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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

FINAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2014

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2014

	2014	2013	Percentage increase/ (decrease)
Turnover *(US$'000)*	**8,013,432**	7,582,471	5.68%
Recurring operating profit attributable to owners of the Company *(US$'000)*	**430,482**	430,823	(0.08%)
Non-recurring operating (loss) profit attributable to owners of the Company *(US$'000)*	**(99,462)**	3,945	N/A
Profit attributable to owners of the Company *(US$'000)*	**331,020**	434,768	(23.86%)
Basic earnings per share *(US cents)*	**20.09**	26.37	(23.81%)
Dividend per share			
Interim dividend *(HK$)*	**0.35**	0.35	–
Final dividend (proposed) *(HK$)*	**0.80**	0.75	6.67%

* *For identification purposes only*

RESULTS

The Board of Directors of Yue Yuen Industrial (Holdings) Limited (the "Company") hereby announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2014 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2014

	Notes	**2014**	2013
		US$'000	*US$'000*
Turnover	*3*	**8,013,432**	7,582,471
Cost of sales		**(6,239,840)**	(5,935,840)
Gross profit		**1,773,592**	1,646,631
Other income		**144,297**	170,952
Fair value changes on investment properties		**3,842**	1,387
Fair value changes on derivative financial instruments		**(20,514)**	7,978
Fair value changes on consideration payable for acquisition of business		**1,576**	(43)
Selling and distribution expenses		**(679,183)**	(623,917)
Administrative expenses		**(603,195)**	(563,475)
Other expenses		**(296,083)**	(208,370)
Gain on disposal of subsidiaries		**52**	28,452
Impairment loss on property, plant and equipment		**–**	(5,640)
Impairment loss on consideration receivable for disposal of properties		**–**	(4,061)
Impairment loss on investments in joint ventures		**–**	(585)
Impairment loss on amounts due from joint ventures		**(4,140)**	(8,345)
Impairment loss on intangible assets		**–**	(11,025)
Finance costs		**(18,601)**	(24,483)
Share of results of associates		**45,443**	42,812
Share of results of joint ventures		**32,972**	5,951
Profit before taxation		**380,058**	454,219
Income tax expense	*4*	**(37,312)**	(25,232)
Profit for the year	*5*	**342,746**	428,987
Attributable to:			
Owners of the Company		**331,020**	434,768
Non-controlling interests		**11,726**	(5,781)
		342,746	428,987
		US cents	*US cents*
Earnings per share	*7*		
– Basic		**20.09**	26.37
– Diluted		**19.01**	24.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

	2014	2013
	US$'000	*US$'000*
Profit for the year	**342,746**	428,987
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss		
Exchange difference arising on the translation of foreign operations	**(36,716)**	27,340
Reclassification adjustment of translation reserve upon disposal of subsidiaries	**–**	(1,235)
Fair value (loss) gain on available-for-sale investments	**(763)**	5,664
Other comprehensive (expense) income for the year	**(37,479)**	31,769
Total comprehensive income for the year	**305,267**	460,756
Total comprehensive income attributable to:		
Owners of the Company	**302,714**	459,836
Non-controlling interests	**2,553**	920
	305,267	460,756

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2014

	Note	2014 US$'000	2013 US$'000
Non-current assets			
Investment properties		**41,382**	42,763
Property, plant and equipment		**1,817,638**	1,770,899
Deposits paid for acquisition of property, plant and equipment		**30,659**	11,682
Prepaid lease payments		**174,808**	164,878
Intangible assets		**113,405**	118,201
Goodwill		**273,549**	273,962
Investments in associates		**446,028**	433,853
Amounts due from associates		**2,499**	2,499
Investments in joint ventures		**435,964**	423,122
Amounts due from joint ventures		**42,136**	37,952
Long-term loan receivables		**8,044**	8,246
Available-for-sale investments		**28,394**	29,156
Rental deposits and prepayments		**17,480**	19,729
Deferred tax assets		**12,362**	8,858
		3,444,348	3,345,800
Current assets			
Inventories		**1,320,447**	1,239,676
Trade and other receivables	*8*	**1,405,985**	1,457,497
Prepaid lease payments		**5,558**	5,080
Available-for-sale investment		**–**	166
Taxation recoverable		**7,533**	7,621
Investments held for trading		**2,489**	2,983
Derivative financial instruments		**6**	5,685
Structured bank deposit		**–**	2,144
Bank balances and cash		**969,433**	926,054
		3,711,451	3,646,906
Assets classified as held for sale		**15,321**	–
		3,726,772	3,646,906

	Note	2014 US$'000	2013 US$'000
Current liabilities			
Trade and other payables	9	**1,343,605**	1,232,997
Taxation payable		**19,551**	22,653
Derivative financial instruments		**14,835**	–
Consideration payable for acquisition of additional interest in a subsidiary		**550**	–
Bank overdrafts		**–**	20,220
Bank borrowings		**229,345**	519,299
		1,607,886	1,795,169
Liabilities associated with assets classified as held for sale		**5,716**	–
		1,613,602	1,795,169
Net current assets		**2,113,170**	1,851,737
Total assets less current liabilities		**5,557,518**	5,197,537
Non-current liabilities			
Long-term bank borrowings		**720,000**	400,000
Consideration payable for acquisition of business		**16,436**	18,016
Consideration payable for acquisition of additional interest in a subsidiary		**–**	550
Deferred tax liabilities		**39,639**	42,521
		776,075	461,087
Net assets		**4,781,443**	4,736,450
Capital and reserves			
Share capital		**53,211**	53,211
Reserves		**4,345,771**	4,285,447
Equity attributable to owners of the Company		**4,398,982**	4,338,658
Non-controlling interests		**382,461**	397,792
Total equity		**4,781,443**	4,736,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

The Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. 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 turnover 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 that the Group has only one operating segment, as defined in HKFRS 8. The information regarding turnover derived from the principal businesses described above is reported below.

	2014	2013
	US$'000	*US$'000*
Turnover		
Manufacturing Business	**6,037,686**	5,855,940
Retailing Business	**1,975,746**	1,726,531
Total turnover	**8,013,432**	7,582,471

Revenue from major products

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

	2014	2013
	US$'000	*US$'000*
Athletic shoes	**3,870,449**	3,813,275
Casual/outdoor shoes	**1,429,081**	1,356,859
Sports sandals	**85,085**	86,197
Soles and components	**600,079**	526,768
Retail sales – shoes and apparel	**1,960,306**	1,712,598
Others	**68,432**	86,774
	8,013,432	7,582,471

Geographical information

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

	2014	2013
	US$'000	*US$'000*
US	**2,210,346**	2,219,541
Europe	**1,497,565**	1,500,783
PRC	**2,518,907**	2,178,813
Others	**1,786,614**	1,683,334
	8,013,432	7,582,471

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:

	2014	2013
	US$'000	*US$'000*
PRC	**1,158,546**	1,213,216
Vietnam	**559,160**	463,077
Indonesia	**408,726**	407,747
Others	**68,940**	44,112
	2,195,372	2,128,152

note: Non-current assets excluded goodwill, investments in associates, investments in joint ventures, 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:

	2014	2013
	US$'000	*US$'000*
Customer A	**1,697,783**	1,663,948
Customer B	**1,250,176**	1,185,202

4. INCOME TAX EXPENSE

	2014	2013
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax *(note i)*		
– current year	**22**	30
– underprovision in prior year	**49**	–
PRC Enterprise Income Tax ("EIT") *(note ii)*		
– current year	**24,092**	15,167
– overprovision in prior years	**(1,830)**	(569)
Overseas taxation *(note iii)*		
– current year	**20,268**	19,147
– under (over) provision in prior years	**1,855**	(56)
	44,456	33,719
Deferred tax credit	**(7,144)**	(8,487)
	37,312	25,232

notes:

(i) Hong Kong

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

(ii) PRC

PRC EIT is 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 rules and regulations in the PRC, except for the followings:

Pursuant to《財政部、國家稅務總局、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. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue") pursuant to《財政部、海關總署、國家稅務總局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 in 2011. The directors of the Company consider that the relevant subsidiaries are engaged in the state-encouraged industries under the Catalogue and continue to enjoy the preferential tax rate of 15% in both years.

(iii) Overseas

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

Taxation arising in other jurisdictions including Vietnam, Indonesia and Taiwan is calculated at the rates prevailing in the respective jurisdictions which were 22% (2013: 25%), 25% (2013: 25%) and 17% (2013: 17%) respectively.

5. PROFIT FOR THE YEAR

	2014	2013
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Employee benefit expense (note a), including directors' emoluments		
– basic salaries, bonus and allowances	**1,840,090**	1,743,680
– retirement benefit scheme contributions	**200,066**	90,831
– share-based payments	**1,500**	(51)
	2,041,656	1,834,460
Release of prepaid lease payments	**5,439**	5,080
Auditor's remuneration	**2,070**	2,087
Impairment loss on intangible assets	**–**	11,025
Amortisation of intangible assets (included in selling and distribution expenses)	**7,822**	8,215
Written off of goodwill upon deregistration of subsidiaries	**413**	–
Impairment loss on property, plant and equipment	**–**	5,640
Depreciation of property, plant and equipment	**228,977**	240,401
Loss on disposal of property, plant and equipment (included in other expenses)	**4,350**	15,702
Research and development expenditure (included in other expenses)	**177,289**	174,808
Impairment loss recognised on trade and other receivables (included in other expenses)	**4,803**	3,596
Loss on disposal of joint ventures (included in other expenses)	**100**	–
Loss on disposal of an associate (included in other expenses)	**29**	–
Loss on deregistration of an associate	**–**	133
Loss on deemed disposal of an associate	**–**	179
Allowance for inventories, net (included in cost of sales)	**17,568**	7,184
Share of taxation of associates (included in share of results of associates)	**6,885**	6,553
Share of taxation of joint ventures (included in share of results of joint ventures)	**8,984**	14,211
and after crediting in other income:		
Interest income	**11,778**	9,276
Dividend income from available-for-sale investments	**809**	471
Net exchange gain	**1,419**	22,106
Written back of impairment loss on amount due from a joint venture	**10,000**	2,000
Gain on disposal of prepaid lease	**–**	3,859
Gain on disposal of associates	**–**	3,423
Gain on disposal of joint ventures	**–**	1,543
Gain on deregistration of a joint venture	**–**	790
Gain on deregistration of subsidiaries	**52**	–
Gain on deemed disposal of an associate	**17**	–
Gain on disposal of available-for-sale investments	**34**	–
Subsidies, rebates and other income from suppliers	**29,174**	29,504
Utility income from provision of electricity and water supply	**6,181**	9,256
Subcontracting income	**183**	472
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US$217,000 (2013: US$252,000)	**9,076**	9,908

note:

(a) Employee benefit expense includes increased contributions paid and payable in respect of the provision of social insurance benefit and housing provident fund of US$90 million (2013:Nil).

(b) For the years ended December 31, 2014 and 2013, cost of inventories recognized as an expense represents cost of sales as shown in the consolidated income statement.

6. DIVIDENDS

	2014	2013
	US$'000	*US$'000*
Dividends recognised as distribution during the year:		
2014 Interim dividend of HK$0.35 per share (2013: 2013 Interim dividend of HK$0.35 per share)	**74,398**	74,430
2013 Final dividend of HK$0.75 per share (2013: 2012 Final dividend of HK$0.25 per share)	**159,391**	53,118
	233,789	127,548

The directors recommend the payment of a final dividend of HK$0.80 per share for the year ended December 31, 2014. The proposed dividend of approximately HK$1,316,959,000 will be paid on or before June 16, 2015 to those shareholders whose names appear on the Company's register of members on June 8, 2015.

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

7. 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:

	2014	2013
	US$'000	*US$'000*
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**331,020**	434,768

	2014	2013
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,647,525,053**	1,648,928,486
Effect of dilutive potential ordinary shares:		
– USD Call Option 2015	**92,247,920**	92,247,920
– Unvested awarded shares	**1,156,007**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,740,928,980**	1,741,176,406

The weighted average number of ordinary shares shown above for the year ended December 31, 2014 has been arrived at after deducting the shares held by the trustee of the share award scheme.

note: The computation of diluted earnings per share for both years does not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise price of those options was higher than the average market price of Pou Sheng's shares in each of the years.

8. 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 US$990,894,000 (2013: US$1,011,046,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2014	2013
	US$'000	*US$'000*
0 to 30 days	**647,422**	694,060
31 to 90 days	**315,265**	301,920
Over 90 days	**28,207**	15,066
	990,894	1,011,046

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$459,897,000 (2013: US$472,291,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2014	2013
	US$'000	*US$'000*
0 to 30 days	**331,913**	340,889
31 to 90 days	**109,389**	112,363
Over 90 days	**18,595**	19,039
	459,897	472,291

10. CONTINGENCIES

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

	2014	2013
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**66,099**	62,208
– amount utilised	**41,335**	36,925
(ii) associates		
– amount guaranteed	**34,502**	30,725
– amount utilised	**2,217**	7,995

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Results

For the year ended December 31, 2014, the Group recorded turnover of US$8,013.4 million, representing a growth of 5.7% compared to the same period last year. Net profit attributable to owners of the Company decreased by 23.9% to US$331.0 million compared to US$434.8 million recorded in the financial year 2013. Basic earnings per share for 2014 decreased by 23.8% to US20.09 cents compared to the financial year 2013's US26.37 cents.

Recurring Operating Profit Attributable to Owners of the Company

For the year ended December 31, 2014, excluding all items of non-recurring operating in nature, the recurring operating profit was stable at US$430.5 million compared to the recurring operating profit of US$430.8 million in the same period in 2013. During the year 2014, the non-recurring operating loss amounted to US$99.4 million, of which included US$90 million of increased contributions to social insurance benefit and housing provident fund for employees in the PRC, US$20.5 million of losses due to fair value changes on derivative financial instruments, and US$10.0 million of gains due to writeback of impairment loss on amount due from a joint venture. For the year ended December 31, 2013, net profit attributable to Owners of the Company included a non-recurring operating profit of US$3.9 million.

Operations

General Overview

The Group is involved in two businesses. Firstly, it manufactures footwear, predominantly athletic and casual, for international brand name companies. Secondly, it operates a retail network in the Greater China region that sells international brand name footwear and apparel either directly to consumers or to sub-distributors on a wholesale basis.

The manufacturing business is managed with certain objectives in mind. Firstly, the business is viewed as a partnership with the brand name customers so that the Group's operations are conducted on a basis that facilitates long term cooperation. The business unit is operated to provide the broadest level of support to the customers so as to enable the customers to be able to apply their resources principally to enhancing and promoting their brand names. Last but not least, the Group tries to provide choices to the brand name customers that enable their management of input costs and to provide diversification of operations that assist in risk management.

For a better understanding of the business model of the retail business, please refer to the annual report of Pou Sheng.

The Group manages these business units with various sustainable development targets. We believe that each business unit should consider the interests of all stakeholders in the business, including employees and the surrounding community, in making important business decisions. Furthermore, fundamental principles and core values are established across all business units to promote ethical conduct and values.

Total Turnover by Product Category

The turnover for footwear manufacturing activity of the Group increased in 2014 when compared to the turnover in 2013. The increase was attributed to the increase in the average selling price. Gross profit margins for the manufacturing business trended downward for most of the year due to increased input costs, including rising wages and allowance for workers in China, but were partly offset by efficiency gains through the streamlining of the production process and optimization of production capacity during the year. The Group works with its brand name customers to continue to enhance factory productivity and supply chain efficiency. During the year under review, the breakdown of the Group's shoe production volume by locations is as follows: 29% in the PRC, 39% in Vietnam, 31% in Indonesia and 1% in others.

When reviewing total turnover by product category, athletic shoes accounted for 48.3% of turnover. When considering only footwear manufacturing, then athletic shoes is the principal category representing 71.9% of footwear manufacturing turnover. Correspondingly, casual/ outdoor shoes represented 26.5% of footwear manufacturing turnover. The Group works with the brand name customers to offer a wide range of footwear that vary in design, functionalities and price points. This business strategy allows the Group to establish economies of scale and expertise in manufacturing to meet the different demands and interests of the brand name customers.

Retail sales are derived primarily from the retail operations in the PRC involving the sales of international brand name athletic footwear and apparel in the major cities. The turnover in retail sales for the Group increased in 2014 when compared to the turnover in 2013. At the end of December 2014, the Group had 4,263 directly operated counters/stores and 2,689 sub-distributors in the PRC. The operating environment for the retail business in the PRC had stabilized. Since management was more confident of the operating environment, it decided to expand the store network and so that the operating costs in aggregate increased when compared to that in 2013.

	For the year ended December 31,				
	2014		2013		
	US$ millions	***%***	*US$ millions*	*%*	*% change*
Athletic Shoes	**3,870.4**	**48.3**	3,813.3	50.3	1.5
Casual/Outdoor Shoes	**1,429.1**	**17.8**	1,356.8	17.9	5.3
Sports Sandals	**85.1**	**1.1**	86.2	1.1	(1.3)
Retail Sales – Shoes, Apparel & Leasing	**1,975.7**	**24.6**	1,726.6	22.8	14.4
Soles, Components & Others	**653.1**	**8.2**	599.6	7.9	8.9
Total Turnover	**8,013.4**	**100.0**	7,582.5	100.0	5.7

Production Review

During the year under review, the Group produced a total of 307.1 million pairs of shoes, whereas 313.4 million were produced in the year ended December 31, 2013. The average selling price for a pair of shoes was US$17.53 compared to US$16.77 during the year ended December 31, 2013.

Cost Review

With respect to the footwear manufacturing operations, total annual sales amounted to US$6.0 billion (2013: US$5.8 billion) whereas the direct labour costs were US$1.0 billion (2013: US$1.0 billion). Total main material costs were US$2.6 billion (2013: US$2.4 billion) and total production overhead amounted to US$1.2 billion (2013: US$1.3 billion).

With respect to Pou Sheng, total annual sales amounted to US$2.0 billion (2013: US$1.8 billion). Retail stock costs were US$1.4 billion (2013: US$1.2 billion). In relations to the cessation of Pou Sheng's footwear manufacturing operation, its direct labour costs were US$0.4 million (2013: US$8.7 million), total main material costs were US$3.4 million (2013: US$23.9 million) and total production overhead amounted to US$1.7 million (2013: US$15.9 million).

For the Group, selling and distribution expenses for the year were US$679.2 million (2013: US$623.9 million), equivalent to approximately 8.5% (2013: 8.2%) of turnover. Administrative expenses for the year were US$603.2 million (2013: US$563.5 million), equivalent to approximately 7.5% (2013: 7.4%) of turnover. Since the inflation pressures in both the manufacturing and retail businesses are significant, managements in both units have made cost control as one of their key objectives.

Product Development

During the year under review, the Group spent US$177.3 million (2013: US$174.8 million) in product development. The product development expenses included items such as sample development, preparation work for the technical development package, and production efficiency enhancement. For each of the major brand name customers that has a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. Besides this product development work, the Group also cooperates with its customers to seek improvements in production lead times and develop new techniques to produce high-quality footwear, as well as the innovation and incorporation of environmentally friendly materials into footwear design, development and manufacturing.

Financial Review

Liquidity

The Group's financial position was solid. As at December 31, 2014, the Group had cash and cash equivalents of US$971.3 million (2013: US$905.8 million) and total borrowings of US$949.3 million (2013: US$919.3 million). The gearing ratio (total borrowings to total equity) was 19.9% (2013: 19.4%). As at December 31, 2014, the Group had net cash amounted to US$22.0 million, which reflects the Group's desire to maintain financial strength in these volatile times. The net debt to equity ratio (total borrowings net of cash on hand to total equity) was 0.3% as at December 31, 2013.

Capital Expenditure

During the year under review, the capital expenditure for the manufacturing and retail business were US$307.3 million and US$28.2 million, respectively.

The capital expenditure for fiscal year 2015 will also include capacity expansion in areas including Myanmar, Vietnam and Indonesia and will be funded primarily by internal resources.

Dividends

A final dividend of HK$0.80 per share (2013: HK$0.75 per share) has been recommended, making the dividend per share for the year amount to HK$1.15 (2013: HK$1.10).

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The Group remains committed to maintain a stable to growing dividend over time. The dividend payout ratio for the year was 73.9%.

Foreign Exchange Exposure

For the footwear manufacturing for international brands, all revenues are denominated in US dollars. The majority of material and component costs are also paid for in US dollars. Expenses incurred locally are paid for in the local currency i.e. wages, utilities and local regulatory fees. RMB exposure is partly hedged with forward contracts and structured contracts.

For the retail business in the PRC, all revenues are denominated in RMB. Correspondingly, all expenses are denominated in RMB. For the retail business outside the PRC, both revenues and expenses are denominated in the local currencies.

Goodwill and Intangible Assets

The Group has goodwill and intangible assets recorded on its Consolidated Statement of Financial Position due to previous acquisitions of businesses in the retail and manufacturing industries.

Employees

As at December 31, 2014, the Group had about 408,000 staff employed across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period, and offers equal opportunities to all staff.

PROSPECTS

Rising costs in both the manufacturing and retail businesses require active planning within the Group to ensure stable profits. The Group has invested in supply chain integration and manufacturing excellence programs to improve quality and efficiency in production. The Group will also increase investment, among others, in new technologies and innovative materials to further enhance our capabilities to be a strategic partner of brand customers. Another important task at hand is to plan the geographic mix of production capacity in line with the progress of ongoing manufacturing excellence projects and value added services provided to brand customers in different countries. The retail business unit will continue to refine its sales and store opening strategies and inventory management so as to achieve in the medium to long term a sustainable level of profit and be able to grow sales when consumer spending in China on functional apparel and footwear increase over time.

CORPORATE SOCIAL RESPONSIBILITY

Maintaining a sustainable and responsible business model has risen in importance. As one of the industry leaders operating on a global basis, the Group believes in the importance of integrity, ethical behavior, long term relationships and trust in business partnerships. The Group recognises it has a duty to implement good Corporate Social Responsibility ("CSR") policy that proactively adapts to the ever changing environment so as to provide sustainable solutions to potential issues.

The Group is a leader in the footwear manufacturing industry and the management recognises that a mission statement is necessary to provide the direction forward. The Group has launched the mission "From Big to Great" to guide corporate development and CSR for the coming years. The Group identifies that CSR policies have an integral role to play in society, the environment, ethics and human rights. The Group also believes its policies should follow standards that are consistent with those of its stakeholders. The Group monitors its progress in pursuing the various CSR policies by investing in the use of leading information systems, promoting communication and transparency amongst its operating departments.

The Group's membership in the Fair Labour Association ("FLA") demonstrates its strong commitment to following world class standards in labour management. The Group complies with "put employees first" as a promised action. Since the Group's first official audit by the FLA in 2012, it has been continuously increasing the resources committed in order to achieve higher standards. Since the FLA is an internationally recognised organization, the goal is to eventually meet the majority of recommended standards proposed by the FLA. The mission "From Big to Great" is ongoing and departments are increasing their compliance with the internal guidelines.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

As at December 31, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Share Award Scheme, pursuant to the terms of the trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 2,730,000 shares in the Company at a total consideration of approximately HK$68.3 million (equivalent to approximately US$8.8 million).

CORPORATE GOVERNANCE

During the year ended December 31, 2014, the Company has applied the principles of and has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

RE-ELECTION OF DIRECTORS

Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min, Mr. Chu Li-Sheng and Ms. Yen Mun-Gie will retire by rotation at the forthcoming annual general meeting of the Company ("2015 AGM") in accordance with No. 87 of the Bye-laws and, being eligible, offer themselves for re-election. Mr. Lin Cheng Tien and Mr. Hu Chia-Ho, who were appointed to fill the casual vacancies, will hold office until the 2015 AGM in accordance with No. 86(2) of the Bye-laws and, be eligible, offer themselves for re-election.

Further details of the retiring directors proposed to be re-elected at the 2015 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2014 annual report of the Company, to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2014.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management and the external auditors the Group's consolidated financial statements for the year ended December 31, 2014, the accounting principles and practices adopted and discussed auditing, internal controls, and financial reporting matters.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.yueyuen.com) and the designated issuer website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK$0.80 per share for the year ended December 31, 2014 (2013: HK$0.75 per share).

ANNUAL GENERAL MEETING

The 2015 AGM will be held on May 29, 2015 and the notice will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at 2015 AGM

For determining the entitlement of the shareholders to attend and vote at the 2015 AGM, the register of members of the Company will be closed from Wednesday, May 27, 2015 to Friday, May 29, 2015, 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 registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, May 26, 2015 in order to be eligible to attend and vote at the 2015 AGM.

Entitlement to the proposed final dividend

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Friday, June 5, 2015 to Monday, June 8, 2015, 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 registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, June 4, 2015 in order to be qualified for the proposed final dividend.

ACKNOWLEDGMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout last year.

By Order of the Board
Lu Chin Chu
Chairman

Hong Kong, March 20, 2015

As at the date of this announcement, the Board comprises the following members:

Executive Directors:
Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Kuo Tai Yu, Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Lee Shao Wu, Mr. Tsai Ming Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong Chih

Independent Non-executive Directors:
Mr. Leung Yee Sik, Mr. Huang Ming Fu, Mr. Chu Li Sheng, Ms. Yen Mun Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh)

Website: www.yueyuen.com