about its business growth in fiscal 2006. In the first quarter of the fiscal year, turnover rose 16.7% year-on-year to US\$869 million. Again, there was an increase in contribution from the mainland retail operations, as well as sustained organic growth in the core manufacturing business. Continued sales growth demonstrates customer confidence in the Group's ability to provide a total solution and deliver high-quality products.



Growth momentum for the retail operations remains robust and the Group will continue with its program of opening shops/counters in the mainland. In addition to self-run shops it plans to franchise operations so as to expedite growth in the distribution network. Other than traditional shops, the Group has opened several mega-stores, and the response to these has been encouraging. The goal to open 1,000 shops/counters ahead of the Beijing Olympics in 2008 remains intact. At the same time, the Group will work hard to strike a balance between opening new shops and improving the bottom-line contribution.

“I believe we have a visionary development strategy to expand our business from the core manufacturing operations into the retail and wholesale segments in the Greater China region, leveraging on the Group’s strength in the manufacturing side, which will complement and collaborate with our branded customers’ efforts in developing the China consumer market,” said Mr. Tsai Chi Neng, Chairman of the Group.



## Consolidated Income Statement

For the Year ended 30th September, 2005

	For the Year ended 30 September,	
	2005 (Audited) US\$'000	2004 (Audited) US\$'000
Turnover	3,154,835	2,720,027
Cost of sales	<u>(2,427,728)</u>	<u>(2,070,732)</u>
Gross profit	727,107	649,295
Other operating income	110,943	128,815
Selling and distribution expenses	(130,830)	(110,696)
Administrative expenses	(243,007)	(234,654)
Other operating expenses	<u>(162,637)</u>	<u>(140,562)</u>
Profit from operations	301,576	292,198
Finance costs	(16,648)	(11,040)
Gain on disposal of a jointly controlled entity	750	----
Share of results of associates	12,230	6,728
Share of results of jointly controlled entities	<u>23,013</u>	<u>23,111</u>
Profit before taxation	320,921	310,997
Income tax expense	<u>(5,391)</u>	<u>(3,352)</u>
Profit before minority interests	315,530	307,645
Minority interests	<u>(5,404)</u>	<u>(4,308)</u>
Net profit for the period	<u>310,126</u>	<u>303,337</u>
Earnings Per Share (Basic, US cents)	<u>19.1 cents</u>	<u>18.8 cents</u>
Earnings Per Share (Diluted, US cents)	<u>18.1 cents</u>	<u>18.7 cents</u>

**Yue Yuen Industrial (Holdings) Ltd.**

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

Terry Ip

Investor Relations Director

Tel: 3183 0821

Fax: 3183 0808

E-mail: [terry.ip@yueyuen.com](mailto:terry.ip@yueyuen.com)