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, 2016

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2016

	2016	2015	**Percentage increase**
Revenue *(US$'000)*	**8,480,558**	8,434,915	**0.54%**
Recurring profit attributable to owners of the Company *(US$'000)*	**525,149**	405,480	**29.51%**
Non-recurring profit (loss) attributable to owners of the Company *(US$'000)*	**9,411**	(15,297)	**N/A**
Profit attributable to owners of the Company *(US$'000)*	**534,560**	390,183	**37.00%**
Basic earnings per share *(US cents)*	**32.47**	23.70	**37.00%**
Dividend per share			
Interim dividend *(HK$)*	**0.40**	0.40	**–**
Final dividend (proposed) *(HK$)*	**1.00**	0.80	**25.00%**

* *For identification purposes only*

RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2016 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2016

	Notes	2016 US$'000	2015 US$'000
Revenue	3	**8,480,558**	8,434,915
Cost of sales		**(6,347,993)**	(6,462,637)
Gross profit		**2,132,565**	1,972,278
Other income		**119,141**	130,893
Selling and distribution expenses		**(834,608)**	(777,783)
Administrative expenses		**(611,145)**	(682,203)
Other expenses		**(205,036)**	(205,348)
Finance costs		**(23,257)**	(19,387)
Share of results of associates		**55,370**	51,588
Share of results of joint ventures		**11,476**	30,583
Other gains and losses	4	**7,650**	(16,418)
Profit before taxation		**652,156**	484,203
Income tax expense	5	**(76,089)**	(66,330)
Profit for the year	6	**576,067**	417,873
Attributable to:			
Owners of the Company		**534,560**	390,183
Non-controlling interests		**41,507**	27,690
		576,067	417,873
		US cents	*US cents*
Earnings per share	8		
– Basic		**32.47**	23.70
– Diluted		**32.42**	23.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

	2016 *US$'000*	2015 *US$'000*
Profit for the year	**576,067**	417,873
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligations, net of tax	**(5,262)**	–
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	**5,702**	–
	440	–
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(49,812)**	(46,197)
Fair value gain on available-for-sale investments	**8,214**	5,769
Share of other comprehensive expenses of associates and joint ventures	**(6,723)**	(11,738)
Reserve released upon disposal of an associate	**(451)**	–
Reclassified to profit or loss upon disposal of available-for-sale investments	**–**	(975)
	(48,772)	(53,141)
Other comprehensive expense for the year	**(48,332)**	(53,141)
Total comprehensive income for the year	**527,735**	364,732
Total comprehensive income attributable to:		
Owners of the Company	**506,388**	355,907
Non-controlling interests	**21,347**	8,825
	527,735	364,732

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At December 31, 2016

	Note	2016 US$'000	2015 US$'000
Non-current assets			
Investment properties		**56,147**	39,489
Property, plant and equipment		**2,018,480**	1,945,235
Deposits paid for acquisition of property, plant and equipment		**105,807**	65,078
Prepaid lease payments		**161,489**	168,839
Intangible assets		**88,367**	99,968
Goodwill		**267,006**	275,072
Interests in associates		**492,208**	472,452
Interests in joint ventures		**367,195**	393,477
Amounts due from joint ventures		**2,516**	8,276
Available-for-sale investments		**36,541**	28,017
Held-to-maturity investments		**10,119**	–
Rental deposits and prepayments		**18,306**	17,307
Deferred tax assets		**24,573**	14,571
		3,648,754	3,527,781
Current assets			
Inventories		**1,260,147**	1,254,152
Trade and other receivables	*9*	**1,591,434**	1,413,759
Prepaid lease payments		**4,692**	4,788
Taxation recoverable		**2,673**	7,304
Investments held for trading		**17,053**	8,930
Derivative financial instruments		**2,531**	261
Pledged bank deposits		**–**	912
Bank balances and cash		**1,041,486**	1,046,599
		3,920,016	3,736,705
Assets classified as held for sale		**43,004**	–
		3,963,020	3,736,705

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At December 31, 2016

	Note	**2016**	2015
		US$'000	*US$'000*
Current liabilities			
Trade and other payables	*10*	**1,378,482**	1,482,042
Taxation payable		**29,828**	29,650
Derivative financial instruments		**9,785**	20,545
Consideration payable for acquisition of business		**8,689**	11,299
Bank overdrafts		**–**	15,242
Bank borrowings		**240,070**	433,164
		1,666,854	1,991,942
Liabilities associated with assets classified as held for sale		**33,109**	–
		1,699,963	1,991,942
Net current assets		**2,263,057**	1,744,763
Total assets less current liabilities		**5,911,811**	5,272,544
Non-current liabilities			
Long-term bank borrowings		**720,000**	370,000
Deferred tax liabilities		**35,129**	36,335
Defined benefit obligations		**62,686**	–
		817,815	406,335
Net assets		**5,093,996**	4,866,209
Capital and reserves			
Share capital		**53,211**	53,211
Reserves		**4,688,255**	4,445,354
Equity attributable to owners of the Company		**4,741,466**	4,498,565
Non-controlling interests		**352,530**	367,644
Total equity		**5,093,996**	4,866,209

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 "Listing Rules") and by the Hong Kong Companies Ordinance.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 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.

	2016	2015
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**6,039,334**	6,136,737
Retailing Business	**2,441,224**	2,298,178
	8,480,558	8,434,915

Revenue from major products

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

	2016	2015
	US$'000	*US$'000*
Athletic shoes	**4,110,334**	4,015,916
Casual/outdoor shoes	**1,230,657**	1,365,938
Sports sandals	**93,781**	94,363
Soles and components	**568,310**	604,742
Retail sales – shoes and apparel	**2,426,532**	2,281,214
Others	**50,944**	72,742
	8,480,558	8,434,915

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:

	2016	2015
	US$'000	*US$'000*
US	**2,090,833**	2,124,065
Europe	**1,679,875**	1,641,498
PRC	**3,098,602**	2,913,230
Others	**1,611,248**	1,756,122
	8,480,558	8,434,915

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:

	2016	2015
	US$'000	*US$'000*
PRC	**1,054,492**	1,108,503
Vietnam	**649,946**	623,527
Indonesia	**574,410**	473,751
Myanmar	**82,207**	70,036
Others	**87,541**	60,099
	2,448,596	2,335,916

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, amounts due from 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:

	2016	2015
	US$'000	*US$'000*
Customer A	**1,668,043**	1,683,375
Customer B	**1,617,234**	1,394,509

4. OTHER GAINS AND LOSSES

	2016	2015
	US$'000	*US$'000*
Gain (loss) on changes in fair value of derivative financial instruments	**11,489**	(3,497)
Fair value changes on consideration payable for acquisition of business	**2,591**	5,149
Gain on disposal of an associate	**1,963**	–
Gain on deemed disposal of an associate	**265**	–
Gain on disposal of subsidiaries	**112**	184
Impairment loss on amounts due from joint ventures	**(4,515)**	(8,523)
Impairment loss on goodwill	**(2,114)**	–
Impairment loss on rental deposits and prepayments	**(1,495)**	–
Impairment loss on property, plant and equipment	**(378)**	(8,000)
Fair value changes on investment properties	**(181)**	375
Impairment loss on interests in joint ventures	**(87)**	(3,093)
Impairment loss on consideration receivable for disposal of properties	**–**	(2,544)
Reversal of impairment loss on amount due from an associate	**–**	350
Gain on disposal of joint ventures	**–**	3,181
	7,650	(16,418)

5. INCOME TAX EXPENSE

	2016	2015
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax *(note i)*		
– current year	**15**	–
– underprovision in prior years	**1**	–
PRC Enterprise Income Tax ("EIT") *(note ii)*		
– current year	**47,606**	36,054
– underprovision in prior years	**5,573**	1,079
Overseas taxation *(notes iii & iv)*		
– current year	**30,482**	28,137
– underprovision in prior years	**2,326**	5,133
	86,003	70,403
Deferred tax credit	**(9,914)**	(4,073)
	76,089	66,330

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、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) and the Bulletin of the State Administration of Taxation [2012] No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions of China and engaged in the business activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the annual revenue in the current year accounts for more than 70% of its total revenue is entitled to pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company are located in the specified provinces of Western Regions of China and engaged in the business activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both years.

(iii) Vietnam

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

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% during the year (2015: 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 of the Company 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% (2015: 25%) and 17% (2015: 17%) respectively.

6. PROFIT FOR THE YEAR

	2016	2015
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Employee benefit expense, including directors' emoluments		
– basic salaries, bonus and allowances	**1,844,086**	1,834,004
– retirement benefit scheme contributions	**254,956**	272,706
– share-based payments	**1,833**	2,177
	2,100,875	2,108,887
Release of prepaid lease payments	**4,786**	4,541
Auditor's remuneration	**1,983**	1,990
Amortization of intangible assets (included in selling and distribution expenses)	**6,479**	7,571
Depreciation of property, plant and equipment	**251,378**	242,175
Loss on disposal of property, plant and equipment (included in other expenses)	**7,752**	12,509
Research and development expenditure (included in other expenses)	**166,343**	157,143
Impairment loss recognized on trade and other receivables (included in other expenses)	**4,299**	11,203
Net allowance for inventories (included in cost of sales)	**1,251**	–
Share of taxation of associates (included in share of results of associates)	**13,663**	7,533
Share of taxation of joint ventures (included in share of results of joint ventures)	**8,126**	8,806
Net exchange loss	**6,771**	–
Loss on disposal of land leases	**509**	–
and after crediting in other income:		
Interest income	**8,289**	9,297
Dividend income from available-for-sale investments	**888**	803
Net exchange gain	**–**	5,011
Gain on disposal of land leases	**–**	8,614
Gain on disposal of available-for-sale investments	**–**	772
Subsidies, rebates and other income from suppliers	**16,772**	26,547
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$398,000 (2015: US$232,000)	**8,173**	8,932

note: For the year ended December 31, 2016 and 2015, cost of inventories recognized as an expenses represents cost of sales as shown in the consolidated income statement.

7. DIVIDENDS

	2016	2015
	US$'000	*US$'000*
Dividends recognized as distribution during the year:		
2016 Interim dividend of HK$0.40 per share (2015: 2015 Interim dividend of HK$0.40 per share)	**84,940**	84,969
2015 Final dividend of HK$0.80 per share (2015: 2014 Final dividend of HK$0.80 per share)	**169,735**	169,904
	254,675	254,873

The directors recommend the payment of a final dividend of HK$1.00 per share for the year ended December 31, 2016. The proposed dividend of approximately HK$1,645,835,000 will be paid on or before June 20, 2017 to those shareholders whose names appear on the Company's register of members on June 2, 2017.

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:

	2016	2015
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the year attributable to owners of the Company	**534,560**	390,183
Effect of dilutive potential ordinary shares		
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	**(513)**	–
Earnings for the purpose of diluted earnings per share	**534,047**	390,183

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,646,478,146**	1,646,181,054
Effect of dilutive potential ordinary shares:		
– USD Call Option 2015	**–**	22,746,062
– Unvested awarded shares	**641,487**	1,450,233
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,647,119,633**	1,670,377,349

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 the year ended December 31, 2015 did not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise prices of those options were higher than the average market price of Pou Sheng's shares during that year.

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$1,181,098,000 (2015: US$1,030,532,000) 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:

	2016	2015
	US$'000	*US$'000*
0 to 30 days	**690,268**	671,157
31 to 90 days	**446,609**	343,216
Over 90 days	**44,221**	16,159
	1,181,098	1,030,532

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$444,907,000 (2015: US$513,238,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2016	2015
	US$'000	*US$'000*
0 to 30 days	**331,159**	375,523
31 to 90 days	**101,695**	113,169
Over 90 days	**12,053**	24,546
	444,907	513,238

11. CONTINGENCIES

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

	2016	2015
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**49,375**	59,625
– amount utilized	**16,950**	23,000
(ii) associates		
– amount guaranteed	**56,771**	56,376
– amount utilized	**983**	3,099

MANAGEMENT DISCUSSION AND ANALYSIS 2016

RESULTS

For the financial year ended December 31, 2016, the Group recorded revenue of US$8,480.6 million, representing a growth of 0.5% compared to the financial year in 2015. Profit attributable to owners of the Company increased by 37.0% to US$534.6 million, as compared with US$390.2 million recorded for the financial year in 2015. In 2016, basic earnings per share grew by 37.0% to 32.47 US cents as compared with 23.70 US cents for the financial year in 2015.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring operating in nature, the recurring profit for the year ended December 31, 2016, increased by 29.5% to US$525.1 million, compared to the recurring profit of US$405.5 million for the financial year in 2015. For the financial year 2016, the non-recurring profit amounted to US$9.4 million, which included recognition of US$11.5 million gains on fair value changes on derivatives financial instruments, as well as a US$4.5 million impairment loss on amounts due from joint ventures. For the year ended December 31, 2015, profit attributable to owners of the Company included a non-recurring loss of US$15.3 million.

OPERATIONS

General Overview

The Group is involved in two businesses focusing on sport fitness and lifestyle. The Group is currently the largest manufacturer of athletic and casual/outdoor footwear for leading international brand companies around the world. It also operates one of the largest retail networks of footwear and apparel across the Greater China region, which continues to be a key growth market for major leading international sporting and lifestyle brands.

The key objective of the Group's manufacturing business is to strive and become a close partner with leading brand name customers. This would enable the Group to forge long-term relationships and support the product design, development and manufacturing needs of its customers. The Group strives to provide an advanced level of support and innovative solutions to enable its customer to focus on building their portfolio and promoting their brands.

Please refer to the annual report of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, for a more detailed explanation of the business model for the Group's retail business.

All of the Group's business units abide to the Group's principles on sustainable development, ethical conduct and values. Each business unit considers the interests of all stakeholders in the business, including employees and surrounding community, when making important business decisions. The Group manages and monitors these business units with sustainable development targets, including in the areas of labor management, workplace safety and the efficient use of raw materials, energy, as well as environmental management. For more details on the Group's sustainable development strategy and reporting on Environmental, Social and Governance ("ESG"), please refer to the Group's ESG report for 2016.

Total Revenue by Product Category

The revenue for the footwear manufacturing business declined by 1.6% in 2016 when compared to revenue recorded in the financial year 2015, whereas the production volume grew by 1.4% as compared with the same period in 2015. The growth in volume was offset by a fall in average selling prices. Gross profit for the manufacturing business improved, attributable mainly to better operational efficiency, while rising wages were partly offset by lower material costs tied to the commodity and oil price trend. The Group continued to work with international brand customers to enhance productivity across production sites and efficiency in its supply chain. For the financial year 2016, Vietnam, Indonesia and China continued to be the Group's main production locations by volume, representing 44%, 34% and 20% of our total shoe production respectively.

In term of total revenue by product category, athletic shoes accounted for 48.5% of revenue, followed by casual/outdoor shoes, which accounted for 14.5%. When considering manufacturing revenue by footwear only, athletic shoes still represented the principal category, accounting for 75.6% of footwear manufacturing revenue, followed by casual/outdoor shoes, which accounted for 22.6% of total footwear manufacturing revenue. The Group is putting more strategic emphasis on transforming its business model from offering 'economies of scale' and expertise in footwear manufacturing to 'economies of value'. With the introduction of innovative services and solutions, and integrating the supply chain process, the Group strives to provide brand customers enhanced value proposition, and better meet their changing demands and interests.

Retail sales are derived primarily from retail operations in the PRC, involving the sale of international brand-name athletic footwear and apparel in major cities. The revenue for Pou Sheng, the Group's retail business, grew by 6.2% in 2016 to US$2,443.7 million when compared to revenue of US$2,300.2 million for the financial year 2015. Pou Sheng has adopted RMB as its reporting currency from USD since its 2016 interim results in order to reduce the impact of foreign exchanges rate movements on its reported results and to provide shareholders with an accurate reflection of the Group's retail business underlying performance. In RMB terms, Pou Sheng's revenue increased by 12.2% to RMB16,236 million, compared to RMB14,466 million in the same period last year. As of December 31, 2016, the Group had 5,560 directly operated counters/

stores and 3,199 stores operated by sub-distributors in the PRC. Pou Sheng had a gross profit improvement of 13.3% to US$868.2 million (or in RMB terms, 19.7% to RMB5,768.4 million) due to the stronger retail demand and the fewer discounting activities. Despite slowing overall GDP growth in the PRC, which recorded 6.5% year-on-year growth in 2016, the operating environment for the sportswear retail business was robust. Pou Sheng's management remains optimistic and plans to further expand the size and diversity of its store network, which led to an increase in aggregate operating costs when compared to that in 2015.

Total Revenue by Product Category	**For the year ended December 31,**				
	2016		2015		
	US$ millions	***%***	*US$ millions*	*%*	***% change***
Athletic Shoes	4,110.3	48.5	4,015.9	47.6	2.4
Casual/Outdoor Shoes	1,230.7	14.5	1,365.9	16.2	(9.9)
Sports Sandals	93.8	1.1	94.4	1.1	(0.6)
Retail Sales – Shoes, Apparel & Leasing	2,441.2	28.8	2,298.2	27.3	6.2
Soles, Components & Others	604.6	7.1	660.5	7.8	(8.5)
Total Revenue	8,480.6	100.0	8,434.9	100.0	0.5

Orders from international brands are received by the sales departments that manage each customer and normally take about ten to twelve weeks to fill.

Orders for the Group's retail business in the Greater China region, are taken on a daily basis or at periodic intervals from sub-distributors.

Production Review

During the year under review, the Group's manufacturing business produced a total of 322.0 million pairs of shoes, compared to 317.5 million pairs for the year ended December 31, 2015. The average selling prices for each pair of shoes declined to US$16.88, compared to US$17.25 for the year ended December 31, 2015.

Cost Review

With respect to the footwear manufacturing operations, revenue in 2016 amounted to US$6.0 billion (2015: US$6.1 billion) whereas the direct labor costs were US$1.2 billion (2015: US$1.1 billion). Total main material costs were US$2.3 billion (2015: US$2.6 billion) and total production overheads amounted to US$1.3 billion (2015: US$1.2 billion).

For Pou Sheng, revenue in 2016 amounted to US$2.4 billion (2015: US$2.3 billion). Retail stock costs were US$1.6 billion (2015: US$1.5 billion).

For the Group, selling and distribution expenses for the year were US$834.6 million (2015: US$777.8 million), equivalent to approximately 9.8% (2015: 9.2%) of revenue. The increase in selling and distribution expenses was attributable mainly to the increased number of directly operated stores for Pou Sheng. Administrative expenses for the year were US$611.1 million (2015: US$682.2 million), equivalent to approximately 7.2% (2015: 8.1%) of revenue. The decrease in administrative expenses was attributable mainly to decrease in employee related provisions. Since cost pressures continue to be significant for both the manufacturing and retail businesses, the management of both units will continuously look for ways to improve efficiency and productivity.

Product Development

During the year under review, the Group spent US$166.3 million (2015: US$157.1 million) on product development. The product development expenses included items such as sample development, preparation work for technical development packages, and production efficiency enhancement. For each of the major brand name customers that have 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 and Financial Resources

The Group's financial position remained solid. As at December 31, 2016, the Group had cash and cash equivalents of US$1,042.8 million (2015: US$1,031.4 million) and total bank borrowings were US$960.1 million (2015: US$803.2 million). The Group's gearing ratio (total borrowings to total equity) was 18.8% (2015: 16.5%). As of December 31, 2016, the Group had net cash amounting to US$82.8 million (2015: net cash US$228.2 million), which reflects the use of funds for Pou Sheng on new store openings. The Group uses structured forward contracts for currency hedging purposes.

Capital Expenditure

During the year under review, the capital expenditure of the Group was US$452.0 million, for the manufacturing and retail businesses were US$374.4 million (2015: US$398.1 million) and US$78.0 million (2015: US$46.8 million) respectively.

The capital expenditure for the fiscal year 2017 will include capacity expansion and maintenance in locations, including Vietnam and Indonesia, as well as the R&D for the Group's product development and process re-engineering, which will be funded primarily by internal resources.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates. The details of which can be seen in note 11 to the consolidated annual financial information.

Significant Investments Held and Performance

During the review period in 2016, the share of results from associates and joint ventures was a combined profit of US$66.8 million, compared to a combined profit of US$82.2 million for last year. The decrease was mainly attributable to impairment loss recognized on certain assets of the joint ventures during the period in 2016 and the disposal of equity interests in Symphony Holdings Limited that contributed profit for 2015.

Dividends

A final dividend of HK$1.00 per share for the year ended December 31, 2016 (2015: HK$0.80 per share) has been recommended, amounting to a dividend per share for the year of HK$1.40 (2015: HK$1.20).

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The Group's commitment to upholding steady dividend growth over time remains intact. The dividend payout ratio for the year 2016 was 55.7% (2015: 65.4%)

Foreign Exchange Exposure

All revenue from footwear manufacturing for international brands are denominated in US dollars. The majority of material and component costs are paid 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 also denominated in RMB. For the retail business outside the PRC, both revenues and expenses are denominated in local currencies.

Goodwill and Intangible Assets

The goodwill and intangible assets recorded on the Group's Consolidated Statement of Financial Position are the result of previous acquisitions of businesses in the retail and manufacturing industries.

Employees

As at December 31, 2016, the Group had approximately 355,000 employees across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

PROSPECTS

The manufacturing business continued to face many uncertainties and challenges stemming from the operating environment. Subdued and uneven economic activity continued to affect demand in major markets across the US, EU and Asia, with growth in China and Western European countries expanding at a modest pace, while economic recovery in the US decelerated compared to the previous year. In the face of the rising cost structure, stricter government policies and a surge in minimum wages – which has affected many traditional supply chains – the Group continued to provide solutions to our brand customers to help them manage input cost, diversify production and risk management.

Changes in the geopolitical and operating environment will require the management to quickly adapt and explore variable options available to maintain efficiency and quality. The Group is committed to investing in programs to further optimize supply chain integration and manufacturing excellence to improve quality and efficiency in production, as well as to align with the ESG requirements of our brand customers and indirectly with end consumers. The ability to bring new technological manufacturing process and innovative materials to brand customers is essential for establishing strategic partnerships with them. The rebalancing and optimization of production capacity across different countries remains a top priority.

The retail business unit will continue to enhance its omni-channel strategy and efficiency in inventory management so that it will be a key partner to the brands to which it distributes and so it 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, 2016, 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 of Hong Kong Limited (the "Stock Exchange") a total of 1,085,500 shares in the Company at a total consideration of approximately HK$30,076,000 (equivalent to approximately US$3,878,000).

CORPORATE GOVERNANCE

During the year ended December 31, 2016, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code (including the new code provisions in the revised Corporate Governance Code in relation to internal controls) as set out in Appendix 14 to the Listing Rules.

RE-ELECTION OF DIRECTORS

Mr. Lu Chan Chu, Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) will retire by rotation at the forthcoming annual general meeting of the Company ("2017 AGM") in accordance with Bye-law 87 of the bye-laws of the Company (the "Bye-laws") and, being eligible, will offer themselves for re-election.

Mr. Hu Dien Chien was appointed to fill causal vacancy of the Board shall hold office until 2017 AGM in accordance with Bye-law 86(2) of the Bye-laws and, being eligible, will offer himself for re-election.

Further details of the retiring directors proposed to be re-elected at the 2017 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2016 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") as 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 enquiries 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, 2016.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management and the external auditor the Group's consolidated financial statements for the year ended December 31, 2016, the accounting principles and practices adopted and discussed auditing, risk management and 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 Stock Exchange (www.hkexnews.hk). The annual report 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 2017 AGM will be held on May 26, 2017 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 2017 AGM

For determining the entitlement of the shareholders to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Monday, May 22, 2017 to Friday, May 26, 2017, 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 in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, May 19, 2017 in order to be eligible to attend and vote at the 2017 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 2, 2017 to Tuesday, June 6, 2017, 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 in Hong Kong, 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 1, 2017 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 24, 2017

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. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.

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