# YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
# 裕元工業(集團)有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 551)**

## FINAL RESULTS
## FOR THE YEAR ENDED 30TH SEPTEMBER, 2011

**GROUP FINANCIAL HIGHLIGHTS**

- Turnover in 2011 increased by 21.7% to US$7,045.4 million compared with US$5,788.2 million in 2010.
- Profit attributable to owners of the Company for the fiscal year 2011 decreased by 6.2% to US$449.8 million compared with US$479.5 million in 2010.
- EPS in 2011 decreased by 6.2% to US27.28 cents from US29.08 cents in 2010.
- The Directors have resolved to recommend the payment of a final dividend of HK$0.56 per share, compared to HK$0.56 per share in 2010. (Interim dividend of HK$0.34 per share in 2011 and HK$0.34 per share in 2010.)
- Total production volume in 2011 increased by 14.0% to 326.6 million pairs from 286.4 million pairs in 2010.

* *for identification purposes only*

**RESULTS**

The Directors of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30th September, 2011 with comparative figures for the corresponding period in 2010 as follows:

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 30th September, 2011*

| | *NOTES* | **2011** **US$'000** | 2010 US$'000 |
|---|---|---|---|
| Turnover | *2* | **7,045,373** | 5,788,208 |
| Cost of sales | | **(5,489,700)** | (4,377,787) |
| Gross profit | | **1,555,673** | 1,410,421 |
| Other income | | **169,222** | 123,535 |
| Fair value changes on investment properties | | **6,955** | 643 |
| Fair value changes on derivative financial instruments | | **(36,144)** | (1,865) |
| Impairment loss on available-for-sale investments | | **(100)** | (900) |
| Selling and distribution expenses | | **(542,283)** | (440,646) |
| Administrative expenses | | **(513,396)** | (454,229) |
| Other expenses | | **(170,076)** | (166,410) |
| Gain on deemed disposal of a jointly controlled entity | | **18,767** | 1,267 |
| Impairment loss on investments in associates | | **(500)** | (1,300) |
| Impairment loss on investments in jointly controlled entities | | **(1,500)** | (1,700) |
| Finance costs | | **(37,419)** | (40,422) |
| Share of results of associates | | **35,355** | 39,790 |
| Share of results of jointly controlled entities | | **27,174** | 62,679 |
| Profit before taxation | | **511,728** | 530,863 |
| Income tax expense | *3* | **(28,203)** | (35,025) |
| Profit for the year | *4* | **483,525** | 495,838 |
| Attributable to: | | | |
| Owners of the Company | | **449,829** | 479,507 |
| Non-controlling interests | | **33,696** | 16,331 |
| | | **483,525** | 495,838 |
| | | ***US cents*** | *US cents* |
| Earnings per share | *6* | | |
| – Basic | | **27.28** | 29.08 |
| – Diluted | | **23.15** | 27.19 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30th September, 2011*

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit for the year | **483,525** | 495,838 |
| **Other comprehensive income (expense)** | | |
| Exchange difference arising on the translation of foreign operations | **44,768** | 25,815 |
| (Loss) gain on fair value changes of investments | **(4,024)** | 4,516 |
| Gain on fair value change of properties prior to its reclassification as investment properties | **692** | – |
| Deferred taxation recognised on fair value change of properties prior to its reclassification as investment properties | **(173)** | – |
| Other comprehensive income for the year | **41,263** | 30,331 |
| Total comprehensive income for the year | **524,788** | 526,169 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **476,630** | 504,306 |
| Non-controlling interests | **48,158** | 21,863 |
| | **524,788** | 526,169 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30th September, 2011*

| | NOTE | **2011** **US$'000** | 2010 US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | | **41,469** | 59,746 |
| Property, plant and equipment | | **1,849,997** | 1,668,055 |
| Deposits paid for acquisition of property, plant and equipment | | **15,156** | 4,704 |
| Prepaid lease payments | | **189,000** | 182,494 |
| Intangible assets | | **111,882** | 70,612 |
| Goodwill | | **233,211** | 218,607 |
| Investments in associates | | **382,677** | 349,796 |
| Amounts due from associates | | **11,155** | 11,083 |
| Investments in jointly controlled entities | | **352,153** | 341,698 |
| Deposit paid for acquisition of the remaining interest in a jointly controlled entity | | **1,219** | 19,223 |
| Amounts due from jointly controlled entities | | **123,387** | 132,452 |
| Long-term loan receivables | | **8,311** | 17,642 |
| Available-for-sale investments | | **30,959** | 21,463 |
| Rental deposits and prepayments | | **25,927** | 22,375 |
| Derivative financial instruments | | **22,363** | 46,024 |
| Pledged bank deposits | | **12,507** | – |
| Deferred tax assets | | **1,978** | 2,293 |
| Deposit paid for proposed acquisition of a business | | **3,127** | – |
| | | **3,416,478** | 3,168,267 |
| Current assets | | | |
| Inventories | | **1,087,895** | 776,139 |
| Trade and other receivables | *7* | **1,152,069** | 1,109,315 |
| Prepaid lease payments | | **5,403** | 3,942 |
| Taxation recoverable | | **1,435** | 2,692 |
| Available-for-sale investments | | **938** | 8,227 |
| Derivative financial instruments | | **226** | 34,407 |
| Bank balances and cash | | **704,095** | 622,333 |
| | | **2,952,061** | 2,557,055 |
| Assets classified as held for sale | | **104,725** | – |
| | | **3,056,786** | 2,557,055 |

| | NOTE | 2011 US$'000 | 2010 US$'000 |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | 8 | **1,109,451** | 898,866 |
| Taxation payable | | **15,314** | 16,078 |
| Derivative financial instruments | | **13,349** | 27,041 |
| Bank borrowings | | **453,951** | 226,318 |
| Convertible bonds | | **283,377** | – |
| | | **1,875,442** | 1,168,303 |
| Liabilities associated with assets classified as held for sale | | **38,550** | – |
| | | **1,913,992** | 1,168,303 |
| Net current assets | | **1,142,794** | 1,388,752 |
| Total assets less current liabilities | | **4,559,272** | 4,557,019 |
| Non-current liabilities | | | |
| Convertible bonds | | **–** | 268,649 |
| Long-term bank borrowings | | **415,120** | 483,731 |
| Deferred taxation | | **37,475** | 28,136 |
| | | **452,595** | 780,516 |
| Net assets | | **4,106,677** | 3,776,503 |
| Capital and reserves | | | |
| Share capital | | **53,211** | 53,211 |
| Reserves | | **3,600,557** | 3,317,845 |
| Equity attributable to owners of the Company | | **3,653,768** | 3,371,056 |
| Non-controlling interests | | **452,909** | 405,447 |
| Total equity | | **4,106,677** | 3,776,503 |

*Notes:*

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**New Standards and Interpretations applied in the current year**

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 as part of Improvements to HKFRSs 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) as part of Improvements to HKFRSs 2010 |
| HKAS 32 (Amendments) | Classification of Right Issues |
| HKFRS 1 (Amendments) | Additional Exemptions for First-time Adopters |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these financial statements and/or disclosures set out in these financial statements.

**New and revised standards and interpretations issued but not yet effective**

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008)[1] |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[2] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[3] |
| HKAS 19 (Revised in 2011) | Employee Benefits[4] |
| HKAS 24 (Revised in 2009) | Related Party Disclosures[1] |
| HKAS 27 (Revised in 2011) | Separate Financial Statements[4] |
| HKAS 28 (Revised in 2011) | Investments in Associates and Joint Ventures[4] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[5] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[4] |
| HKFRS 11 | Joint Arrangements[4] |
| HKFRS 12 | Disclosure of Interests in Other Entities[4] |
| HKFRS 13 | Fair Value Measurement[4] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[1] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[4] |

1 Effective for annual periods beginning on or after 1st January, 2011.
2 Effective for annual periods beginning on or after 1st July, 2012.
3 Effective for annual periods beginning on or after 1st January, 2012.
4 Effective for annual periods beginning on or after 1st January, 2013.
5 Effective for annual periods beginning on or after 1st July, 2011.

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted. The directors anticipate that HKFRS 9 that will be adopted in the Group’s consolidated financial statements for the annual period beginning on or after 1st January, 2013 and that the application of HKFRS 9 might have impact on amounts reported in respect of the Group’s financial assets. However, it is not applicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The five new or revised standards on consolidation, joint arrangements and disclosures, including HKAS 27 (Revised 2011), HKAS 28 (Revised 2011), HKFRS 10, HKFRS 11 and HKFRS 12, were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1st January, 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group’s consolidated financial statements for financial year beginning on or after 1st January, 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires extensive judgement. The directors are in the process of determining the financial impacts of the application of HKFRS 10.

HKFRS 11 replaces HKAS 31 “Interests in Joint Ventures”. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties’ rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. All of the Group’s jointly controlled entities are currently accounted for using the equity method of accounting. The directors are in the process of determining the financial impacts of the application of HKFRS 11.

HKFRS 12 "Disclosures of Interests in Other Entities" is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. HKFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives, which laid down that entities should disclose information that help users of financial statements evaluate the nature of the risks associated with interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in HKFRS 12 are more extensive than those in the current standards. The directors of the Company consider that significant efforts may be required to collect the necessary information for the relevant disclosures.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2. TURNOVER AND SEGMENTAL INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit of the Group as a whole. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear products ("Retailing Business") which includes the operating and leasing of large scale commercial spaces to retailers and distributors.

Accordingly, the directors of the Company have determined the Group has one operating segment, as defined in HKFRS 8. The information regarding turnover derived from the principal businesses described above is reported below.

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Turnover** | | |
| Manufacturing Business | **5,604,357** | 4,593,188 |
| Retailing Business | **1,441,016** | 1,195,020 |
| Total turnover | **7,045,373** | 5,788,208 |

**Revenue from major products**

The following is an analysis of the Group's revenue from its major products:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Athletic shoes | **3,680,208** | 3,064,704 |
| Casual/outdoor shoes | **1,239,572** | 943,413 |
| Sports sandals | **81,151** | 64,217 |
| Soles and components | **548,283** | 477,191 |
| Retail sales – shoes and apparel | **1,431,349** | 1,185,683 |
| Others | **64,810** | 53,000 |
| | **7,045,373** | 5,788,208 |

**Geographical information**

The Group's revenue is mainly derived from customers located in the United States of America ("USA"), Europe and the People's Republic of China ("the PRC"). The Group's revenue by the geographical location of the customers, irrespective of the origin of the goods, is detailed below:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| USA | **2,010,832** | 1,709,146 |
| Europe | **1,541,506** | 1,180,379 |
| PRC | **1,977,072** | 1,597,100 |
| Others | **1,515,963** | 1,301,583 |
| | **7,045,373** | 5,788,208 |

The Group's business activities are conducted predominantly in the PRC, Vietnam and Indonesia. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| PRC | **1,328,906** | 1,271,838 |
| Indonesia | **445,170** | 360,334 |
| Vietnam | **414,146** | 338,268 |
| Others | **45,209** | 37,546 |
| | **2,233,431** | 2,007,986 |

*note:* Non-current assets excluded goodwill, investments in associates, investments in jointly controlled entities, deposit paid for acquisition of the remaining interest in a jointly controlled entity, deferred tax assets and financial instruments.

**Information about major customers**

Revenues from customers contributing over 10% of the total annual revenue of the Group are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Customer A | **1,564,860** | 1,308,802 |
| Customer B | **1,153,476** | 943,077 |

## 3. INCOME TAX EXPENSE

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Taxation attributable to the Company and its subsidiaries: | | |
| Current tax | | |
| Hong Kong Profits Tax *(note i)* | | |
| – current year | **743** | 588 |
| – prior years | **–** | 22,176 |
| PRC Enterprise Income Tax ("EIT") *(note ii)* | | |
| – current year | **21,589** | 9,681 |
| – underprovision in prior years | **1,041** | 561 |
| Overseas taxation *(note iii)* | | |
| – current year | **5,866** | 3,932 |
| – underprovision in prior years | **–** | 146 |
| | **29,239** | 37,084 |
| Deferred tax credit | **(1,036)** | (2,059) |
| | **28,203** | 35,025 |

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

During the period from March 2004 to March 2010, the Hong Kong Inland Revenue Department (the "HKIRD") issued protective profits tax assessments to certain wholly owned subsidiaries of the Group. Following a series of subsequent negotiations, a compromised settlement with the HKIRD was reached in early June 2010 at a sum of about US$22,176,000 as a full and final settlement of the profits tax of those subsidiaries for the years of assessment 1997/1998 to 2008/2009, that is, for the financial years ended 30th September, 1997 to 2008. This sum payable was charged to the consolidated income statement for the year ended 30th September, 2010.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rate rules and regulations in the PRC, except for the followings:

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries were exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions would expire between 2009 and 2012.

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday are allowed to be carried forward to future years until their expiry. However, if an entity did not commence its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Certain PRC subsidiaries were loss-making up to 2008, their tax holidays are therefore deemed to commence in 2008.

(b) Pursuant to《國家稅務總局財務部╱海關總署關於西部大開發稅收優惠政策問題的通知》(Caishui [2001] No. 202), the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific state-encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year. Pursuant to《關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) issued during the current year, such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue"). Since the Catalogue has not yet been issued, it is uncertain whether certain subsidiaries could continue to enjoy the preferential tax rate of 15% in 2011.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax concessions from EIT as set out in (a) above continue to be applicable until the expirations of the relevant concessions. Subject to the fulfillments of the conditions set out above, the preferential treatment set out in (b) above continues to be applicable on the implementation of the Law of the PRC on Enterprise Income Tax.

(iii) Overseas

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18th October, 1999, certain subsidiaries established in Macau are exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 4. PROFIT FOR THE YEAR

| | 2011 | 2010 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Profit for the year has been arrived at after charging: | | |
| Employee benefit expense, including directors' emoluments | | |
| – basic salaries and allowances | **1,452,223** | 1,111,961 |
| – retirement benefit scheme contributions | **40,059** | 32,965 |
| – share-based payment | **2,473** | 1,578 |
| | **1,494,755** | 1,146,504 |
| Release of prepaid lease payments | **5,060** | 5,385 |
| Auditor's remuneration | **2,099** | 1,831 |
| Amortisation of intangible assets (included in selling and distribution expenses) | **5,746** | 4,627 |
| Depreciation of property, plant and equipment | **208,549** | 179,018 |
| Loss on disposal of property, plant and equipment | **187** | 8,753 |
| Loss on disposal of jointly controlled entities | **–** | 8,203 |
| Loss on deemed disposal of partial interest in a jointly controlled entity | **–** | 31 |
| Loss on deregistration of an associate | **–** | 36 |
| Impairment loss recognised on trade receivables | **2,206** | 422 |
| Impairment loss recognised on other receivables | **2,014** | – |
| Research and development expenditure (included in other expenses) | **153,656** | 131,123 |
| Share of taxation of associates (included in share of results of associates) | **6,838** | 4,737 |
| Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities) | **9,495** | 9,731 |
| and after crediting to other income: | | |
| Interest income | **11,004** | 11,631 |
| Bargain purchase gain on acquisition of additional interest in a jointly controlled entity | **–** | 338 |
| Dividend income from available-for-sale investments | **1,167** | 273 |
| Net exchange gain | **40,248** | 15,495 |
| Reversal of allowance for inventory, net | **21** | 1,257 |
| Written back of impairment loss on trade receivables | **1,060** | 653 |
| Gain on deemed disposal of subsidiaries | **–** | 85 |
| Gain on deregistration of subsidiaries | **764** | 125 |
| Gain on disposal of land leases | **2,846** | 4,931 |
| Gain on disposal of available-for-sale investments | **–** | 17 |
| Gain on disposal of subsidiaries | **–** | 1,776 |
| Gain on disposal of an associate | **325** | – |
| Subsidies, rebates and other income from suppliers | **32,628** | 21,529 |
| Utility income from provision of electricity and water supply | **5,813** | 8,384 |
| Subcontracting income | **687** | 8,082 |
| Gross rental income on investment properties, before deduction of direct operating expenses of approximately US$239,000 (2010: US$199,000) | **8,235** | 8,419 |

*note:* For the years ended 30th September, 2011 and 2010, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

## 5. DIVIDENDS

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Dividends recognised as distribution during the year: | | |
| 2011 Interim dividend of HK$0.34 per share (2010: 2010 Interim dividend of HK$0.34 per share) | **72,018** | 71,993 |
| 2010 Final dividend of HK$0.56 per share (2010: 2009 Final dividend of HK$0.55 per share) | **118,555** | 116,756 |
| | **190,573** | 188,749 |

The directors recommend the payment of a final dividend of HK$0.56 per share for the year ended 30th September, 2011. The proposed dividend of approximately HK$923,400,000 will be paid on or before 21st March, 2012 to those shareholders whose names appear on the Company's register of members on 14th March, 2012.

This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

## 6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Earnings: | | |
| Profit for the year attributable to owners of the Company for the purpose of basic earnings per share | **449,829** | 479,507 |
| Effect of dilutive potential ordinary shares: | | |
| Fair value changes on derivative embedded in convertible bonds *(note a)* | **(24,768)** | – |
| Finance costs on convertible bonds (net of income tax) *(note a)* | **13,261** | – |
| Profit for the year attributable to owners of the Company for the purpose of diluted earnings per share | **438,322** | 479,507 |

| | **2011** | 2010 |
|---|---|---|
| Number of shares: | | |
| Number of ordinary shares in issue during the year, for the purpose of basic earnings per share | **1,648,928,486** | 1,648,928,486 |
| Effect of dilutive potential ordinary shares: | | |
| USD Call Option 2011 | **78,504,672** | 78,504,672 |
| USD Call Option 2015 | **92,247,920** | 36,393,700 |
| Convertible bonds *(note a)* | **73,480,373** | – |
| Number of ordinary shares in issue during the year, for the purpose of diluted earnings per share | **1,893,161,451** | 1,763,826,858 |

*notes:*

(a) The computation of diluted earnings per share for the year ended 30th September, 2010 does not assume the conversion of the Company's outstanding convertible bonds – Zero Coupon Convertible Bonds due 2011 since their assumed exercise would result in an increase in earnings per share for that year.

(b) The computation of diluted earnings per share for the year ended 30th September, 2010 and 30th September, 2011 do not assume the exercise of share options in Pou Sheng International (Holdings) Limited ("Pou Sheng") because the exercise price of those options was higher than the average market price of Pou Sheng's shares in the respective years.

## 7. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers. Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of approximately US$782,079,000 (2010: US$720,430,000) and an aged analysis based on invoice date at the end of the reporting period is as follows:

| | **2011**<br>***US$'000*** | 2010<br>*US$'000* |
|---|---|---|
| 0 to 30 days | **576,200** | 505,508 |
| 31 to 90 days | **188,892** | 200,036 |
| Over 90 days | **16,987** | 14,886 |
| | **782,079** | 720,430 |

## 8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of approximately US$537,680,000 (2010: US$440,538,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0 to 30 days | **400,002** | 331,718 |
| 31 to 90 days | **112,925** | 87,154 |
| Over 90 days | **24,753** | 21,666 |
| | **537,680** | 440,538 |

## 9. CONTINGENCIES

At the end of the reporting period, the Group had contingent liabilities as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Guarantees given to banks in respect of banking facilities granted to | | |
| (i) jointly controlled entities | | |
| – amount guaranteed | **91,855** | 99,774 |
| – amount utilised | **59,008** | 54,493 |
| (ii) associates | | |
| – amount guaranteed | **26,269** | 36,914 |
| – amount utilised | **17,838** | 22,287 |
| (iii) a former subsidiary | | |
| – amount guaranteed | **12,507** | – |
| – amount utilised | **12,507** | – |

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5th March, 2012 to 7th March, 2012, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 2nd March, 2012 in order to establish the identity of the shareholders who are entitled to attend and vote at the annual general meeting of the Company (the "Entitlement to AGM"). The record date for the Entitlement to AGM will be on 7th March, 2012.

The Register of Members of the Company will be closed from 13th March, 2012 to 14th March, 2012, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 12th March, 2012 in order to establish the identity of the shareholders who are entitled to qualify for the final dividend (the "Entitlement to Final Dividend"). The record date for the Entitlement to Final Dividend will be on 14th March, 2012.

## FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

### Results

For the year ended 30th September, 2011, the Group recorded turnover of US$7,045.4 million, representing year-on-year growth of 21.7%, while net profit attributable to owners of the Company fell by 6.2% year-on-year to US$449.8 million. Basic earnings per share declined by 6.2% year-on-year to US27.28 cents.

Excluding all items of a one-time nature, recurrent net profit amounted to US$464.6 million, a reduction of 7.3% as compared with the previous year.

### Review of Operations

*General Overview*

Footwear manufacturing activity for the Group maintained the momentum of growth in volume and turnover, but continued to experience profit margin pressure mainly due to rising raw material costs and factory wages which need joint efforts by the Group and brand names in the aspects of manufacturing excellence and supply chain improvements for fixing the negative factors.

Sales to the Group's largest geographic market, Asia, grew at moderate pace of 26.2% compared to last year. In its second largest market, the U.S.A., there was also year on year sales growth as measured against the previous year at 17.7%. The European market managed to grow at 30.6% compared to last year. South America had sales growth of 6.2%.

**Total Turnover by Geographical Market**
*For the year ended 30th September*

| | 2011 US$ millions | 2011 % | 2010 US$ millions | 2010 % | y-o-y % Change |
|---|---|---|---|---|---|
| U.S.A. | **2,010.8** | **28.5** | 1,709.1 | 29.5 | 17.7 |
| Europe | **1,541.5** | **21.9** | 1,180.4 | 20.4 | 30.6 |
| Asia | **2,870.2** | **40.8** | 2,274.5 | 39.3 | 26.2 |
| South America | **352.4** | **5.0** | 331.9 | 5.7 | 6.2 |
| Canada | **99.2** | **1.4** | 143.6 | 2.5 | (31.0) |
| Other Areas | **171.3** | **2.4** | 148.7 | 2.6 | 15.2 |
| **Total Turnover** | **7,045.4** | **100.0** | **5,788.2** | **100.0** | **21.7** |

Sales of athletic shoes, the key product category for the Group, grew by 20.1% year on year. The category with the strongest sales momentum, casual/outdoor shoes, grew by 31.4% year on year. Leading brand name customers in both categories were able to launch a series of new models with innovative designs to capture consumer attention and boost sales. Retail sales were also up year on year as China had solid GDP growth and consumers in China continued their purchases of well known brand name athletic footwear and apparel.

**Total Turnover by Product Category**
*For the year ended 30th September*

| | 2011 US$ millions | 2011 % | 2010 US$ millions | 2010 % | y-o-y % Change |
|---|---|---|---|---|---|
| Athletic Shoes | **3,680.2** | **52.2** | 3,064.7 | 52.9 | 20.1 |
| Casual/Outdoor Shoes | **1,239.6** | **17.6** | 943.4 | 16.3 | 31.4 |
| Sports Sandals | **81.2** | **1.2** | 64.2 | 1.1 | 26.5 |
| Retail Sales – Shoes & Apparel | **1,431.3** | **20.3** | 1,185.7 | 20.5 | 20.7 |
| Soles, Components & Others | **613.1** | **8.7** | 530.2 | 9.2 | 15.6 |
| **Total Turnover** | **7,045.4** | **100.0** | **5,788.2** | **100.0** | **21.7** |

At the end of September 2011, the total number of directly operated counters/stores in China under the Group stood at about 3,055 and there were 3,357 sub-distributors in the Greater China region.

During the year under review, the Group increased the number of production lines by 16.7% to 537. Most of these new lines were allocated among its three key production bases: China, Indonesia and Vietnam.

*Production Review*

During the period under review, the Group produced a total of 326.6 million pairs of shoes, 14.0% higher compared with the previous year. In general the Group's major customers experienced brisk growth in their sales and those selling casual/outdoor shoes did even better. The average selling price for shoes increased by 7.7% compared to last year.

In fiscal 2011 the Group increased its production capacity, so that by year end there were 537 production lines (in 2010, 460), an increase of 16.7% compared to last year. The geographical distribution of production was similar to previous years with 255 (in 2010, 226) lines in China, 134 (in 2010, 114) lines in Indonesia, 140 (in 2010, 120) in Vietnam and 8 (in 2010, 0) in other countries.

External demand from medium and small sized shoe manufacturers for soles and components held up well despite the more challenging manufacturing environment. This enabled the business unit in the Group selling to these shoe manufacturers, to generate a respectable level of profit. The unit's existing capacity was sufficient to handle this year's turnover of US$613.1 million.

*Cost review*

With respect to the manufacturing operations for international brands, total annual sales increased by 22.2% year on year, whereas the direct labour costs experienced an increment of 38.5%. The main material costs during the fiscal period were up 24.6% and the production overhead were up year on year by 26.6%.

*Product development*

During the period under review, the Group spent US$153.7 million in product development, an increase of 17.2% over fiscal 2010. A key role of the Group is to help the brand name customers as part of the ongoing business relationship, design shoes with features that the market research department of the brand has found to be desired by consumers. The product development expenditures encompassed items such as sample development, preparation work for the technical development package, and enhancing production efficiency. For every major brand name customer that has a research/development team, within the Group there is a corresponding independent product development centre being established to serve the said research/development team. Besides this product development work, the Group works hand in glove with its customers to refine production lead times and to use superior techniques to produce high-quality footwear.

## Financial Review

*Liquidity*

The Group's financial position remained stable. As at 30th September, 2011, the Group had cash and cash equivalents of US$704 million (2010: US$622 million) and total borrowings of US$1,152 million (2010: US$979 million). The gearing ratio (total borrowings to total equity) was 28% (2010: 26%) and the net debt to equity ratio (total borrowings net of cash on hand to total equity) stood at 11% (2010: 9%). The low net debt to equity ratio reflects the Group's desire to keep borrowings at a manageable level.

*Capital expenditure*

Capital expenditure increased to US$516.6 million (2010: US$348.8 million), as the Group made necessary investments for the expansion of production capacity outside the Pearl River Delta. The Group spent about US$160.7 million on constructing new factory buildings and ancillary facilities, mainly in China, Vietnam and Indonesia. Meanwhile, another US$62.4 million went into buildings and properties, and a further US$219.8 million was spent on machinery and leasehold improvements.

*Dividends*

A final dividend of HK$0.56 per share (2010: HK$0.56) has been recommended, making the full-year dividend per share HK$0.90 (2010: HK$0.90), the same as last year.

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The policy of upholding steady growth in the normal dividend payment over time remains intact. The dividend payout ratio for 2011 is 42%, which is similar to the 40% in 2010.

*Employees*

As at 30th September, 2011, the Group had about 370,000 staff employed within its various manufacturing facilities in Asia. The Group adopts a remuneration system based on an individual employee's performance throughout the year, and offers equal opportunities to all staff. There are incentives in the form of discretionary performance bonuses to those who make creative suggestions that improve productivity.

**Looking Forward**

For the two months ended November 2011, the Group turnover stepped up by around 15% year-on-year to approximately US$1.2 billion.

The global economic environment in 2012 will still be volatile as the economic recovery is only gradually building momentum. Countries in the developed world that are grappling with significant budget deficits, will continue to emit negative headline news on a recurring basis so that consumers in those countries may be reluctant to spend and would rather increase their savings. However given the occurrence of the European Cup in June 2012 and the Olympics in August 2012, customers should still be inspired to purchase athletic footwear and sports apparel.

If consumer purchasing power in China continues to grow in the coming year, then the Group may see further sales growth in its retail operations.

**Corporate Social Responsibility**

The Group continues to invest resources to enhance productivity as well as to maintain workplace safety. The Group during the year also made various investments to protect the environment. The Sustainable Development (SD) division now leads all programs concerning corporate social responsibility (CSR) and environmentally friendly initiatives. CSR has a dual mandate in that not only does it deal with issues relating to factory and society, but it also caters to managing issues between management and factory staff. In order to further enhance CSR standards, the Group joined the Fair Labor Association (FLA) in June 2011.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## CORPORATE GOVERNANCE

The Company has applied the principles and has complied with the provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules throughout the year ended 30th September, 2011 with deviations from Code provision A.4.1.

The Company has not yet adopted Code provision A.4.1. Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors (including independent non-executive directors) of the Company were not appointed for specific terms, but are subject to retirement by rotation in accordance with the bye-laws of the Company. Since the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## RE-ELECTION OF DIRECTORS

In accordance with bye-law 86(2) and 87 of the Company's bye-laws, Mr. Kung Sung Yen, Mr. Li I Nan, Steve, Dr. Liu Len Yu, Mr. Leung Yee Sik and Mr. Chu Li-Sheng will retire as director by rotation at the forthcoming annual general meeting to be held on 7th March, 2012. Further details of the proposed re-election of the retiring directors will be disclosed in our circular to be despatched to all shareholders of the Company together with the annual report of the Company for the year ended 30th September, 2011 in due course.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the year ended 30th September, 2011.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors, the Group's consolidated financial statements, the accounting principles and practices adopted and discussed auditing, internal controls, and financial reporting matters.

## PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website (www.yueyuen.com) and the website of the Stock Exchange (www.hkex.com.hk). The annual report will be despatched to the shareholders as soon as practicable and will be available on the websites of the Company and the Stock Exchange in due course.

## ACKNOWLEDGMENT

We would like to take this opportunity to express our sincere appreciation for the continuous support of our customers, suppliers and shareholders. Also, without the commitment and dedicated services from our employees, we would not be able to achieve the level of growth we have recorded in the past, and to whom we extend our profound gratitude.

*As at the date of this announcement, Mr. Tsai Chi Neng (Chairman), Mr. David N. F. Tsai (Managing Director), Mr. Kuo Tai Yu, Mr. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve, Ms. Tsai Pei Chun, Patty, Ms. Kuo Li-Lien and Mr. Lee Shao Wu are the Executive Directors, and Dr. Liu Len Yu, Mr. Leung Yee Sik, Mr. Huang Ming Fu and Mr. Chu Li-Sheng are the Independent Non-executive Directors.*

By Order of the Board
**Tsai Chi Neng**
*Chairman*

Hong Kong, 29th December, 2011

*website: www.yueyuen.com*