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, 2015

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2015

	2015	2014	**Percentage increase/ (decrease)**
Revenue *(US$'000)*	**8,434,915**	8,013,432	**5.26%**
Recurring operating profit attributable to owners of the Company *(US$'000)*	**405,480**	430,482	**(5.81%)**
Non-recurring operating loss attributable to owners of the Company *(US$'000)*	**(15,297)**	(99,462)	**(84.62%)**
Profit attributable to owners of the Company *(US$'000)*	**390,183**	331,020	**17.87%**
Basic earnings per share *(US cents)*	**23.70**	20.09	**17.97%**
Dividend per share			
Interim dividend *(HK$)*	**0.40**	0.35	**14.29%**
Final dividend (proposed) *(HK$)*	**0.80**	0.80	**–**

* *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, 2015 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2015

	Notes	**2015** **US$'000**	2014 US$'000
Revenue	*3*	**8,434,915**	8,013,432
Cost of sales		**(6,462,637)**	(6,239,840)
Gross profit		**1,972,278**	1,773,592
Other income		**130,893**	134,228
Selling and distribution expenses		**(777,783)**	(679,183)
Administrative expenses		**(682,203)**	(603,195)
Other expenses		**(205,348)**	(295,541)
Other gains and losses	*4*	**(16,418)**	(9,657)
Finance costs		**(19,387)**	(18,601)
Share of results of associates		**51,588**	45,443
Share of results of joint ventures		**30,583**	32,972
Profit before taxation		**484,203**	380,058
Income tax expense	*5*	**(66,330)**	(37,312)
Profit for the year	*6*	**417,873**	342,746
Attributable to:			
Owners of the Company		**390,183**	331,020
Non-controlling interests		**27,690**	11,726
		417,873	342,746
		US cents	*US cents*
Earnings per share	*8*		
– Basic		**23.70**	20.09
– Diluted		**23.36**	19.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2015

	2015	2014
	US$'000	*US$'000*
Profit for the year	**417,873**	342,746
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss		
Exchange difference arising on the translation of foreign operations	**(57,935)**	(36,716)
Reclassified to profit or loss upon disposal of available-for-sale investments	**(975)**	–
Fair value gain (loss) on available-for-sale investments	**5,769**	(763)
Other comprehensive expense for the year	**(53,141)**	(37,479)
Total comprehensive income for the year	**364,732**	305,267
Total comprehensive income attributable to:		
Owners of the Company	**355,907**	302,714
Non-controlling interests	**8,825**	2,553
	364,732	305,267

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At December 31, 2015

	Notes	2015 US$'000	2014 US$'000
Non-current assets			
Investment properties		**39,489**	41,382
Property, plant and equipment		**1,945,235**	1,817,638
Deposits paid for acquisition of property, plant and equipment		**65,078**	30,659
Prepaid lease payments		**168,839**	174,808
Intangible assets		**99,968**	113,405
Goodwill		**275,072**	273,549
Investments in associates		**472,452**	446,028
Amounts due from associates		**–**	2,499
Investments in joint ventures		**393,477**	435,964
Amounts due from joint ventures		**8,276**	42,136
Long-term loan receivable		**–**	8,044
Available-for-sale investments		**28,017**	28,394
Rental deposits and prepayments		**17,307**	17,480
Deferred tax assets		**14,571**	12,362
		3,527,781	3,444,348
Current assets			
Inventories		**1,254,152**	1,320,447
Trade and other receivables	9	**1,413,759**	1,405,985
Prepaid lease payments		**4,788**	5,558
Taxation recoverable		**7,304**	7,533
Investments held for trading		**8,930**	2,489
Derivative financial instruments		**261**	6
Pledged bank deposits		**912**	–
Bank balances and cash		**1,046,599**	969,433
		3,736,705	3,711,451
Assets classified as held for sale		**–**	15,321
		3,736,705	3,726,772

	Notes	**2015** *US$'000*	2014 *US$'000*
Current liabilities			
Trade and other payables	*10*	**1,482,042**	1,343,605
Taxation payable		**29,650**	19,551
Derivative financial instruments		**20,545**	14,835
Consideration payable for acquisition of additional interest in a subsidiary		**–**	550
Consideration payable for acquisition of business		**11,299**	–
Bank overdrafts		**15,242**	–
Bank borrowings		**433,164**	229,345
		1,991,942	1,607,886
Liabilities associated with assets classified as held for sale		**–**	5,716
		1,991,942	1,613,602
Net current assets		**1,744,763**	2,113,170
Total assets less current liabilities		**5,272,544**	5,557,518
Non-current liabilities			
Long-term bank borrowings		**370,000**	720,000
Consideration payable for acquisition of business		**–**	16,436
Deferred tax liabilities		**36,335**	39,639
		406,335	776,075
Net assets		**4,866,209**	4,781,443
Capital and reserves			
Share capital		**53,211**	53,211
Reserves		**4,445,354**	4,345,771
Equity attributable to owners of the Company		**4,498,565**	4,398,982
Non-controlling interests		**367,644**	382,461
Total equity		**4,866,209**	4,781,443

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 amendments to HKFRSs issued by the HKICPA for the first time in the current year.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the amendments to 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. REVENUE 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 that the Group has only one operating segment, as defined in HKFRS 8 "Operating Segments". The information regarding revenue derived from the principal businesses described above is reported below.

	2015	2014
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**6,136,737**	6,037,686
Retailing Business	**2,298,178**	1,975,746
Total revenue	**8,434,915**	8,013,432

Revenue from major products

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

	2015	2014
	US$'000	*US$'000*
Athletic shoes	**4,015,916**	3,870,449
Casual/outdoor shoes	**1,365,938**	1,429,081
Sports sandals	**94,363**	85,085
Soles and components	**604,742**	600,079
Retail sales – shoes and apparel	**2,281,214**	1,960,306
Others	**72,742**	68,432
	8,434,915	8,013,432

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:

	2015	2014
	US$'000	*US$'000*
US	**2,124,065**	2,210,346
Europe	**1,641,498**	1,497,565
PRC	**2,913,230**	2,518,907
Others	**1,756,122**	1,786,614
	8,434,915	8,013,432

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

	2015	2014
	US$'000	*US$'000*
PRC	**1,108,503**	1,158,546
Vietnam	**623,527**	559,160
Indonesia	**473,751**	408,726
Myanmar	**70,036**	20,785
Others	**60,099**	48,155
	2,335,916	2,195,372

note: Non-current assets excluded goodwill, investments in associates, investments in joint ventures, deferred tax assets and financial instruments.

Information about major customers

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

	2015	2014
	US$'000	*US$'000*
Customer A	**1,683,375**	1,697,783
Customer B	**1,394,509**	1,250,176

4. OTHER GAINS AND LOSSES

	2015	2014
	US$'000	*US$'000*
Fair value changes on consideration payable for acquisition of business	**5,149**	1,576
Gain (loss) on disposal of joint ventures	**3,181**	(100)
Fair value changes on investment properties	**375**	3,842
Reversal of impairment loss on amount due from an associate	**350**	–
Gain on disposal of subsidiaries	**184**	52
(Impairment loss) reversal of impairment loss on amounts due from joint ventures	**(8,523)**	5,860
Impairment loss on property, plant and equipment	**(8,000)**	–
Loss on changes in fair value of derivative financial instruments	**(3,497)**	(20,514)
Impairment loss on investments in joint ventures	**(3,093)**	–
Impairment loss on consideration receivable for disposal of properties	**(2,544)**	–
Written off of goodwill upon deregistration of subsidiaries	**–**	(413)
Loss on disposal of an associate	**–**	(29)
Gain on deemed disposal of an associate	**–**	17
Gain on deregistration of subsidiary	**–**	52
	(16,418)	(9,657)

5. INCOME TAX EXPENSE

	2015	2014
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax *(note i)*		
– current year	**–**	22
– underprovision in prior years	**–**	49
PRC Enterprise Income Tax ("EIT") *(note ii)*		
– current year	**36,054**	24,092
– under(over)provision in prior years	**1,079**	(1,830)
Overseas taxation *(notes iii & iv)*		
– current year	**28,137**	20,268
– underprovision in prior years	**5,133**	1,855
	70,403	44,456
Deferred tax credit	**(4,073)**	(7,144)
	66,330	37,312

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for 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) Vietnam

As approved by the relevant tax authorities in Vietnam, certain subsidiaries are entitled to two years' exemption from income taxes followed by four years of a 50% tax reduction based on a preferential income tax rate of 20%, commencing from the first profitable year.

The applicable tax rate for the subsidiaries in Vietnam range from nil to 22% during the year (2014: range from nil to 22%).

(iv) 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 Indonesia and Taiwan is calculated at the rates prevailing in the respective jurisdictions, which were 25% (2014: 25%) and 17% (2014: 17%) respectively.

6. PROFIT FOR THE YEAR

	2015	2014
	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	**1,834,004**	1,840,090
– retirement benefit scheme contributions	**272,706**	200,066
– share-based payments	**2,177**	1,500
	2,108,887	2,041,656
Release of prepaid lease payments	**4,541**	5,439
Auditor's remuneration	**1,990**	2,070
Amortisation of intangible assets (included in selling and distribution expenses)	**7,571**	7,822
Depreciation of property, plant and equipment	**242,175**	228,977
Loss on disposal of property, plant and equipment (included in other expenses)	**12,509**	4,350
Research and development expenditure (included in other expenses)	**157,143**	177,289
Impairment loss recognised on trade and other receivables (included in other expenses)	**11,203**	4,803
Allowance for inventories, net (included in cost of sales)	**–**	17,568
Share of taxation of associates (included in share of results of associates)	**7,533**	6,885
Share of taxation of joint ventures (included in share of results of joint ventures)	**8,806**	8,984
and after crediting in other income:		
Interest income	**9,297**	11,778
Dividend income from available-for-sale investments	**803**	809
Net exchange gain	**5,011**	1,419
Gain on disposal of land leases	**8,614**	–
Gain on disposal of available-for-sale investments	**772**	34
Subsidies, rebates and other income from suppliers	**26,547**	29,174
Reversal of allowance for inventories (included in cost of sales)	**1,707**	–
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US$232,000 (2014: US$217,000)	**8,932**	9,076

notes:

(a) For the year ended December 31, 2014, employee benefit expenses included provision of increased contributions for social insurance benefit and housing provident fund of US$90 million (2015: nil).

(b) For the years ended December 31, 2015 and 2014, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

7. DIVIDENDS

	2015	2014
	US$'000	*US$'000*
Dividends recognised as distribution during the year:		
2015 Interim dividend of HK$0.40 per share (2014: 2014 interim dividend of HK$0.35 per share)	**84,969**	74,398
2014 Final dividend of HK$0.80 per share (2014: 2013 Final dividend of HK$0.75 per share)	**169,904**	159,391
	254,873	233,789

The directors recommend the payment of a final dividend of HK$0.80 per share for the year ended December 31, 2015. The proposed dividend of approximately HK$1,317,537,000 will be paid on or before June 17, 2016 to those shareholders whose names appear on the Company's register of members on June 7, 2016.

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

8. 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:

	2015	2014
	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	**390,183**	331,020

	2015	2014
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,646,181,054**	1,647,525,053
Effect of dilutive potential ordinary shares:		
– USD Call Option 2015	**22,746,062**	92,247,920
– Unvested awarded shares	**1,450,233**	1,156,007
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,670,377,349**	1,740,928,980

The weighted average number of ordinary shares shown above 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.

9. 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$1,030,532,000 (2014: US$990,894,000) 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:

	2015	2014
	US$'000	*US$'000*
0 to 30 days	**671,157**	647,422
31 to 90 days	**343,216**	315,265
Over 90 days	**16,159**	28,207
	1,030,532	990,894

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$513,238,000 (2014: US$459,897,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2015	2014
	US$'000	*US$'000*
0 to 30 days	**375,523**	331,913
31 to 90 days	**113,169**	109,389
Over 90 days	**24,546**	18,595
	513,238	459,897

11. CONTINGENCIES

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

	2015	2014
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**59,625**	66,099
– amount utilised	**23,000**	41,335
(ii) associates		
– amount guaranteed	**56,376**	34,502
– amount utilised	**3,099**	2,217

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended December 31, 2015, the Group recorded revenue of US$8,434.9 million, representing a growth of 5.3% compared to the same period last year. Net profit attributable to owners of the Company increased by 17.9% to US$390.2 million compared to US$331.0 million recorded in the financial year 2014. Basic earnings per share for 2015 increased by 18.0% to 23.70 US cents compared to the financial year 2014's 20.09 US cents.

Recurring Operating Profit Attributable to Owners of the Company

For the year ended December 31, 2015, excluding all items of non-recurring operating in nature, the recurring operating profit amounted to US$405.5 million representing a decrease compared to the recurring operating profit of US$430.5 million in the same period in 2014. During the year 2015, the net non-recurring operating loss amounted to US$15.3 million, of which included a combined impairment loss of US$22.2 million on amounts due and investment in joint ventures, on property, plant and equipment and on consideration receivable for disposal of properties. The non-recurring operating loss was partly offset by non-recurring operating gains, of which included US$5.1 million gain on fair value changes on consideration payable for acquisition of business and US$3.2 million gain on disposal of joint ventures. For the year ended December 31, 2014, net profit attributable to owners of the Company included a net non-recurring operating loss that amounted to US$99.4 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 Revenue by Product Category

The revenue for footwear manufacturing activity of the Group increased moderately in 2015 when compared to the revenue recorded in financial year 2014. The increase was attributed to the 3.4% increase in production volume. Gross profit margins for the manufacturing business were impacted by increased input costs, primarily rising compensation for workers, but were partly offset by a reduction in material costs due to commodity price trends. 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: 25% in the PRC, 42% in Vietnam, 32% in Indonesia and 1% in others.

When reviewing total revenue by product category, athletic shoes accounted for 47.6% of revenue. When considering only footwear manufacturing, then athletic shoes were the principal category representing 73.4% of footwear manufacturing revenue. Correspondingly, casual/outdoor shoes represented 24.9% of footwear manufacturing revenue. 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 revenue in retail sales for the Group increased in 2015 when compared to the revenue in financial year 2014. At the end of December 2015, the Group had 4,943 directly operated counters/stores and 2,893 stores operated by sub-distributors in the PRC. The operating environment for the sportswear retail business in the PRC had been positive despite the slowing economic growth in the PRC. Since management felt that consumer spending on sports footwear and apparel would remain robust, it decided to further expand the store network and this led to operating costs in aggregate to increase when compared to those reported in financial year 2014.

	For the year ended December 31,				
	2015		2014		
	US$ millions	***%***	*US$ millions*	*%*	***% change***
Athletic Shoes	**4,015.9**	**47.6**	3,870.4	48.3	**3.8**
Casual/Outdoor Shoes	**1,365.9**	**16.2**	1,429.1	17.8	**(4.4)**
Sports Sandals	**94.4**	**1.1**	85.1	1.1	**10.9**
Retail Sales – Shoes, Apparel & Leasing	**2,298.2**	**27.3**	1,975.7	24.6	**16.3**
Soles, Components & Others	**660.5**	**7.8**	653.1	8.2	**1.1**
Total Revenue	**8,434.9**	**100.0**	8,013.4	100.0	**5.3**

For the footwear manufacturing for the international brands, orders are received by the sales departments managing each brand name customer and normally take about ten to twelve weeks to fill.

For the retail business in the Greater China region, sales orders are taken by the Group either from customers of the shops on a daily basis or from sub-distributors at periodic intervals.

Production Review

During the year under review, the Group produced a total of 317.5 million pairs of shoes, whereas 307.1 million were produced in the year ended December 31, 2014 ("2014"). The average selling price for a pair of shoes was US$17.25, compared to US$17.53 for the year ended December 31, 2014.

Cost Review

With respect to the footwear manufacturing operations, total annual sales in 2015 amounted to US$6.1 billion (2014: US$6.0 billion) whereas the direct labour costs were US$1.1 billion (2014: US$1.0 billion). Total main material costs were US$2.6 billion (2014: US$2.6 billion) and total production overhead amounted to US$1.2 billion (2014: US$1.2 billion).

With respect to Pou Sheng, total annual sales amounted in 2015 to US$2.3 billion (2014: US$2.0 billion). Retail stock costs were US$1.5 billion (2014: US$1.4 billion).

For the Group, selling and distribution expenses for the year were US$777.8 million (2014: US$679.2 million), equivalent to approximately 9.2% (2014: 8.5%) of revenue. Administrative expenses for the year were US$682.2 million (2014: US$603.2 million), equivalent to approximately 8.1% (2014: 7.5%) of revenue. Since cost pressures continue to be significant in both the manufacturing and retail businesses, managements in both units continuously look for ways to improve productivity.

Product Development

During the year under review, the Group spent US$157.1 million (2014: US$177.3 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, 2015, the Group had cash and cash equivalents of US$1,031.4 million (2014: US$971.3 million) and total borrowings of US$803.2 million (2014: US$949.3 million). The gearing ratio (total borrowings to total equity) was 16.5% (2014: 19.9%). As at December 31, 2015, the Group had net cash amounting to US$228.2 million (2014: net cash US$22.0 million) which reflects the Group's desire to maintain financial flexibility in these volatile times.

Capital Expenditure

During the year under review, the capital expenditure for the manufacturing and retail business were US$398.1 million (2014: US$307.3 million) and US$46.8 million (2014: US$28.2 million), respectively.

The capital expenditure for fiscal year 2016 will also include capacity expansion in areas including Vietnam, Indonesia and Myanmar and the expansion of the Group's innovation center and will be funded primarily by internal resources.

Dividends

A final dividend of HK$0.80 per share for the year ended December 31, 2015 (2014: HK$0.80 per share) has been recommended, making the dividend per share for the year amount to HK$1.20 (2014: HK$1.15).

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 2015 was 65.4%.

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. A small portion of RMB exposure is 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, 2015, the Group had about 411,000 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

Changes in the operating environment for both the manufacturing and retail businesses require management to be flexible and keep various options available to maintain efficiency and quality. Investment is made in programs concerning supply chain integration and manufacturing excellence to improve quality and efficiency in production. The ability to bring new technologies and innovative materials to brand customers is essential for establishing strategic partnerships with them. Rebalancing and optimization of production capacity across the different countries remain a top priority. The retail business unit will continue to develop its sales and store opening strategies and inventory management so that in the medium to long term it will be a key partner to the brands it distributes and can continue to benefit from consumer spending on functional footwear and apparel in China.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2015, 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 3,380,000 shares in the Company at a total consideration of approximately HK$84,935,000 (equivalent to approximately US$10,954,000).

CORPORATE GOVERNANCE

During the year ended December 31, 2015, 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

Mr. Lee Shao Wu, Mr. Tsai Ming-Lun, Ming, Mr. Liu George Hong-Chih, Mr. Leung Yee Sik and Mr. Huang Ming Fu will retire by rotation at the forthcoming annual general meeting of the Company ("2016 AGM") in accordance with Bye-law 87 of the Bye-laws of the Company and, being eligible, will offer themselves for re-election.

Further details of the retiring directors proposed to be re-elected at the 2016 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2015 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, 2015.

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, 2015, 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.

ANNUAL GENERAL MEETING

The 2016 AGM will be held on May 27, 2016 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 2016 AGM

For determining the entitlement of the shareholders to attend and vote at the 2016 AGM, the register of members of the Company will be closed from Wednesday, May 25, 2016 to Friday, May 27, 2016, 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 24, 2016 in order to be eligible to attend and vote at the 2016 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 3, 2016 to Tuesday, June 7, 2016, 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 2, 2016 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
Yue Yuen Industrial (Holdings) Limited
Lu Chin Chu
Chairman

Hong Kong, March 23, 2016

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. 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