裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Stock Code : 551

INTERIM REPORT 2013

YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕 元 工 業（集 團）有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30th June, 2013	2012	Percentage increase/ (decrease)
Turnover *(US$'000)*	3,699,323	3,649,333	1.37%
Recurring operating profit attributable to owners of the Company *(US$'000)*	190,568	246,311	(22.63%)
Non-recurring operating profit attributable to owners of the Company *(US$'000)*	3,878	25,797	(84.97%)
Profit attributable to owners of the Company *(US$'000)*	194,446	272,108	(28.54%)
Basic earnings per share *(US cents)*	11.79	16.50	(28.55%)
Dividend per share – interim dividend (2012: first interim dividend) *(HK$)*	0.35	0.35	–

* *For identification purposes only*

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June, 2013 with comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2013

		For the six months ended 30th June,	
		2013	**2012**
		(unaudited)	(unaudited)
	Notes	*US$'000*	*US$'000*
Turnover	3	3,699,323	3,649,333
Cost of sales		(2,920,673)	(2,800,363)
Gross profit		778,650	848,970
Other income		86,746	80,519
Selling and distribution expenses		(301,797)	(313,247)
Administrative expenses		(271,083)	(263,193)
Other expenses		(101,837)	(90,557)
Finance costs		(13,452)	(18,656)
Fair value changes on derivative financial instruments	4	183	(16,204)
Fair value changes on consideration payable for acquisition of business	17(c)	(361)	(1,542)
Gain on disposal of subsidiaries	18	–	5,761
Impairment losses of investments in an associate and joint ventures		–	(7,497)
Impairment losses on amounts due from joint ventures		(2,443)	–
Share of results of associates		16,455	16,150
Share of results of joint ventures		7,717	33,358
Profit before taxation		198,778	273,862
Income tax expense	5	(8,489)	(10,442)
Profit for the period	6	190,289	263,420
Attributable to:			
Owners of the Company		194,446	272,108
Non-controlling interests		(4,157)	(8,688)
		190,289	263,420
		US cents	*US cents*
Earnings per share	8		
– Basic		11.79	16.50
– Diluted		11.17	15.63

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	For the six months ended 30th June, 2013 (unaudited) *US$'000*	2012 (unaudited) *US$'000*
Profit for the period	190,289	263,420
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss		
Exchange difference arising on the translation of foreign operations	15,370	(3,305)
Gain (loss) on fair value changes of available-for-sale investments	1,324	(2,770)
Other comprehensive income (expense) for the period	16,694	(6,075)
Total comprehensive income for the period	206,983	257,345
Total comprehensive income attributable to:		
Owners of the Company	208,168	268,450
Non-controlling interests	(1,185)	(11,105)
	206,983	257,345

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Notes	At 30th June, 2013 (unaudited) US$'000	At 31st December, 2012 (audited) US$'000
Non-current assets			
Investment properties	9	42,290	42,290
Property, plant and equipment	9	1,834,234	1,874,614
Deposits paid for acquisition of property, plant and equipment		12,281	11,698
Prepaid lease payments		161,337	181,653
Intangible assets	9	131,905	134,031
Goodwill		273,962	273,962
Investments in associates		419,987	411,160
Amounts due from associates		2,596	4,906
Investments in joint ventures		430,995	424,197
Amounts due from joint ventures		43,923	59,836
Long-term loan receivables		839	827
Convertible note receivable	10	–	4,322
Available-for-sale investments		24,817	23,492
Rental deposits and prepayments		21,456	23,159
Derivative financial instruments	11	–	936
Deferred tax assets		7,765	4,051
		3,408,387	3,475,134
Current assets			
Inventories		1,206,976	1,207,787
Trade and other receivables	12	1,440,763	1,317,735
Prepaid lease payments		5,438	5,428
Taxation recoverable		4,993	7,278
Investments held for trading		2,815	9,024
Derivative financial instruments	11	7,978	2,897
Convertible note receivable	10	2,737	–
Bank balances and cash		692,727	809,153
		3,364,427	3,359,302
Assets classified as held for sale	13	22,569	1,674
		3,386,996	3,360,976

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

At 30th June, 2013

	Notes	**At 30th June, 2013** (unaudited) *US$'000*	**At 31st December, 2012** (audited) *US$'000*
Current liabilities			
Trade and other payables	14	1,132,757	1,094,545
Dividend payable		–	138,320
Taxation payable		18,450	19,464
Derivative financial instruments	11	6,029	92
Bank overdrafts		8,763	–
Bank borrowings	15	330,049	734,110
		1,496,048	1,986,531
Net current assets		1,890,948	1,374,445
Total assets less current liabilities		5,299,335	4,849,579
Non-current liabilities			
Long-term bank borrowings	15	673,271	364,895
Consideration payable for acquisition of business		18,329	17,980
Consideration payable for acquisition of additional interest in a subsidiary		550	–
Deferred tax liabilities		45,998	45,308
		738,148	428,183
Net assets		4,561,187	4,421,396
Capital and reserves			
Share capital	16	53,211	53,211
Reserves		4,108,246	3,949,577
Equity attributable to owners of the Company		4,161,457	4,002,788
Non-controlling interests		399,730	418,608
Total equity		4,561,187	4,421,396

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2013

	Equity attributable to owners of the Company												
	Share capital US$'000	**Share premium** US$'000	**Investments revaluation reserve** US$'000	**Special reserve** US$'000 (note a)	**Other reserve** US$'000 (note b)	**Other revaluation reserve** US$'000 (note c)	**Property revaluation reserve** US$'000	**Non-distributable reserve fund** US$'000 (note d)	**Translation reserve** US$'000	**Retained profits** US$'000	**Total** US$'000	**Non-controlling interests** US$'000	**Total equity** US$'000
At 1st January, 2012 (unaudited)	53,211	695,536	5,401	(16,688)	16,314	4,551	519	26,837	112,892	2,927,443	3,826,016	461,068	4,287,084
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	(888)	–	(888)	(2,417)	(3,305)
Loss on fair value changes of investments	–	–	(2,770)	–	–	–	–	–	–	–	(2,770)	–	(2,770)
Profit for the period	–	–	–	–	–	–	–	–	–	272,108	272,108	(8,688)	263,420
Total comprehensive (expense) income for the period	–	–	(2,770)	–	–	–	–	–	(888)	272,108	268,450	(11,105)	257,345
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	–	–	853	853
Realised on disposal of subsidiaries *(Note 18)*	–	–	–	–	–	–	–	–	–	–	–	(10,767)	(10,767)
Realised on deregistration of subsidiaries	–	–	–	–	–	–	–	–	(105)	105	–	(83)	(83)
Realised on disposal of a joint venture	–	–	–	–	–	–	–	–	(566)	566	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	1,500	1,500
Deemed partial disposal of interests in subsidiaries without losing control	–	–	–	–	910	–	–	–	–	–	910	1,827	2,737
Refund of investment cost in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(480)	(480)
Recognition of consideration for acquisition of business settled by shares of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	3,412	3,412
Acquisition of additional interests in subsidiaries	–	–	–	–	1,493	–	–	–	–	–	1,493	(2,956)	(1,463)
Dividends *(Note 7)*	–	–	–	–	–	–	–	–	–	(119,084)	(119,084)	–	(119,084)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(5,385)	(5,385)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	2,890	–	(2,890)	–	–	–
At 30th June, 2012 (unaudited)	53,211	695,536	2,631	(16,688)	18,717	4,551	519	29,727	111,333	3,078,248	3,977,785	437,884	4,415,669
At 1st January, 2013 (audited)	53,211	695,536	6,121	(16,688)	45,212	4,551	519	31,682	123,002	3,059,642	4,002,788	418,608	4,421,396
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	12,398	–	12,398	2,972	15,370
Gain on fair value changes of investments	–	–	1,324	–	–	–	–	–	–	–	1,324	–	1,324
Profit for the period	–	–	–	–	–	–	–	–	–	194,446	194,446	(4,157)	190,289
Total comprehensive income (expense) for the period	–	–	1,324	–	–	–	–	–	12,398	194,446	208,168	(1,185)	206,983
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested	–	–	–	–	–	–	–	–	–	–	–	(8)	(8)
Realised on deregistration of subsidiaries	–	–	–	–	–	–	–	–	(171)	171	–	–	–
Realised on disposal of a joint venture	–	–	–	–	–	–	–	–	(81)	81	–	–	–
Acquisition of additional interests in subsidiaries	–	–	–	–	3,619	–	–	–	–	–	3,619	(12,875)	(9,256)
Dividends *(Note 7)*	–	–	–	–	–	–	–	–	–	(53,118)	(53,118)	–	(53,118)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(4,810)	(4,810)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	1,879	–	(1,879)	–	–	–
At 30th June, 2013 (unaudited)	53,211	695,536	7,445	(16,688)	48,831	4,551	519	33,561	135,148	3,199,343	4,161,457	399,730	4,561,187

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30th June, 2013

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 1992.

(b) On 20th April, 2010, in consideration of the receipt by the Company of a cash premium of US$18,272,000, the Company granted an option to a financial institution, pursuant to which the financial institution has the right, from time to time during the period from 10th May, 2010 to 31st March, 2015, to require the Company to issue up to a maximum of 92,247,920 ordinary shares of HK$0.25 each in the Company at an agreed exercise price of US$4.21 per share (the "USD Call Option 2015"). The premium received by the Company was recognised as equity and presented in reserves as "other reserve".

Up to 30th June, 2013, the holders of the USD Call Option 2015 had not exercised any of their rights thereof.

In addition, the Group also accounted for the acquisition of additional interests in subsidiaries and partial disposal of interests in subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received was recognised in "other reserve".

(c) The other revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the other revaluation reserve will be transferred to retained profits upon disposal of these subsidiaries or the relevant assets, whichever is earlier.

(d) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Group established in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2013

		For the six months ended 30th June,	
		2013	**2012**
		(unaudited)	(unaudited)
	Notes	*US$'000*	*US$'000*
Net cash from operating activities		182,939	365,018
Net cash from (used in) investing activities			
Purchase of property, plant and equipment		(92,986)	(99,128)
Investments in associates		(4,453)	(380)
Proceeds from disposal of joint ventures		1,543	2,447
Repayment of advance to associates		2,407	–
Interest received		3,964	5,690
Dividends received from associates		4,631	3,170
Dividends received from joint ventures		6,744	5,355
Proceeds from disposal of associates		11,918	–
Proceeds from disposal of property, plant and equipment		13,808	35,719
Repayment from joint ventures		17,203	520
Deposit received for sales of assets classified as held for sale		46,844	397
Acquisition of business	17	–	(56,859)
Prepaid land leases		–	(2,549)
Proceeds from maturity of available-for-sale investments		–	11,632
Net proceeds on disposal of subsidiaries	18	–	13,213
Other investing cash flows		(363)	1,166
		11,260	(79,607)
Net cash used in financing activities			
Repayment of bank borrowings		(1,555,073)	(4,405,532)
Dividends paid		(191,438)	(119,084)
Interest paid		(13,452)	(18,656)
Acquisition of additional interests in subsidiaries		(8,706)	(1,463)
Dividends paid to non-controlling interests of subsidiaries		(4,810)	(5,385)
Bank borrowings raised		1,456,622	4,173,955
Contribution from non-controlling interests		–	1,500
Proceeds from deemed partial disposal of interests in subsidiaries without losing control		–	2,737
		(316,857)	(371,928)
Net decrease in cash and cash equivalents		(122,658)	(86,517)
Effect of foreign exchange rate changes		(2,531)	(828)
Cash and cash equivalents at beginning of the period		809,153	767,932
		683,964	680,587
Cash and cash equivalents at end of the period, represented by:			
bank balances and cash		692,727	727,595
bank overdrafts		(8,763)	(47,008)
		683,964	680,587

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30th June, 2013 are the same as those followed in the preparation of the annual financial statements of the Group for the fifteen months ended 31st December, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("new and revised HKFRSs") issued by the HKICPA that are relevant for the preparation of the condensed consolidated interim financial information of the Group:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 1	Government Loans
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" may be renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". However, since the new terminology under amendments to HKAS 1 is not mandatory and the directors of the Company determine to remain the titles of "statement of comprehensive income" and "income statement" unchanged.

In addition, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to statement of profit or loss; and (b) items that may be reclassified subsequently to statement of profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"

The Group has applied for the first time the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in the current interim period. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Group reviewed the Group's investment property portfolios and concluded that majority of the investment properties are to be consumed substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, and that the presumption set out in the amendments to HKAS 12 is rebutted. The Group continues to recognise deferred taxes on changes in fair value of these investment properties on the basis that the carrying amounts of these properties were recovered through use and hence, the adoption of the amendments to HKAS 12 has no material effect on the amounts reported.

**Amendments to HKAS 34 "Interim Financial Reporting"
(as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle)**

The Group has applied the amendments to HKAS 34 "Interim Financial Reporting" as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Total assets and total liabilities information is not disclosed in the condensed consolidated interim financial information since the directors of the Company consider that there has not been any material change from the amounts disclosed in the last annual financial statements in any reportable segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated interim financial information as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1st January, 2013) as to whether or not the Group has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that it has had control over the investees which are consolidated into the condensed consolidated interim financial information before the application of HKFRS 10. The adoption of HKFRS 10 has therefore had no material effect on the amounts reported in this condensed consolidated interim financial information.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures", and the guidance contained in a related interpretation, HK(SIC) – Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Impact of the application of HKFRS 11 (continued)

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

The directors of the Company reviewed and assessed the classification of the Group's investments in the joint arrangements in accordance with the requirements of HKFRS 11. The directors concluded that the Group's investment in each of the joint arrangements, each of which was classified as a jointly controlled entity under HKAS 31 and was accounted for using the equity method, should be classified as a joint venture under HKFRS 11 and continue to be accounted for using the equity method. The adoption of HKFRS 11 has therefore had no material effect on the amounts reported in this condensed consolidated interim financial information.

HKFRS 13 "Fair Value Measurement"

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated interim financial information.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 19. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in this condensed consolidated interim financial information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated interim financial information of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

3. TURNOVER AND SEGMENTAL INFORMATION

Information reported to the Board of Directors of the Company, being the CODM, 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:

	For the six months ended 30th June,	
	2013	**2012**
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Turnover		
Manufacturing Business	2,842,435	2,816,563
Retailing Business	856,888	832,770
Total turnover	3,699,323	3,649,333

4. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

	For the six months ended 30th June,	
	2013	**2012**
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Gain (loss) on changes in fair value of:		
– JV Call Options *(defined in Note 11)*	–	(14,655)
– other derivative financial instruments	183	(1,549)
	183	(16,204)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. INCOME TAX EXPENSE

	For the six months ended 30th June, 2013 (unaudited) *US$'000*	2012 (unaudited) *US$'000*
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
Hong Kong Profits Tax *(note i)*	43	314
PRC Enterprise Income Tax ("EIT") *(note ii)*	9,941	6,991
Overseas taxation *(note iii)*	2,522	4,153
	12,506	11,458
Deferred tax credit	(4,017)	(1,016)
	8,489	10,442

notes:

(i) Hong Kong

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

(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:

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

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

(b) Pursuant to《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 the current period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. INCOME TAX EXPENSE (continued)

notes: (continued)

(iii) Overseas

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

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

6. PROFIT FOR THE PERIOD

	For the six months ended 30th June,	
	2013	**2012**
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Total staff cost	899,964	824,652
Release of prepaid lease payments	2,472	2,513
Amortisation of intangible assets (included in selling and distribution expenses)	4,080	4,162
Depreciation of property, plant and equipment	122,316	117,381
Allowance for inventories, net	4,065	2,595
Impairment loss recognised on trade receivables (included in other expenses)	887	2,299
Loss on disposal of property, plant and equipment (included in other expenses)	3,300	–
Research and development expenditure (included in other expenses)	84,824	79,514
and after crediting to other income:		
Net exchange gain	18,552	7,932
Gain on disposal of property, plant and equipment	–	14,744
Subsidies, rebates and other income from suppliers	14,523	13,827

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

7. DIVIDENDS

	For the six months ended 30th June, 2013 (unaudited) *US$'000*	2012 (unaudited) *US$'000*
Dividends recognised as distribution during the period:		
2012 final dividend of HK$0.25 per share (2012: 2011 final dividend of HK$0.56 per share)	53,118	119,084

On 28th November, 2012, the directors of the Company declared a second interim dividend of HK$0.65 per share for the fifteen months ended 31st December, 2012 (2012: no 2011 second interim dividend was declared). The second interim dividend of approximately HK$1,071,804,000, equivalent to US$138,320,000, was paid in the current interim period on 18th January, 2013 to the shareholders of the Company.

During the current interim period, the directors of the Company declared a final dividend of HK$0.25 per share for the fifteen months ended 31st December, 2012 (2012: 2011 final dividend for the year ended 30th September, 2011 of HK$0.56 per share). The final dividend of approximately HK$412,232,000 (2012: HK$923,400,000), equivalent to US$53,118,000 (2012: US$119,084,000), was paid on 17th June, 2013 to the shareholders of the Company.

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:

	For the six months ended 30th June, 2013 (unaudited) *US$'000*	2012 (unaudited) *US$'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	194,446	272,108

	2013 (unaudited)	2012 (unaudited)
Number of shares:		
Number of ordinary shares in issue during the period for the purpose of basic earnings per share	1,648,928,486	1,648,928,486
Effect of dilutive potential ordinary shares: USD Call Option 2015	92,247,920	92,247,920
Number of ordinary shares in issue during the period for the purpose of diluted earnings per share	1,741,176,406	1,741,176,406

note:

The computation of diluted earnings per share for the six months ended 30th June, 2013 and 2012 do 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 in the respective periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The directors are of the opinion that the carrying value of the Group's investment properties as at 30th June, 2013 is not materially different from their fair value at that date. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties for the period.

During the current interim period, the Group acquired property, plant and equipment of US$92,986,000 (six months ended 30th June, 2012: US$99,303,000).

During the six months ended 30th June, 2012, property, plant and equipment of US$10,884,000 (2013: Nil) and intangible assets of US$23,491,000 (2013: Nil) were acquired through the acquisition of business (see Note 17).

10. CONVERTIBLE NOTE RECEIVABLE

During the six months ended 30th June, 2012, the Group received a convertible note ("Convertible Note") with principal amount of US$4,600,000 issued by Luen Thai Holdings Limited ("Luen Thai") as a consideration for disposing 50% equity interest each in Yuen Thai Industrial Company Limited and Yuen Thai Holdings Limited, both companies were joint ventures of the Group, to Luen Thai. Luen Thai is an associate of the Group, whose shares are listed on the Stock Exchange. The Convertible Note carries interest at 6.5% per annum with maturity on 30th May, 2014 at redemption amount of 100% of the principal amount together with interest accrued as at the redemption date. The Convertible Note was convertible at the option of the holders into ordinary shares at conversion price of HK$1.2 each in Luen Thai from the issue date up to the maturity date and, at the option of holders, to extend the maturity date of the Convertible Note for a period of an additional two years.

The Group has classified the debt component of the Convertible Note as loan and receivables on initial recognition.

The fair value of each of the debt and derivative components of the Convertible Note on initial recognition are determined with reference to a valuation performed by Savills Valuation and Professional Services Limited ("Savills"), an independent valuer not connected with the Group, using the Binomial Option Pricing Model.

Subsequent to initial recognition, the debt component is carried at amortised cost. The effective interest rate of the debt component is 14.5% per annum. The derivative component is measured at fair value using the Binomial Option Pricing Model at the end of the reporting period.

During the six months ended 30th June, 2013, Convertible Note with principal amount of US$1,778,000 was converted into 11,500,000 ordinary shares of US$0.01 each in Luen Thai and such additional interest in Luen Thai with carrying amount of approximately US$3,655,000 was transferred to investment in an associate. Subsequent to the end of the reporting period, the remaining Convertible Note with principal amount of US$2,822,000 were fully converted into ordinary shares of US$0.01 each in Luen Thai.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

10. CONVERTIBLE NOTE RECEIVABLE (continued)

The movement of each component of the Convertible Note is set out below:

	Debt component *US$'000*	Derivative component *US$'000*	Total *US$'000*
At date of subscription	4,016	584	4,600
Effective interest income	46	–	46
Change in fair value	–	31	31
At 30th June, 2012 (unaudited)	4,062	615	4,677
At 1st January, 2013 (audited)	4,322	936	5,258
Effective interest income	243	–	243
Coupon interest received	(150)	–	(150)
Change in fair value	–	5,098	5,098
Converted into ordinary shares	(1,678)	(1,977)	(3,655)
At 30th June, 2013 (unaudited)	2,737	4,057	6,794

11. DERIVATIVE FINANCIAL INSTRUMENTS

	At 30th June, 2013		At 31st December, 2012	
	Assets (unaudited) *US$'000*	Liabilities (unaudited) *US$'000*	Assets (audited) *US$'000*	Liabilities (audited) *US$'000*
Derivatives:				
Non-current:				
JV Call Options *(note)*	–	–	–	–
Derivative embedded in convertible note *(Note 10)*	–	–	936	–
	–	–	936	–
Current:				
Foreign currency derivatives	3,921	6,029	2,897	92
Derivative embedded in convertible note *(Note 10)*	4,057	–	–	–
	7,978	6,029	2,897	92
	7,978	6,029	3,833	92

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

note:

In October 2007, the Group entered into call option agreements with the other shareholders (the "Relevant Partners") of certain subsidiaries, associates and joint ventures (the "Relevant Companies"), pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Option Premium"), has the right (but not the obligation) exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the Relevant Companies (the "JV Call Options").

The JV Call Options are exercisable within five years commencing from 6th December, 2008, the expiry of the first six months after dealing in the shares of Pou Sheng on the Stock Exchange commenced and upon the mutual agreements between Pou Sheng and the Relevant Partners on certain conditions stipulated in the respective agreements in respect of the performance of the Relevant Companies during the pre-determined evaluation periods. Such conditions were not yet fulfilled for any of the JV Call Options as at 30th June, 2013 and 31st December, 2012.

Pursuant to the JV Call Options agreements, each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the JV Call Options exercisable period without the Group's prior written consent. Furthermore, the consideration for acquiring the Relevant Equity Interests is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation periods and the price earnings ratio of Pou Sheng during a specified period and after certain discount agreed between Pou Sheng and the Relevant Partners. The consideration is to be settled by the issue of shares in Pou Sheng at the average price during the same specified period and after deducting the Option Premium paid.

The management expects that the remaining unexercised JV Call Options would at no time during the remaining exercisable period be exercised to acquire the Relevant Equity Interests in subsidiaries, an associate and certain joint ventures. The valuation of each of the JV Call Options is therefore considered to be zero as at 30th June, 2013 and 31st December, 2012. All of the remaining unexercised JV Call Options will expire in December 2013.

12. TRADE AND OTHER RECEIVABLES

The Group allows credit periods 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$1,017,735,000 (31st December, 2012: US$959,513,000) and an aged analysis based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	At 30th June, 2013 (unaudited) *US$'000*	**At 31st December, 2012** (audited) *US$'000*
0 to 30 days	695,676	661,795
31 to 90 days	304,680	283,847
Over 90 days	17,379	13,871
	1,017,735	959,513

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

13. ASSETS CLASSIFIED AS HELD FOR SALE

	At 30th June, 2013 (unaudited) *US$'000*	At 31st December, 2012 (audited) *US$'000*
The aggregate classes of assets classified as held for sale are as follows:		
Investment in a joint venture *(note a)*	1,674	1,674
Investment in an associate *(note b)*	2,369	–
Prepaid lease payments *(note c)*	18,526	–
Total assets classified as held for sale	22,569	1,674

notes:

(a) On 30th April, 2012, the Group entered into a sale and purchase agreement with the joint venture partners of a joint venture, pursuant to which the parties agreed to, amongst other matters, the disposal of the Group's investment in the relevant joint venture.

A deposit of US$1,674,000 has been received by the Group in the prior year for the transaction and the amount is included in trade and other payables in the condensed consolidated statement of financial position. At the date of this report, the transaction has not yet been completed.

(b) On 30th May, 2013, the Group entered into a sale and purchase agreement with a third party, pursuant to which the Group agreed to dispose of, and the third party agreed to acquire, the Group's investment in an associate, Intelligent Plus Limited, together with its subsidiaries, whose principal assets were production factories, at an aggregate consideration of US$3,800,000.

A deposit of US$380,000 has been received by the Group during the current interim period for the transaction and the amount is included in trade and other payables in the condensed consolidated statement of financial position. The transaction was agreed prior to, but not completed as at 30th June, 2013 and the related investment was classified as asset held for sale as at 30th June, 2013.

(c) During the current interim period, the Group entered into sale and purchase agreements with third parties, pursuant to which the Group agreed to dispose of, and the third parties agreed to acquire, a subsidiary of the Group, whose sole asset was land use right, at an aggregate consideration of RMB318,675,000 (equivalent to US$51,901,000). The transaction was agreed prior to, but not completed as at 30th June, 2013 and related assets were classified as assets held for sale as at 30th June, 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$412,280,000 (31st December, 2012: US$407,168,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	At 30th June, 2013 (unaudited) *US$'000*	At 31st December, 2012 (audited) *US$'000*
0 to 30 days	277,875	285,213
31 to 90 days	116,917	102,851
Over 90 days	17,488	19,104
	412,280	407,168

15. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately US$1,457 million (six months ended 30th June, 2012: US$4,174 million) of which approximately US$840 million (six months ended 30th June, 2012: US$3,808 million) were repaid before the period ended 30th June, 2013. The proceeds of the remaining new bank borrowings were used to repay bank borrowings and to finance the daily operation of the Group. Among these bank borrowings, the variable-rate borrowings bear interest at a premium over London Interbank Offered Rate, Hong Kong Interbank Offered Rate and prevailing lending rate quoted by the People's Bank of China.

16. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.25 each:		
At 1st January, 2012, 30th June, 2012, 1st January, 2013 and 30th June, 2013	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At 1st January, 2012, 30th June, 2012, 1st January, 2013 and 30th June, 2013	1,648,928,486	412,232

	At 30th June, 2013 (unaudited) *US$'000*	At 31st December, 2012 (audited) *US$'000*
Shown in the condensed consolidated interim financial information	53,211	53,211

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17. ACQUISITION OF BUSINESS

The Group acquired the Pengda Business (as defined below) during the six months ended 30th June, 2012. The Group obtained control over the business on the date of completion of the acquisition which has been accounted for using the purchase method. Further details of the acquisition, including considerations paid or payable, assets acquired, liabilities recognised and goodwill arising, are set out below.

	US$'000
The consideration for the acquisition comprises the following:	
Cash consideration	98,201
Consideration shares with trading restrictions *(note b)*	2,940
Fair value of guaranteed compensation *(note c)*	15,862
Total consideration	117,003
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follow:	
Property, plant and equipment	10,884
Intangible assets	23,491
Inventories	55,516
Deferred tax liabilities	(5,873)
	84,018
Goodwill arising on acquisition	32,985
Cash consideration paid:	
In prior years	3,127
During the six months ended 30th June, 2012	56,859
During the six months ended 31st December, 2012	38,215
Net cash outflow	98,201
Acquisition-related costs	217

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17. ACQUISITION OF BUSINESS (continued)

notes:

(a) On 1st February, 2012, the Group completed the acquisition of a chain of retail stores in the PRC, including the related tangible and intangible assets, owned by Shanghai Pengda Sports Goods Company Limited and its related parties ("Pengda") (the "Pengda Business"), for the purpose of strengthening its market position and geographical coverage in the PRC sportswear retail market.

Pursuant to the acquisition agreement entered into between Pengda and the Group for the acquisition of the Pengda Business, the parties have subsequently entered into a supplementary agreement in 2012 under which the original consideration for the transaction, including cash of US$103,797,000 and 46,000,000 shares of HK$0.01 each in Pou Sheng, has been reduced to cash of US$98,201,000 and 39,634,662 shares of HK$0.01 each in Pou Sheng. The fair value of the aggregate consideration for the transaction has been reduced by an amount of US$8,616,000, with a corresponding reduction of goodwill arising from this transaction.

(b) This represents 39,634,662 shares of HK$0.01 each in Pou Sheng which are issuable for the acquisition (the "Pengda Consideration Shares"). These shares, when issued, are to be placed in an escrow account and cannot be withdrawn within a period of 4 years without Pou Sheng's consent (the "Restricted Period"). The fair value of these consideration shares was determined by American Appraisal China Limited ("American Appraisal") by applying a marketability discount of 40% to the closing share price of Pou Sheng as at 1st February, 2012.

(c) Pursuant to the relevant agreements, the Group has to compensate Pengda for the shortfall, if any, between the market value of each Pengda Consideration Share and HK$4 at the end of the Restricted Period. The market value applied being the average closing price of Pou Sheng's shares in the 20 consecutive trading days immediately following the end of the Restricted Period. The fair value of such guaranteed compensation has been determined by American Appraisal using the Binomial Option Pricing Model with reference to the closing share price of Pou Sheng as at 1st February, 2012.

The change in fair value of the guaranteed compensation amounting to US$361,000 (six months ended 30th June, 2012: US$1,542,000) is recognised in profit or loss.

(d) Pro-forma revenue and profit

Included in the profit for the six months ended 30th June, 2012 was loss of US$2,705,000 attributable to the additional businesses generated by Pengda Business. Revenue for the six months ended 30th June, 2012 included US$83,989,000 generated from Pengda Business. Had the acquisition been completed on 1st January, 2012, total group revenue for the six months ended 30th June, 2012 would have been US$3,659,820,000, and profit for the same period would have been US$263,162,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2012, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

18. DISPOSAL OF SUBSIDIARIES

During the six months ended 30th June, 2012, the Group disposed of (i) entire interest in Yolland Holdings Limited and its subsidiaries; and (ii) 51% equity interest in Huge World Investments Limited.

The aggregate amounts of the assets and liabilities attributable to these subsidiaries on the respective dates of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	53,144
Deposit paid for acquisition of property, plant and equipment	3,625
Bank balances and cash	3,755
Accruals and other payables	(23,550)
Bank borrowings	(15,000)
Total net assets	21,974
Less: Non-controlling interests	(10,767)
	11,207
Gain on disposal of subsidiaries:	
Consideration received	16,968
Net assets disposed of	(11,207)
Gain on disposal	5,761
Net cash inflow arising on disposal:	
Cash consideration received	16,968
Less: bank balances and cash disposed of	(3,755)
	13,213

The subsidiaries disposed of during the six months ended 30th June, 2012 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as at		
	30th June, 2013	**31st December, 2012**	**Fair value hierarchy**
	US$'000	*US$'000*	
Financial assets at FVTPL			
Derivative financial instruments			
Foreign currency derivatives *(note a)*	3,921	2,897	Level 2
Derivative embedded in Convertible Note *(note b)*	4,057	936	Level 3
Available-for-sale investments			
Listed equity securities *(note c)*	23,548	22,223	Level 1
Investments held for trading *(note d)*	2,815	9,024	Level 1
Total	34,341	35,080	
Financial liabilities at FVTPL			
Derivative financial instruments			
Foreign currency derivatives *(note a)*	6,029	92	Level 2
Consideration payable for acquisition of business *(note e)*	18,329	17,980	Level 3
	24,358	18,072	

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

notes:

(a) Foreign currency derivatives mainly represents foreign currency forward contracts and currency structured forward contracts. The valuation techniques of these financial assets and liabilities include Black-Scholes Option Pricing Model. Key inputs to the valuation model includes forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(b) The fair value of the derivative embedded in Convertible Note is determined based on the Binomial Option Pricing Model whereas the key inputs to the valuation model includes share price of Luen Thai at date of valuation, risk free rate, expected volatility, option life and the expected dividend yield. The significant unobservable inputs in the valuation model include the expected volatility with reference to the historical price volatility of Luen Thai and the expected dividend yield. Both inputs are positively related to the fair value of the derivative embedded in Convertible Note. If any of the unobservable inputs above were 5% higher/lower while all the other variables were held constant, the changes in fair value of the derivative embedded in Convertible Note would not be significant.

The fair value of the derivative embedded in Convertible Note as at 30th June, 2013 is determined by Savills using the Binomial Option Pricing Model and the key inputs into the model are set out below.

	At 30th June, 2013	**At 31st December, 2012**	**Date of subscription**
Share price of Luen Thai	HK$2.86	HK$1.17	HK$0.98
Expected volatility	57%	49%	49%
Risk free rate	0.21%	0.04%	0.28%
Option life	0.92 year	1.41 years	2 years
Expected dividend yield	3%	8%	8%

(c) Listed equity securities are traded on active liquid markets and their fair values are determined with reference to quoted market bid prices in active market.

(d) The fair values of investments held for trading are determined with reference to prices provided by the respective issuing financial institutions.

(e) Consideration payable for acquisition of business represents the amount that the Group may have to compensate Pengda for the Pengda Consideration Shares which are issuable for the acquisition of the Pengda Business. The valuation technique adopted is Binomial Option Pricing Model whereas the key inputs to the valuation models include the share price of Pou Sheng's share at date of valuation, risk free rate, expected volatility, expected life of the guaranteed compensation and the expected dividend yield. The significant unobservable inputs in the valuation model include the expected volatility with reference to the historical price volatility and the expected dividend yield of Pou Sheng. Both inputs are positively related to the fair value of the consideration payable for acquisition of business. If any of the unobservable inputs above were 5% higher/lower while all the other variables were held constant, the changes in fair value of the consideration payable for acquisition of business would not be significant.

The fair value of the guaranteed compensation as at 30th June, 2013 is determined by Savills using the Binomial Option Pricing Model.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(e) (continued)

The key inputs into the model are set out below:

	At 30th June, 2013	At 31st December, 2012	At 1st February 2012
Share price at date of valuation	HK$0.325	HK$0.455	HK$0.960
Exercise price per share	HK$4.000	HK$4.000	HK$4.000
Risk free rate	0.650%	0.220%	0.395%
Expected volatility	46%	52%	59%
Expected life of the guaranteed compensation	3.39 years	3.89 years	4 years
Expected dividend yield	Nil	Nil	Nil

Reconciliation of Level 3 fair value measurements of financial assets and liabilities is as follows:

	Derivative embedded in Convertible Note *US$'000*
At 1st January, 2013 (audited)	936
Exercise of Convertible Note *(Note 10)*	(1,977)
Total gains recognised in profit or loss (included in fair value changes on derivative financial instruments)	5,098
At 30th June, 2013 (unaudited)	4,057

	Consideration payable for acquisition of business *US$'000*
At 1st January, 2013 (audited)	(17,980)
Total losses recognised in profit or loss (included in fair value changes in consideration payable for acquisition of business)	(361)
Exchange realignment	12
At 30th June, 2013 (unaudited)	(18,329)

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in the period.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost on the condensed consolidated interim financial information approximate their fair value.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

20. CONTINGENCIES AND COMMITMENTS

At the end of the reporting period, the Group had the following contingencies and commitments:

(I) Contingencies

	At 30th June, 2013 (unaudited) *US$'000*	**At 31st December, 2012** (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	61,652	69,292
– amount utilised	39,908	47,888
(ii) associates		
– amount guaranteed	31,740	40,010
– amount utilised	8,356	13,395

(II) Commitments

	At 30th June, 2013 (unaudited) *US$'000*	**At 31st December, 2012** (audited) *US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of:		
– construction of buildings	14,242	11,837
– acquisition of property, plant and equipment	3,400	2,266
– acquisition of the remaining interests in a joint venture	11,421	11,254
	29,063	25,357

INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of HK$0.35 per share for the financial year ending 31st December, 2013 to shareholders whose names appear on the Register of Members on Thursday, 26th September, 2013. The interim dividend will be paid on Friday, 4th October, 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 24th September, 2013 to Thursday, 26th September, 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Monday, 23rd September, 2013.

RECURRING OPERATING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Excluding all items of non-recurring operating in nature, the recurring operating profit attributable to owners of the Company for the current period amounted to US$190.6 million, a decrease of 22.6% as compared with the last corresponding period.

Recurring Operating Profit Attributable to Owners of the Company
For the six months ended 30th June, 2013

	For the six months ended 30th June,	
	2013	**2012**
	US$'000	*US$'000*
Profit for the period attributable to owners of the Company	194,446	272,108
Less: Non-recurring operating income (expenses) attributable to owners of the Company *(Note)*		
Fair value changes on derivative financial instruments	183	(16,204)
Fair value changes on consideration payable for acquisition of business	(361)	(1,542)
Impairment losses on amounts due from joint ventures	(2,443)	–
Impairment losses of investments in an associate and joint ventures	–	(7,497)
Written back of impairment on loan to a joint venture	2,000	–
Gain on disposal of associates and a joint venture	3,535	–
Gain on disposal of certain property, plant and equipment	–	18,177
Gain on disposal of subsidiaries	–	5,761
Share of result of a joint venture	–	18,830
Amounts attributable to non-controlling interests	964	8,272
Non-recurring operating profit attributable to owners of the Company	3,878	25,797
Recurring operating profit attributable to owners of the Company	190,568	246,311

Note: In the opinion of directors, these income (expenses) are non-recurring operating in nature.

BUSINESS REVIEW

The Group found circumstances in the first half of 2013 to be challenging in both the areas of manufacturing performance footwear for international brands, and the retail sales of athletic apparel and footwear in the Greater China region. Economic circumstances across the world varied according to the region. For the USA, there were various signs that economic recovery was coming albeit at a very gradual pace. Job growth picked up and consumer spending exhibited steady improvement. With regards to Europe, negative news continued to dominate the headlines due to the tough economic conditions in that region. Many key economies in Europe continued to be weak, the employment picture remained mixed and consumer spending was tepid. In the case of Asia, attention has been focused on the PRC as weakness in the PRC economy has pervasive effects on all other economies in the world. Various economic indicators suggest the PRC economy has been growing at a slower pace: the slower growth has lead to more restrained spending by consumers in the PRC.

The manufacturing business was challenged on various fronts. First, the significant wages hikes in Indonesia at the beginning of the year impacted margins and time will be needed to reflect these input cost changes in the factory prices. Brand name customers were tempered in their expectations and placed orders cautiously. The manufacturing wage differentials across the Asia region caused brand name customers to make more requests that manufacturing be done outside of the PRC and this created significant shifts in production capacity and capacity utilization across the various factories of the Group.

For the retail business, the weak PRC economy continued to impact consumer spending and discounting was necessary to maintain sales volumes. Efficiency and productivity continued to be the focus of management so that the store network size was stable. Management continued to vigilant in its budgeting of costs, particularly given the underlying inflationary pressures in the PRC.

FINANCIAL REVIEW

For the first six months of the financial year, the Group recorded revenue of US$3,699.3 million, representing a slight increase of 1.4% as compared with the same period last year. The Group's business activities can be delineated as two key categories: the manufacturing business done on behalf of international brand names (the "Core Manufacturing Group") and the retail business in the Greater China region (i.e. Pou Sheng). The net profit attributable to owners of the Company was US$194.4 million, representing a decline of 28.5% compared with last year's net profit of US$272.1 million. If non-recurrent items are excluded, then the recurrent net profit attributable to owners was US$190.6 million: this amount was 22.6% lower on a year on year basis.

REVENUE

Group revenue increased by 1.4% to US$3,699.3 million for the six months ended 30th June, 2013.

Looking at the underlying businesses, revenue growth for the Core Manufacturing Group was limited due to the subdued orders from customers: turnover for this division was US$2,813.1 million and had increased by 1.9% year on year. In the case of Pou Sheng, turnover was US$886.2 million and almost flat compared with the same time last year. Pou Sheng experienced a sales decline for its OEM business for domestic brands and unlike previous periods, did not engage in any acquisitions for its retail operations.

REVENUE (continued)

Total Turnover by Product Category

(all figures rounded to millions)	For the six months ended 30th June, 2013		2012		
	US$ millions	*%*	*US$ millions*	*%*	*% change*
Athletic Shoes	1,901.1	51.4	1,873.9	51.3	1.5
Casual/Outdoor Shoes	616.3	16.7	585.6	16.1	5.2
Sports Sandals	47.1	1.3	59.5	1.6	(20.9)
Retail Sales – Shoes, Apparel & Leasing	856.9	23.1	832.8	22.8	2.9
Soles, Components & Others	277.9	7.5	297.5	8.2	(6.6)
Total Turnover	**3,699.3**	**100.0**	**3,649.3**	**100.0**	**1.4**

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit amounted to US$778.7 million for the six-month period, a decline of 8.3% compared with the same period last year. The gross profit margin was 21.1%, representing a decrease of 2.2 percentage points on a year on year basis.

Considering the Core Manufacturing Group, gross profit was US$529.3 million for the period and was down 9.1% on a year on year basis. Higher direct labour and production overhead led to the decline in gross profit. In the case of Pou Sheng, gross profit was US$249.4 million for the period and fell by 6.6% on a year on year basis. Discounting activities as well as the lower activity for its OEM business adversely affected gross profit.

OTHER INCOME

The Group's other income amounted to US$86.7 million, up 7.7% or US$6.2 million compared with the same period last year. Almost all of the improvement was due to the increase of other income for the Core Manufacturing Group.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group for the six-month period amounted to US$301.8 million in aggregate, representing a decline of US$11.4 million or 3.6% as compared with the same period last year. The drop in expenses came about primarily from the cost reductions achieved by Pou Sheng.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses amounted to US$271.1 million and were up by US$7.9 million or 3.0% compared with the same period last year. The increase in this category came from the step up in administrative expenses of the Core Manufacturing Group.

OTHER EXPENSES

Other expenses of the Group for the six-month period were US$101.8 million, an increase of US$11.2 million or 12.4% compared with the same period last year. Other expenses were up mainly due to the increase in R&D activities and relocation costs of production in the Core Manufacturing Group.

FINANCE COSTS

The Group's finance costs declined by US$5.2 million or 27.8% to US$13.5 million for this six-month reporting period, compared with the same time last year. The reduction in this category was principally due to the drop in finance costs for the Core Manufacturing Group.

SHARE OF RESULTS OF ASSOCIATES

Share of results of associates for the Group was almost unchanged compare to last year at US$16.5 million. For both the Core Manufacturing Group and Pou Sheng, the aggregate amounts for this category were more or less the same compared with the six-month period last year.

SHARE OF RESULTS OF JOINT VENTURES

Share of results of joint ventures were down compared to the same period last year by US$25.6 million or 76.9% to arrive at the balance of US$7.7 million. US$18.8 million of the decline can be attributed to a one-time deferred tax credit recognized last year for a joint venture in the Core Manufacturing Group. The rest of the decline is attributable to entities also belonging to the Core Manufacturing Group.

NET PROFIT FOR THE PERIOD AND PROFIT ATTRIBUTABLE TO OWNERS

As a result of the above factors, the Group's net profit attributable to owners for the period was US$194.4 million, a decline of US$77.7 million or 28.6% compared with the same period last year. If non-recurrent items are removed, then the recurrent net profit attributable to owners was US$190.6 million and the decline was 22.6% compared with the same period last year.

FINANCIAL POSITION

The Group maintains a stable financial position. As at 30th June, 2013, the Group's cash and cash equivalents were US$684 million (31st December, 2012: US$809 million) and total borrowings of US$1,003 million (31st December, 2012: US$1,099 million). Net debt was US$319.4 million as at 30th June, 2013, compared to US$289.9 million as at 31st December, 2012. The gearing ratio stood at 22% (31st December, 2012: 25%) and the net debt to equity ratio was 7% (31st December, 2012: 7%). The gearing ratio is based on total borrowings to total equity and the net debt to equity ratio is based on total borrowings net of cash and cash equivalents to total equity.

Additions to property, plant and equipment for the six months ended 30th June, 2013 were US$93 million, 6% lower than the amount spent in the same period last year.

BUSINESS MODEL

The Group presently operates two businesses: 1) the manufacturing of performance footwear for international brand name customers and 2) the retail and wholesale of international athletic and casual performance footwear and apparel in the Greater China region. About three quarters of the Group's sales are derived from the manufacturing of performance footwear, with the remainder of sales coming from the retail business. The manufacturing business is the core business of the Group and has been operating for well over 20 years. The retail business has a shorter history and is presently held within the Hong Kong listed vehicle, Pou Sheng.

The manufacturing of performance footwear for international brands is performed in factories spread across the Asia region. When the manufacturing factories were first established, the factories were all built in the Pearl River Delta region of China. Today China continues to hold most of the Group's manufacturing capacity, with Indonesia and Vietnam also being important locations for the Core Manufacturing Group. The Group serves a variety of customers, most of them are well established international brand names. Management of the Group aims to be the best partner of the various brands to ensure sustainable development and long term profitability. Management believes the Group's diversified manufacturing base, product development capability and economies of scale, enable it be one of the most competitive and desirable partners to work with, for brands who outsource their shoe manufacturing activities.

The business of Pou Sheng can be broadly classified into three areas. Its key business operation is the sale of international brand name athletic apparel and footwear either to end consumers, or to sub-distributors who in turn sell to end consumers. They are also in the brand licensee business that grants them exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices for the products of the licensed brands. Pou Sheng is also involved in manufacturing shoes for the PRC domestic brands.

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

PROSPECTS

The Group's strategy is to achieve the goals to: 1) be the best sports gears producer and distributor; 2) build value for its customers, employees, investors, suppliers and communities by constantly providing world class products, services and solutions; 3) lead as a socially and environmentally responsible corporate citizen. In achieving the aforementioned goals, the Group should become one of the most valuable solution providers in the footwear supply chain. It will also focus on the activities to nurture people, achieve manufacturing excellence, drive innovation and build "end-to-end" supply chain capability for the PRC market.

The Group believes that 2013 will be a year of consolidation for the Group and that a new era of growth and profitability will begin in financial year 2014 for the Group.

PROSPECTS (continued)

On the manufacturing side, the Group's brand name customers should gradually increase their orders to manufacturers. The US economic recovery is on solid footing. Although Europe still exhibits weakness, many believe the most difficult times have passed for the region. The new leaders of the PRC have made comments indicating their desire to maintain stable growth. The occurrence of the World Cup, the Olympics and the European Cup in the coming years should lead to greater consumer interest in performance athletic and casual footwear. The Group's efforts in achieving manufacturing excellence will help the Group to improve efficiency in its factories and increase its flexibility as a supplier. The Group's diversified manufacturing base also helps the Group to accommodate the trend of manufacturing outside of the PRC. In the medium to long term, the Group will be able to strengthen its position as one of the leading suppliers who can meet brand name customers' needs. In the short term, the manufacturing side will go through a series of adjustments to adapt to the characteristics of the new environment and the business will enjoy better times in the financial year 2014.

For Pou Sheng, various changes are taking place away from the previous strategies of acquisitions of separate businesses and aggressive network expansion. Resources will be directed to collecting data within Pou Sheng for more dynamic decision making. Pou Sheng observes that consumers are becoming more sophisticated and it is preparing to satisfy their interest in outdoor casual performance apparel and footwear. Management is optimistic about the long-term future of the sportswear industry as consumers in the PRC realize that physical activity is an important element for maintaining good health and that rising consumer incomes will lead to more purchases of sportswear. Furthermore there are signs that PRC consumers are more engaged in sports. Demand creation activities during the World Cup, the Olympics and the European Cup in the coming years should give rise to a new wave of consumption of sportswear in the PRC. The preparation work in this year will help the retail business achieve better results in the financial year 2014.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th June, 2013, the interest or short position of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long Position

(a) *Ordinary shares of HK$0.25 each in the Company*

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Tsai Chi Neng	Beneficiary of a trust *(Note)*	101,126,262	6.13%
Tsai Pei Chun, Patty	Beneficiary of a trust *(Note)*	101,126,262	6.13%

Note: Each of Mr. Tsai Chi Neng and Ms. Tsai Pei Chun, Patty is deemed to be interested in 101,126,262 ordinary shares of the Company by virtue of his/her capacity as a beneficiary of a discretionary trust.

(b) *Ordinary shares of HK$0.01 each in Pou Sheng, a non-wholly owned subsidiary of the Company*

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of Pou Sheng
Tsai Pei Chun, Patty	Beneficial Owner	5,575,000	0.10%
Chan Lu Min	Beneficial Owner	851,250	0.01%

Other than the interest disclosed above, none of the directors nor the chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2013.

SHARE INCENTIVE SCHEMES

(a) Share Option Scheme of the Company

The Company recognises the importance of attracting talents and retaining employees by providing them with incentives and rewards through granting share-based incentives. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On 27th February, 2009, the Company adopted a share option scheme (the "Scheme") under which the board of directors of the Company may at its discretion grant any eligible participant share options, as it may determine appropriate. The Scheme is valid and effective for a period of ten years commencing on 27th February, 2009, after which no further options may be offered or granted.

No share options were granted under the Scheme since its adoption.

(b) Share Option Scheme of Pou Sheng

On 14th May, 2008, Pou Sheng adopted the share option scheme under which the board of Pou Sheng (the "Pou Sheng Board") may at its discretion grant any participant options, as it may determine appropriate. The Pou Sheng share option scheme is valid and effective for a period of ten years commencing on 14th May, 2008, after which no further options may be offered or granted.

In order to provide greater flexibility to the Pou Sheng Board in the treatment of outstanding options held by the grantees in the event that they cease to become a participant, certain terms of the Pou Sheng share option scheme were amended on 7th March, 2012 (the "Pou Sheng Share Option Scheme") as approved by the shareholders of Pou Sheng and the Company. The terms are amended as that in the event a grantee of an option, who is an employee or a director of Pou Sheng or any of its subsidiaries (Pou Sheng and its subsidiaries are collectively referred to as the "Pou Sheng Group"), ceases to be a participant under the Pou Sheng Share Option Scheme by any reason other than death or termination of his employment on grounds of summary dismissal, the Pou Sheng Board may by written notice to such grantee within one month from (and including) the date of cessation or termination of such employment or directorship determine whether such option shall lapse or the period within which such option (or such remaining part thereof) shall be exercisable following such date of cessation or termination of employment or directorship but before the expiry of the original option period and if the Pou Sheng Board does not serve such written notice within such one month period, the grantee may exercise the outstanding options up to his entitlement as at the time of such cessation or termination of employment or directorship (to the extent not already exercised) at any time during the original option period.

During the six months ended 30th June, 2013, the Group recognised a net reversal of expenses amounted to US$8,000 as equity-settled share-based payments, net of amount forfeited relating to options not yet vested, in relation to the options granted under the Pou Sheng Share Option Scheme.

SHARE INCENTIVE SCHEMES (continued)

(b) Share Option Scheme of Pou Sheng (continued)

The following table discloses movements in Pou Sheng's options, which were granted under the Pou Sheng Share Option Scheme, during the period under review were listed below:

	Date of grant	Exercise price *HK$*	Exercisable period	Number of options: Balance at 1st January 2013	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Balance at 30th June, 2013
Employees/Consultants of Pou Sheng	21/01/2010	1.62	21/01/2011-20/01/2018	4,501,500	–	–	(833,550)	3,667,950
	21/01/2010	1.62	21/01/2012-20/01/2018	4,501,500	–	–	(833,550)	3,667,950
	21/01/2010	1.62	21/01/2013-20/01/2018	9,003,000	–	–	(1,667,100)	7,335,900
	21/01/2010	1.62	21/01/2014-20/01/2018	12,004,000	–	–	(2,222,800)	9,781,200
	20/01/2011	1.23	20/01/2012-19/01/2019	7,177,500	–	–	–	7,177,500
	20/01/2011	1.23	20/01/2013-19/01/2019	7,177,500	–	–	–	7,177,500
	20/01/2011	1.23	20/01/2014-19/01/2019	7,177,500	–	–	–	7,177,500
	20/01/2011	1.23	20/01/2015-19/01/2019	7,177,500	–	–	–	7,177,500
	07/03/2012	1.05	07/03/2013-06/03/2020	375,000	–	–	–	375,000
	07/03/2012	1.05	07/03/2014-06/03/2020	375,000	–	–	–	375,000
	07/03/2012	1.05	07/03/2015-06/03/2020	375,000	–	–	–	375,000
	07/03/2012	1.05	07/03/2016-06/03/2020	375,000	–	–	–	375,000
Sub-total				60,220,000	–	–	(5,557,000)	54,663,000
Former Employees of Pou Sheng	21/01/2010	1.62	21/01/2011-20/01/2018	1,657,500	–	–	(375,000)	1,282,500
	21/01/2010	1.62	21/01/2012-20/01/2018	1,657,500	–	–	(375,000)	1,282,500
	21/01/2010	1.62	21/01/2013-20/01/2018	1,365,000	–	–	(1,011,000)	354,000
	21/01/2010	1.62	21/01/2014-20/01/2018	1,820,000	–	–	(1,820,000)	–
	20/01/2011	1.23	20/01/2012-19/01/2019	4,560,000	–	–	–	4,560,000
	20/01/2011	1.23	20/01/2013-19/01/2019	1,185,000	–	–	(375,000)	810,000
	20/01/2011	1.23	20/01/2014-19/01/2019	1,185,000	–	–	(1,185,000)	–
	20/01/2011	1.23	20/01/2015-19/01/2019	1,185,000	–	–	(1,185,000)	–
	07/03/2012	1.05	07/03/2013-06/03/2020	375,000	–	–	–	375,000
	07/03/2012	1.05	07/03/2014-06/03/2020	375,000	–	–	(375,000)	–
	07/03/2012	1.05	07/03/2015-06/03/2020	375,000	–	–	(375,000)	–
	07/03/2012	1.05	07/03/2016-06/03/2020	375,000	–	–	(375,000)	–
Sub-total				16,115,000	–	–	(7,451,000)	8,664,000
Grand total				76,335,000	–	–	(13,008,000)	63,327,000

SHARE INCENTIVE SCHEMES (continued)

(b) Share Option Scheme of Pou Sheng (continued)

During the six months ended 30th June, 2013, no options were granted or exercised under the Pou Sheng Share Option Scheme.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than disclosed in the "Share Incentive Schemes" above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, as at 30th June, 2013, other than the interests disclosed in "Directors' and Chief Executives' Interests in Securities", the following shareholders had notified the Company of their relevant interests in shares representing 5% or more of the issued share capital of the Company.

Long position
Ordinary shares of HK$0.25 each in the Company

Name of shareholder	*Notes*	**Number of ordinary shares beneficially held**	**Percentage of the issued share capital of the Company as at 30th June, 2013**
Pou Chen Corporation ("PCC")	(a)	824,143,835	49.98%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	46.88%
Mr. Tsai Chi Jui	(b)	115,321,998	6.99%
Ms. Tsai Huang Shu Man	(b)	115,321,998	6.99%
Royal Bank of Canada Trust Company (Cayman) Limited	(c)	101,126,262	6.13%
Accord Management Limited	(d)	101,126,262	6.13%
Mr. Tsai N.F. David	(e)	101,126,262	6.13%
Ms. Tsai Hsu Li Min	(e)	101,126,262	6.13%
Ms. Tsai Hsu Shu Chun	(e)	101,126,262	6.13%
Merrill Lynch & Co. Inc.	(f)	99,315,703	6.02%
Citigroup Inc.	(g)	115,168,811	6.98%
Short Position			
Merrill Lynch & Co. Inc.	(f)	109,341,792	6.63%
Citigroup Inc.	(g)	3,823,146	0.23%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Chan Lu Min, who is a director of the Company, is also a director of PCC. Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min, Mr. Kuo Tai Yu and Mr. Kung Sung Yen (who are directors of the Company) are directors of Wealthplus. Mr. Chan Lu Min is a director of Win Fortune.

(b) Mr. Tsai Chi Jui, brother of Mr. Tsai Chi Neng, is deemed to be interested in (i) 101,126,262 ordinary shares held by six discretionary trusts by virtue of his capacity as a founder of such discretionary trusts and (ii) 13,875,736 ordinary shares held directly by Moby Dick Enterprises Limited ("Moby Dick") by virtue of his interest in more than one-third of the voting shares of Moby Dick. Moby Dick is wholly-owned by Max Creation Industrial Limited ("Max Creation"), which is in turn 53.63% owned by World Future Investments Limited, which is in turn wholly-owned by Mr. Tsai Chi Jui. Mr. Tsai Chi Jui holds 320,000 ordinary shares directly. Mr. Tsai Chi Neng, (who is a director of the Company), is also a director of Moby Dick and Max Creation. Ms. Tsai Huang Shu Man, being the spouse of Mr. Tsai Chi Jui, is deemed to be interested in the 115,321,998 ordinary shares in which Mr. Tsai Chi Jui is interested by virtue of the SFO.

(c) Royal Bank of Canada Trust Company (Cayman) Limited is deemed to be interested in 101,126,262 ordinary shares by virtue of its capacity as a trustee of six discretionary trusts.

(d) Accord Management Limited is wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited. Accord Management Limited is deemed to be interested in 80,494,822 ordinary shares held directly by Quicksilver Profits Limited ("Quicksilver") and 20,631,440 ordinary shares held directly by Red Hot Investments Limited ("Red Hot") by virtue of its interest in more than one-third of the voting shares in Quicksilver and Red Hot respectively. Mr. Tsai Chi Neng, who is a director of the Company, is also a director of Quicksilver and Red Hot.

(e) Mr. David N.F. Tsai is deemed to be interested in 101,126,262 ordinary shares of the Company by virtue of his capacity as a beneficiary of a discretionary trust. Each of Ms. Tsai Hsu Li Min, being the spouse of Mr. Tsai Chi Neng, and Ms. Tsai Hsu Shu Chun, being the spouse of Mr. David N.F. Tsai, is deemed to be interested in the 101,126,262 ordinary shares in which each of Mr. Tsai Chi Neng and Mr. David N.F. Tsai is interested by virtue of the SFO. Mr. Tsai Chi Neng is a director of the Company.

(f) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(f) (continued)

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above have been prepared based on the disclosure of interest form filed with the Company.

(g) The 115,168,811 ordinary shares (long position) are held as to 106,109,837 ordinary shares as corporate interest, 9,033,974 ordinary shares in the capacity as Custodian Corporation/approved lending agent and 25,000 ordinary shares as security interest. Further, 3,823,146 ordinary shares in short position are held as corporate interest. Of the 115,168,811 ordinary shares in long position, 98,458,899 ordinary shares represent underlying interests in physically settled unlisted derivatives and 1,052,500 ordinary shares represent underlying interests in cash settled unlisted derivatives. Of the 3,823,146 ordinary shares in short position, 395 ordinary shares represent underlying interests in physically settled unlisted derivatives.

Of the 115,168,811 ordinary shares (long position) held by Citigroup Inc., 93,296,420 ordinary shares (long position) are directly held by Umbrella Asset Services Hong Kong Limited, 10,424,712 ordinary shares (long position) are directly held by Citigroup Global Markets Limited, 69,500 ordinary shares (long position) are directly held by Citigroup Global Markets Inc., 364,480 ordinary shares (long position) are directly held by Morgan Stanley Smith Barney Holdings LLC, 9,034,249 ordinary shares (long position) are directly held by Citibank N.A., 450 ordinary shares (long position) are directly held by Citicorp Trust South Dakota, and 1,979,000 ordinary shares (long position) are directly held by Citigroup Global Markets Asia Limited.

Of the 3,823,146 ordinary shares (short position) interested by Citigroup Inc., 88,235 ordinary shares (short position) are directly interested by Umbrella Asset Services Hong Kong Limited, 3,734,516 ordinary shares (short position) are directly interested by Citigroup Global Markets Limited and 395 ordinary shares (short position) are directly interested by Automated Trading Desk Financial Services, LLC.

Umbrella Asset Services Hong Kong Limited is wholly-owned by Citigroup Financial Products Inc.. Morgan Stanley Smith Barney Holdings LLC is owned as to 49% by Citigroup Global Markets Inc., which is in turn wholly-owned by Citigroup Financial Products Inc.. Citigroup Global Markets Limited is wholly-owned by Citigroup Global Markets Europe Limited, which is in turn owned as to 64.67% by Citigroup Financial Products Inc., 35.22% by Citigroup Global Markets International LLC and 0.11% by Citigroup Global Markets (International) Finance AG. Citigroup Global Markets International LLC is wholly-owned by Citigroup Financial Products Inc.. Citigroup Global Markets Asia Limited is wholly-owned by Citigroup Global Markets Hong Kong Holding Limited, which is in turn wholly-owned by Citigroup Global Markets Overseas Finance Limited, which is in turn owned as to 51.86% by Citigroup Global Markets (International) Finance AG and 48.14% by Citigroup Global Markets Switzerland Holding GmbH. Citigroup Global Markets Switzerland Holding GmbH is wholly-owned by Citigroup Financial Products Inc.. Automated Trading Desk Financial Services, LLC is wholly-owned by Automated Trading Desk, LLC, which is in turn wholly-owned by Automated Trading Desk Holdings, Inc., which is in turn wholly-owned by Citigroup Acquisition LLC, which is in turn wholly-owned by Citigroup Financial Products Inc.. Citigroup Financial Products Inc. is therefore deemed to be interested in an aggregate of 106,134,112 ordinary shares (long position) and 3,823,146 ordinary shares (short position). Citigroup Financial Products Inc. is wholly-owned by Citigroup Global Markets Holdings Inc., which is in turn wholly-owned by Citigroup Inc..

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

(g) (continued)

Citicorp Trust South Dakota is wholly owned by Citibank N.A., which is in turn wholly-owned by Citicorp Holdings Inc., which is in turn wholly-owned by Citigroup Inc.. Citicorp Holdings Inc. is therefore deemed to be interested in an aggregate of 9,034,699 ordinary shares (long position).

In light of the above, Citigroup Inc. is deemed to be interested in an aggregate of 115,168,811 ordinary shares (long position) and 3,823,146 ordinary shares (short position). The above have been prepared based on the disclosure of interest form filed with the Company.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30th June, 2013.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B (1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since the date of the Company's 2012 annual report on 26th March, 2013 are set out below:

On 26th March, 2013, the Company set up a disclosure committee to consider matters associated with inside information and the Company's compliance obligations. Mr. Chan Lu Min, Mr. Li I Nan, Mr. Lee Shao Wu and Ms. Kuo Li-Lien ("Ms. Kuo") were appointed as members of the disclosure committee.

Ms. Kuo entered into a new executive director's service agreement with the Company for a term of three years commencing from 3rd March, 2013 (approved by the board of directors of the Company on 26th March, 2013), under which her remuneration is adjusted from NT$1,680,000 (equivalent to approximately US$56,000) to HK$456,000 (equivalent to approximately US$58,000) per annum.

On 31st May, 2013, Ms. Kuo retired as a non-executive director of Pou Sheng, and resigned as an executive director, member of nomination committee and disclosure committee of the Company, a secretary of various Hong Kong subsidiaries of the Company, and a director of the following subsidiaries of the Company:

Companies incorporated in Hong Kong

1. Brightup Group Limited
2. Favour Mark Holdings Limited
3. Gorgeous Time Limited
4. Hillside Investments Limited
5. Nice Palace Investments Limited
6. Rainbow Faith Investments Limited
7. Yue Ming International Limited

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B (1) OF THE LISTING RULES (continued)

Companies incorporated in the British Virgin Islands

1. A-Grade Holdings Limited
2. Dedicated Group Limited
3. Diodite Limited
4. Major Focus Management Limited
5. Nice Well Investments Limited
6. Precious Full Investments Limited
7. Richwin Management Limited
8. Selangor Gold Limited
9. Technico Business Group Limited
10. Treasure Chain International Limited
11. Wealthy Chain Investments Limited
12. Wellmax Business Group Limited
13. Winning Team Holdings Limited
14. YY Sports Holdings Limited

On 31st May, 2013, Mr. Chan Lu Min was appointed as a director of the following subsidiaries of the Company, which were incorporated in the British Virgin Islands:

1. Major Focus Management Limited
2. Precious Full Investments Limited

On 4th June, 2013, Mr. Li I Nan was appointed as a director of one of the subsidiaries of the Company, Grand Wealth Group Limited, which was incorporated in the British Virgin Islands.

On 28th June, 2013, Mr. George Hong-Chih Liu ("Mr. George Liu") and Mr. Tsai Ming-Lun, Ming ("Mr. Ming Tsai") were appointed as executive directors of the Company with salaries of HK$1,536,000 and HK$720,000 per annum, respectively. Mr. George Liu was also appointed as a director of the following subsidiaries of the Company, which were incorporated in Hong Kong and the British Virgin Islands:

1. Grand Wealth Group Limited
2. Pakenham Holdings Limited
3. Highbourne Enterprises Limited
4. Newart Enterprises Limited

And Mr. Ming Tsai was also appointed as a director of the following subsidiaries of the Company, which were incorporated in Macao:

1. Idea (Macao Commercial Offshore) Limited
2. The Look (Macao Commercial Offshore) Company Limited

On 28th June, 2013, Mr. David N.F. Tsai resigned as managing director and executive director of the Company.

On 28th June, 2013, Ms. Tsai Pei Chun, Patty was appointed as managing director of the Company.

On 13th August, 2013, Mr. George Liu and Mr. Ming Tsai were appointed as members of the disclosure committee of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2013.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial information.

The external auditor has reviewed the condensed consolidated interim financial information for the six months ended 30th June, 2013 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE2410") issued by the HKICPA. Without qualifying its review conclusion, the external auditor draws attention to the fact that the comparative condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30th June, 2012 and the relevant explanatory notes disclosed in the condensed consolidated interim financial information have not been reviewed in accordance with HKSRE2410.

CORPORATE GOVERNANCE

During the six months ended 30th June, 2013, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

On 13th August, 2013, the Company has adopted a board diversity policy to set out the criteria on the composition of the board of directors of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30th June, 2013.

ACKNOWLEDGEMENT

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 the period.

DIRECTORS

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

By Order of the Board
Tsai Chi Neng
Chairman

Hong Kong, 13th August, 2013

Website: www.yueyuen.com