裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Stock Code : 551

2014 INTERIM REPORT

YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED June 30, 2014

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2014	2013	Percentage increase/ (decrease)
Turnover *(US$'000)*	3,951,335	3,699,323	6.81%
Recurring operating profit attributable to owners of the Company *(US$'000)*	218,117	190,568	14.46%
Non-recurring operating (loss) profit attributable to owners of the Company *(US$'000)*	(116,673)	3,878	N/A
Profit attributable to owners of the Company *(US$'000)*	101,444	194,446	(47.83%)
Basic earnings per share *(US cents)*	6.15	11.79	(47.84%)
Dividend per share – 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 June 30, 2014 with comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2014

		For the six months ended June 30,	
		2014	**2013**
		(unaudited)	(unaudited)
	Notes	*US$'000*	*US$'000*
Turnover	4	3,951,335	3,699,323
Cost of sales		(3,065,870)	(2,920,673)
Gross profit		885,465	778,650
Other income		63,511	86,746
Selling and distribution expenses		(319,735)	(301,797)
Administrative expenses		(298,740)	(271,083)
Other expenses	5	(198,772)	(101,837)
Finance costs		(9,427)	(13,452)
Fair value changes on derivative financial instruments		(25,177)	183
Fair value changes on consideration payable for acquisition of business		562	(361)
Fair value changes on structured bank deposit		74	–
Impairment losses on amounts due from joint ventures		(2,845)	(2,443)
Share of results of associates		19,264	16,455
Share of results of joint ventures		11,384	7,717
Profit before taxation		125,564	198,778
Income tax expense	6	(21,454)	(8,489)
Profit for the period	7	104,110	190,289
Attributable to:			
Owners of the Company		101,444	194,446
Non-controlling interests		2,666	(4,157)
		104,110	190,289
		US cents	*US cents*
Earnings per share	9		
– Basic		6.15	11.79
– Diluted		5.83	11.17

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2014

	For the six months ended June 30, 2014 (unaudited) *US$'000*	2013 (unaudited) *US$'000*
Profit for the period	104,110	190,289
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss		
Exchange difference arising on the translation of foreign operations	(29,432)	15,370
Fair value gain on available-for-sale investments	683	1,324
Other comprehensive (expense) income for the period	(28,749)	16,694
Total comprehensive income for the period	75,361	206,983
Total comprehensive income attributable to:		
Owners of the Company	81,132	208,168
Non-controlling interests	(5,771)	(1,185)
	75,361	206,983

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

	Notes	At June 30, 2014 (unaudited) US$'000	At December 31, 2013 (audited) US$'000
Non-current assets			
Investment properties	10	42,763	42,763
Property, plant and equipment	10	1,755,938	1,770,899
Deposits paid for acquisition of property, plant and equipment		23,035	11,682
Deposit paid for acquisition of the remaining interest in a subsidiary		1,609	–
Prepaid lease payments		161,293	164,878
Intangible assets	10	117,454	118,201
Goodwill		273,962	273,962
Investments in associates		446,015	433,853
Amounts due from associates		2,596	2,499
Investments in joint ventures		423,604	423,122
Amounts due from joint ventures		34,475	37,952
Long-term loan receivables		8,047	8,246
Available-for-sale investments		29,839	29,156
Rental deposits and prepayments		17,362	19,729
Deferred tax assets		10,473	8,858
		3,348,465	3,345,800
Current assets			
Inventories		1,172,104	1,239,676
Trade and other receivables	11	1,470,935	1,457,497
Prepaid lease payments		5,064	5,080
Available-for-sale investment		–	166
Taxation recoverable		7,532	7,621
Investments held for trading		340	2,983
Derivative financial instruments	16b	7	5,685
Structured bank deposit		9,730	2,144
Bank balances and cash		897,761	926,054
		3,563,473	3,646,906

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2014

	Notes	At June 30, 2014 (unaudited) US$'000	At December 31, 2013 (audited) US$'000
Current liabilities			
Trade and other payables	12	1,300,278	1,232,997
Taxation payable		26,245	22,653
Derivative financial instruments	16b	19,499	–
Consideration payable for acquisition of additional interest in a subsidiary		550	–
Bank overdrafts		–	20,220
Bank borrowings	13	524,436	519,299
		1,871,008	1,795,169
Net current assets		1,692,465	1,851,737
Total assets less current liabilities		5,040,930	5,197,537
Non-current liabilities			
Long-term bank borrowings	13	350,000	400,000
Consideration payable for acquisition of business		17,461	18,016
Consideration payable for acquisition of additional interest in a subsidiary		–	550
Deferred tax liabilities		39,492	42,521
		406,953	461,087
Net assets		4,633,977	4,736,450
Capital and reserves			
Share capital	14	53,211	53,211
Reserves		4,202,601	4,285,447
Equity attributable to owners of the Company		4,255,812	4,338,658
Non-controlling interests		378,165	397,792
Total equity		4,633,977	4,736,450

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2014

	Equity attributable to owners of the Company														
	Shares 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$'000	Shares held under share award scheme US$'000	Share award 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 January 1, 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
Fair value gain on available-for-sale 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 8)*	–	–	–	–	–	–	–	–	–	–	–	(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 June 30, 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
At January 1, 2014 (audited)	53,211	695,536	11,785	(16,688)	48,121	4,551	519	–	–	35,884	141,182	3,364,557	4,338,658	397,792	4,736,450
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	(20,995)	–	(20,995)	(8,437)	(29,432)
Fair value gain on available-for-sale investments	–	–	683	–	–	–	–	–	–	–	–	–	683	–	683
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	101,444	101,444	2,666	104,110
Total comprehensive income (expense) for the period	–	–	683	–	–	–	–	–	–	–	(20,995)	101,444	81,132	(5,771)	75,361
Purchase of shares under share award scheme	–	–	–	–	–	–	–	(5,088)	–	–	–	–	(5,088)	(1,168)	(6,256)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested	–	–	–	–	–	–	–	–	–	–	–	–	–	(28)	(28)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	501	–	–	–	501	–	501
Adjustment on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(5,457)	(5,457)
Dividends *(Note 8)*	–	–	–	–	–	–	–	–	–	–	–	(159,391)	(159,391)	–	(159,391)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(7,203)	(7,203)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	–	–	3,335	–	(3,335)	–	–	–
At June 30, 2014 (unaudited)	53,211	695,536	12,468	(16,688)	48,121	4,551	519	(5,088)	501	39,219	120,187	3,303,275	4,256,812	378,165	4,633,977

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2014

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 April 20, 2010, in consideration of the receipt by the Company of a cash premium of US$18.3 million, 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 May 10, 2010 to March 31, 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 June 30, 2014, 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 June 30, 2014

	Note	For the six months ended June 30, 2014 (unaudited) US$'000	2013 (unaudited) US$'000
Net cash from operating activities		331,043	182,939
Net cash (used in) from investing activities			
Purchase of property, plant and equipment		(122,736)	(92,986)
Deposits paid for acquisition of property, plant and equipment		(11,748)	(579)
Placement of structured bank deposit		(9,743)	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	15	(4,741)	–
Investments in associates		(1,943)	(4,453)
Deposit paid for acquisition of remaining interest in a subsidiary		(1,609)	–
Repayment from joint ventures		101	17,203
Release of structured bank deposit		2,144	–
Dividends received from associates		5,039	4,631
Interest received		5,374	3,964
Dividends received from joint ventures		12,408	6,744
Proceeds from disposal of property, plant and equipment		12,683	13,808
Proceeds from disposal of a joint venture		–	1,543
Repayment of advance to associates		–	2,407
Proceeds from disposal of associates		–	11,918
Deposit received for sales of assets classified as held for sale		–	46,844
Other investing cash flows		(1,707)	216
		(116,478)	11,260
Net cash used in financing activities			
Repayment of bank borrowings		(779,009)	(1,555,073)
Dividends paid		(159,391)	(191,438)
Interest paid		(9,427)	(13,452)
Dividends paid to non-controlling interests of subsidiaries		(7,203)	(4,810)
Purchases of shares for unvested shares under share award scheme		(6,256)	–
Bank borrowings raised		732,774	1,456,622
Acquisition of additional interests in subsidiaries		–	(8,706)
		(228,512)	(316,857)
Net decrease in cash and cash equivalents		(13,947)	(122,658)
Effect of foreign exchange rate changes		5,874	(2,531)
Cash and cash equivalents at beginning of the period		905,834	809,153
		897,761	683,964
Cash and cash equivalents at end of the period, represented by:			
bank balances and cash		897,761	692,727
bank overdrafts		–	(8,763)
		897,761	683,964

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.

The accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended June 30, 2014 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended December 31, 2013. In addition, the Group has applied the following accounting policy for equity-settled share based payment transactions during the current interim period:

Equity-settled share based payment transactions

Awarded shares granted to employees

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

The fair value of services received is determined by reference to the fair value of share award granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share award scheme. Accordingly, the related expense of the granted shares vested is reversed from share award reserve. The difference arising from such transfer is debited/credited to retained profits. At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share award reserve.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities"

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company have determined that the application of the amendments have no effect on the Group as the Company is not an investment entity.

Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 "Fair Value Measurements".

The directors of the Company have determined that the application of the amendments to HKAS 36 have no significant impact on the disclosures in the Group's annual consolidated financial statements as the recoverable amount of an asset of CGU of the Group was determined based on the value in use calculation.

The application of the other new Interpretation and amendments to 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the condensed consolidated interim financial information.

Provision of social insurance benefit and housing provident fund (collectively the "Employee Benefit Payments") (the "Employee Benefit Payments Provision")

The Group is required to make contributions to social insurance benefit and housing provident fund.

During the six months ended June 30, 2014, the Group has recognised the increased contributions amounting to an additional US$90,000,000 as other expenses in its condensed consolidated interim financial information. The directors of the Company are of the opinion that this amount of the increased contributions to the Employee Benefit Payments is over and above the amount of the contributions under the prevailing practice. Following the review of the Group's employee benefits policy, the Group recognised such increased contributions in profit or loss in the Group's condensed consolidated interim financial information accordingly.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Employee Benefit Payments Provision

In April 2014, some employees of the Group's factory in Gaobu went on strike and demanded for adjustment for the Employee Benefit Payments (the "Gaobu Factory Incident").

For the purposes of stabilising the Group's workforce following the Gaobu Factory Incident in April 2014, as set out in the Company's announcement dated May 20, 2014, the Group has raised its contributions to the Employee Benefit Payments previously applied for its employees in Gaobu factory. In addition, the Group has also taken the initiative and reviewed its employee benefits policy for its other factories in the PRC. Following such review, the Group has decided to raise its contributions over and above the amount of the contributions under the prevailing practice to the Employee Benefit Payments for employees of the Group's other factories in the PRC in order to assist the Group in staff retention and recruitment under the increasingly competitive labour market conditions in the PRC and to enhance its normal business operation and production. Accordingly, the Group recognised an increased contribution expense amounting to an additional US$90,000,000 in its condensed consolidated income statement during the six months ended June 30, 2014 as other expenses, which has been estimated by the Group primarily based on survey results with the relevant employees of Gaobu factory and the other factories in respect of their intention to apply for and make payments for their own part of the increased contributions to Employee Benefit Payments and the relevant employees' length of services and their relevant wage levels. In the opinion of the directors, based on all the information currently available, the Employee Benefits Payments Provision, which is included in trade and other payables, is their best estimate of the amount of increased contributions ultimately payable by the Group. The amount and timing of outflow of resources are uncertain as the actual payment may vary from the amount provided which is subject to the actual number of applications received and the completion of relevant governmental procedures of such applications. Any variance between the amount provided and the actual payment will be recognised by the Group through profit or loss in the period when any such variance is determined to be probable.

4. TURNOVER AND SEGMENTAL INFORMATION

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

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

	For the six months ended June 30,	
	2014	**2013**
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Turnover		
Manufacturing Business	2,988,156	2,842,435
Retailing Business	963,179	856,888
Total turnover	3,951,335	3,699,323

5. OTHER EXPENSES

Included in other expenses is an amount of an additional US$90 million (2013: Nil) recognised for the increased contributions payable in respect of the Employee Benefit Payments. Details of the underlying assumption are set out in Note 3.

6. INCOME TAX EXPENSE

	For the six months ended June 30, 2014 (unaudited) *US$'000*	2013 (unaudited) *US$'000*
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
Hong Kong Profits Tax *(note a)*	27	43
PRC Enterprise Income Tax ("EIT") *(note b)*	11,012	9,941
Overseas taxation *(note c)*	11,991	2,522
	23,030	12,506
Deferred tax credit	(1,576)	(4,017)
	21,454	8,489

notes:

(a) Hong Kong

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

(b) PRC

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

Pursuant to《財政部、國家税務總局、海關總署關於西部大開發税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、國家税務總局關於深入實施西部大開發戰略有關税收政策問題的通知》(Caishui [2011] No. 58) issued in 2011. The directors of the Company consider that the relevant subsidiaries are engaged in the state-encouraged industries under the Catalogue and continue to enjoy the preferential tax rate of 15% in both periods.

(c) Overseas

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

Taxation arising in other jurisdictions including Vietnam, Indonesia and Republic of China ("Taiwan") is calculated at the rates prevailing in the respective jurisdictions, which were 25%, 25% and 17% respectively.

7. PROFIT FOR THE PERIOD

	For the six months ended June 30, 2014 (unaudited) *US$'000*	2013 (unaudited) *US$'000*
Profit for the period has been arrived at after charging:		
Total staff cost *(note)*	1,059,538	899,964
Net exchange loss (included in other expenses)	10,308	–
Release of prepaid lease payments	2,537	2,472
Amortisation of intangible assets (included in selling and distribution expenses)	3,839	4,080
Depreciation of property, plant and equipment	112,235	122,316
Allowance for inventories, net (included in cost of sales)	21,362	4,065
Impairment loss recognised on trade receivables (included in other expenses)	2,431	887
Loss on disposal of property, plant and equipment (included in other expenses)	2,329	3,300
Research and development expenditure (included in other expenses)	86,477	84,824
and after crediting to other income:		
Net exchange gain (included in other income)	–	18,552
Subsidies, rebates and other income from suppliers (included in other income)	13,798	14,523

note:

For the period ended June 30, 2014, the total staff cost includes the Employee Benefit Payments Provision of US$90 million (2013: Nil). Further details are set out in Note 3.

8. DIVIDENDS

	For the six months ended June 30, 2014 (unaudited) *US$'000*	2013 (unaudited) *US$'000*
Dividends recognised as distribution during the period:		
2013 final dividend of HK$0.75 per share (2013: 2012 final dividend of HK$0.25 per share)	159,391	53,118

During the current interim period, the directors of the Company declared a final dividend of HK$0.75 per share for the year ended December 31, 2013 (2013: 2012 final dividend for the fifteen months ended December 31, 2012 of HK$0.25 per share). The final dividend of approximately HK$1,235,566,000 (2013: HK$412,232,000), equivalent to US$159,391,000 (2013: US$53,118,000), was paid on June 17, 2014 to the shareholders of the Company.

On November 28, 2012, the directors of the Company declared a second interim dividend of HK$0.65 per share for the fifteen months ended December 31, 2012. The second interim dividend of approximately HK$1,071,804,000, equivalent to US$138,320,000, was paid during the six months ended June 30, 2013 on January 18, 2013 to the shareholders of the Company.

9. 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 June 30,	
	2014	**2013**
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	101,444	194,446

	2014	**2013**
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,648,228,469	1,648,928,486
Effect of dilutive potential ordinary shares: USD Call Option 2015	92,247,920	92,247,920
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,740,476,389	1,741,176,406

note:

The weighted average number of ordinary shares shown above for the six months ended June 30, 2014 has been arrived at after deducting the shares held by the trustee of the share award scheme.

The computation of diluted earnings per share for the six months ended June 30, 2014 and 2013 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.

10. 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 June 30, 2014 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$123,119,000 (six months ended June 30, 2013: US$92,986,000) and property, plant and equipment of US$109,000 and intangible assets of US$5,900,000 were acquired through acquisition of subsidiaries (see Note 15).

11. 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$1,062,804,000 (December 31, 2013: US$1,011,046,000) 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 June 30, 2014 (unaudited) *US$'000*	**At December 31, 2013** (audited) *US$'000*
0 to 30 days	727,792	694,060
31 to 90 days	316,914	301,920
Over 90 days	18,098	15,066
	1,062,804	1,011,046

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$434,732,000 (December 31, 2013: US$472,291,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	At June 30, 2014 (unaudited) *US$'000*	**At December 31, 2013** (audited) *US$'000*
0 to 30 days	294,456	340,889
31 to 90 days	119,491	112,363
Over 90 days	20,785	19,039
	434,732	472,291

13. BANK BORROWINGS

During the period, the Group obtained new bank borrowings of approximately US$733 million (six months ended June 30, 2013: US$1,457 million). The proceeds of 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, as appropriate.

14. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each:		
At January 1, 2013, June 30, 2013, January 1, 2014 and June 30, 2014	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2013, June 30, 2013, January 1, 2014 and June 30, 2014	1,648,928,486	412,232

	At June 30, 2014	**At December 31, 2013**
	(unaudited)	(audited)
	US$'000	*US$'000*
Shown in the condensed consolidated interim financial information	53,211	53,211

15. ACQUISITION OF SUBSIDIARIES

For the six months ended June 30, 2014

On April 7, 2014, the Group completed the acquisition of the entire equity interest in Welcome Wealth Properties Limited and its subsidiaries (the "Welcome Wealth Group"), which own a chain of retail stores in the PRC and Taiwan, including the related tangible and intangible assets, from independent third parties, for the purpose of strengthening its market position and geographical coverage in the PRC and Taiwan sportswear market. 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, assets acquired and liabilities recognised are set out below.

	US$'000
Consideration for the acquisition:	
Cash consideration	6,760
Provisional fair value of assets acquired and liabilities recognised at the date of acquisition are as follows *(note a)*:	
Property, plant and equipment	109
Rental deposits and prepayments	703
Licensing agreements (included in intangible assets) *(note b)*	5,900
Inventories	4,375
Trade and other receivables *(note c)*	5,873
Bank balances and cash	2,019
Trade and other payables	(7,516)
Bank borrowings	(3,300)
Deferred tax liabilities	(1,403)
	6,760
Cash flows arising on acquisition:	
Cash consideration paid for acquisition	(6,760)
Less: bank balances and cash acquired	2,019
Net cash outflows	(4,741)
Acquisition-related cost *(note d)*	15

15. ACQUISITION OF SUBSIDIARIES (continued)

notes:

(a) The initial accounting for the acquisition of Welcome Wealth Group has been determined provisionally for the intangible assets to be identified and recognised, awaiting the receipt of professional valuation in relation to the respective fair values.

(b) Intangible assets, being licensing agreements were valued as of the date of acquisition by APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation"), using Relief from Royalty method under the Income Approach.

The management of the Group considers the licensing agreements have finite useful lives and are amortised on a straight-line basis over 10 years.

In estimating the fair values of the intangible assets on initial recognition, the present values of the net cash flows attributable to the intangible assets were determined using a discount rate of 17% for Welcome Wealth Group. One of the key assumptions used in the calculations related to the estimation of cash inflows/outflows was the budgeted sales. Such estimation was based on the past performance of the acquiree and its subsidiaries and management's expectations for the market development.

(c) At the acquisition date, the gross contractual amount of the receivables acquired was equivalent to its fair value as it was expected that all amounts were fully collectible.

(d) The acquisition-related cost was recognised as an expense in the current period in the condensed consolidated income statement.

(e) Pro-forma turnover and profit

Included in the profit for the six months ended June 30, 2014 was profit of US$20,000 attributable to the additional businesses generated by Welcome Wealth Group. Turnover for the six months ended June 30, 2014 included US$7,303,000 generated from Welcome Wealth Group. Had the acquisition been completed on January 1, 2014, total turnover of the Group for the six months ended June 30, 2014 would have been US$3,958,746,000, and the profit for the same period would have been US$103,882,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2014, nor is it intended to be a projection of future results.

16. 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 periods. 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		
	June 30, 2014 (unaudited) *US$'000*	**December 31, 2013** (audited) *US$'000*	**Fair value hierarchy**
Financial assets at fair value through profit or loss			
Structured bank deposit *(note a)*	9,730	2,144	Level 3
Derivative financial instruments *(note b)*	7	5,685	Level 2
Investments held for trading *(note c)*	340	2,983	Level 2
Available-for-sale investments			
Listed equity securities *(note d)*	28,570	27,887	Level 1
Total	38,647	38,699	
Financial liabilities at fair value through profit or loss			
Derivative financial instruments *(note b)*	19,499	–	Level 2
Consideration payable for acquisition of business *(note e)*	17,461	18,016	Level 3
Total	36,960	18,016	

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

notes:

(a) The fair value of the structured bank deposit as at June 30, 2014 is based on its redemption price from the bank, where a significant key input in the valuation model is the 6-month Shanghai Interbank Offered Rate.

The fair value of the structured bank deposit as at December 31, 2013 was based on its redemption price from the bank, where a significant key input in the valuation model is the yields of the underlying debt instruments.

(b) Derivatives financial instruments mainly represents foreign currency forward contracts and currency structured forward contracts. The valuation techniques of these forward contracts and currency structured forward contracts 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.

(c) Investments held for trading represents unlisted overseas funds. The fair values of investments held for trading are determined with reference to prices provided by the respective issuing financial institutions.

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

(e) Consideration payable for acquisition of business represents the amount that the Group may have to compensate the vendor for the shortfall, if any, of the market value of the ordinary shares of Pou Sheng issued for the acquisition of a business in prior years below HK$4 each at the expiry of a pre-determined restricted period, until which the shares issued by Pou Sheng are placed in an escrow account and Pou Sheng's consent is required for any withdrawal. 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 December 31, 2013 and June 30, 2014 is determined by APAC Asset Valuation using the Binomial Option Pricing Model.

The key inputs into the model are set out below:

	At June 30, 2014	**At December 31, 2013**
Share price of Pou Sheng's at date of valuation	HK$0.530	HK$0.400
Exercise price per share	HK$4.000	HK$4.000
Risk free rate	0.530%	0.650%
Expected volatility	47%	44%
Expected life of the guaranteed compensation	2.39 years	2.89 years
Expected dividend yield	Nil	Nil

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

The following table presents the reconciliation of Level 3 measurements of the Group's financial instruments for the six months ended June 30, 2014 and 2013.

	Structured bank deposit	**Consideration payable for acquisition of business**
	US$'000	*US$'000*
For the six months ended June 30, 2014		
At January 1, 2014 (audited)	2,144	(18,016)
Settlement	(2,144)	–
Purchase	9,743	–
Fair value changes, recognised in profit or loss	74	562
Exchange realignment	(87)	(7)
At June 30, 2014 (unaudited)	9,730	(17,461)
For the six months ended June 30, 2013		
At January 1, 2013 (audited)	–	(17,980)
Fair value changes, recognised in profit or loss	–	(361)
Exchange realignment	–	12
At June 30, 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 both periods.

The directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair values, except for the certain of the available-for-sale investments measured at cost less impairment, of which the directors of the Company are of the opinion that the fair value cannot be measured reliably because the range of reasonable fair value estimates is so significant.

17. CONTINGENCIES AND COMMITMENTS

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

(I) Contingencies

	At June 30, 2014 (unaudited) *US$'000*	At December 31, 2013 (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	66,101	62,208
– amount utilised	43,204	36,925
(ii) associates		
– amount guaranteed	34,620	30,725
– amount utilised	3,047	7,995

(II) Commitments

	At June 30, 2014 (unaudited) *US$'000*	At December 31, 2013 (audited) *US$'000*
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of:		
– construction of buildings	43,846	33,759
– acquisition of property, plant and equipment	2,854	3,991
– acquisition of the remaining interests in a joint venture	11,286	11,565
– acquisition of the remaining interests in a subsidiary	1,191	–
	59,177	49,315

18. SHARE AWARD SCHEMES

(I) Share Award Scheme of the Company

On January 28, 2014, the Company adopted a share award scheme (the "Share Award Scheme") to recognise the contributions by certain personnel of the Group and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (the "Associated Entity") and to attract suitable personnel for further development of the Group. Under the Share Award Scheme, the board of directors of the Company may at its discretion grant any eligible participant awarded shares, provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant, as it may determine appropriate. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the board of directors of the Company, the Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund of the Share Award Scheme will be made by the Company.

The Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the period at which the directors of the Company are prohibited from dealing in shares by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. The directors would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the selected participant. Vesting of the award shares will be conditional on the selected participant remaining as an employee of the Group and/or Associated Entity on a vesting date and the board has not determined to vary or cancel such an award for any reason. An award shall automatically lapse forthwith when a selected participant has taken unpaid leave of absence and does not return to work before the expiry of 24 months from the original vesting date, or ceases to be an employee of the Group or an Associated Entity, or the company by which a selected participant is employed ceases to be a subsidiary of the Group or an Associated Entity , or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or selected participant's employment is terminated for cause if the award has not been vested.

During the six months ended June 30, 2014, 1,530,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$39,470,000 (equivalent to approximately US$5,088,000). All of the acquired shares were granted to selected participants on March 27, 2014 and May 29, 2014 respectively but had not vested on June 30, 2014.

The fair values of the share awards as at the date of grant, determined by APAC Asset Valuation using the Black-Scholes Option Pricing Model, were totally amounted to HK$29,784,000 (equivalent to approximately US$3,842,000). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	March 27, 2014	May 29, 2014
Closing share price at the date of grant	HK$24.40	HK$24.15
Annual risk free rate	0.417%	0.300%
Expected volatility	30%	30%
Vesting period	2 years	2 years
Expected dividend yield	4.5%	4.5%

The closing prices of the Company's shares immediately before the grant of the awards on March 27, 2014 and May 29, 2014 were HK$23.95 and HK$ 24.35 per share respectively.

18. SHARE AWARD SCHEMES (continued)

(II) Share Award Scheme of Pou Sheng

Pou Sheng's share award scheme (the "Pou Sheng Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014 by Pou Sheng's shareholders. The objective of the Pou Sheng Share Award Scheme is to recognise the contributions by certain persons, including directors of Pou Sheng and employees of Pou Sheng and its subsidiaries (collectively referred to as the "Pou Sheng Group") (the "Pou Sheng Selected Participant") and to provide incentives to retain them for the continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Pou Sheng Share Award Scheme is operated through a trustee which is independent of the Pou Sheng Group. After the notification and instruction by Pou Sheng, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the period at which the directors of Pou Sheng are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by Pou Sheng.

The directors of Pou Sheng would notify the trustee of the Pou Sheng Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the Pou Sheng Selected Participant. Vesting of the award shares will be conditional on the Pou Sheng Selected Participant remaining as an employee of the Pou Sheng Group on a vesting date and the board of Pou Sheng has not determined to vary or cancel such an award for any reason. An award shall automatically lapse forthwith when a Selected Participant has taken unpaid leave of absence and does not return to work before the expiry of 24 months from the original vesting date, or ceases to be an employee of Pou Sheng Group, or the subsidiary of Pou Sheng employing the Pou Sheng Selected Participant ceases to be a subsidiary of Pou Sheng, or an order for the winding-up of Pou Sheng is made or a resolution is passed for the voluntary winding-up of Pou Sheng, or Pou Sheng Selected Participant's employment is terminated for cause if the award has not been vested.

During the six months ended June 30, 2014, 20,000,000 ordinary shares of Pou Sheng have been acquired at an aggregate cost of HK$9,058,000 (equivalent to approximately US$1,168,000). There were no awarded shares granted or outstanding during the period ended June 30, 2014.

The board of directors of Pou Sheng approved on August 13, 2014 to grant an aggregate of 11,000,000 awarded shares of Pou Sheng to certain employees of the Pou Sheng Group pursuant to the Pou Sheng Share Award Scheme.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK$0.35 per share for the year ending December 31, 2014 to shareholders whose names appear on the Register of Members on Thursday, September 25, 2014. The interim dividend will be paid on Monday, October 6, 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, September 23, 2014 to Thursday, September 25, 2014, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Monday, September 22, 2014.

RESULTS

For the six months ended June 30, 2014, the Group recorded turnover of US$3,951.3 million, representing growth of 6.8% compared to the same period turnover in 2013 of US$3,699.3 million. The financial year for the Group is from January 1 to December 31. Net profit attributable to owners of the Company decreased by 47.8% to US$101.4 million compared to US$194.4 million recorded in the same period in 2013. Basic earnings per share for half year 2014 decreased by 47.8% to US6.15 cents compared to US11.79 cents of the same period in 2013.

RECURRING OPERATING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

For the six months ended June 30, 2014, excluding all items non-recurring operating in nature, the recurring operating profit amounted to US$218.1 million, representing growth of 14.5% compared to the recurring operating profit of US$190.6 million in the same period in 2013. During half year 2014, a non-recurring operating loss totaling US$116.7 million was recognized, of which included US$90 million of increased contributions to social insurance benefit and housing provident fund (collectively the "Employee Benefit Payments") for employees in the PRC and US$25.2 million of losses due to fair value changes on derivative financial instruments. For the six month period ended June 30, 2013, net profit attributable to owners of the Company included a non-recurring operating profit of US$3.9 million.

OPERATIONS

General Overview

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

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

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

Total Turnover by Product Category

The turnover for footwear manufacturing activity for the Group increased in the first half of 2014 when compared to the turnover in first half of 2013. The increase was attributed to the increase in average selling price. The Group works with its brand name customers to continue to enhance factory productivity and supply chain efficiency. During the six months under review, the breakdown of Group's shoe production volume by locations is as follows: 29% in the PRC, 39% in Vietnam, 31% in Indonesia and 1% in others.

When reviewing total turnover by product category, athletic shoes accounted for 48.6% of turnover, and casual/outdoor shoes 17.8%. When considering only footwear manufacturing turnover, then athletic shoes is the principal category representing 71.8% of footwear manufacturing turnover. Correspondingly casual/outdoor shoes represented 26.3% of footwear manufacturing turnover. The Group works with brand name customers to offer a wide range of footwear that vary in design, functionalities, and price points. This business strategy allows the Group to establish economy of scale and expertise in manufacturing to meet the different demands and interests of the brand name customers.

OPERATIONS (continued)

Total Turnover by Product Category (continued)

Retail sales are derived primarily from the retail operations in the PRC involving the sales of international brand name athletic footwear and apparel in the major cities. The turnover in retail sales for the Group increased in 2014 when compared to the turnover in half year 2013. At the end of June 2014, the Group had 3,868 directly operated counters/stores in the Greater China region and 2,405 sub-distributors in the PRC. The operating environment for the retail business in the PRC has improved in the first half of 2014.

Total Turnover by Product Category	**For the six months ended June 30,**				
	2014		**2013**		
(all figures rounded to millions)	*US$ millions*	*%*	*US$ millions*	*%*	*% change*
Athletic Shoes	1,921.1	48.6	1,901.1	51.4	1.1
Casual/Outdoor Shoes	703.9	17.8	616.3	16.7	14.2
Sports Sandals	49.8	1.3	47.1	1.3	5.7
Retail Sales – Shoes, Apparel & Leasing	963.2	24.4	856.9	23.1	12.4
Soles, Components & Others	313.3	7.9	277.9	7.5	12.7
Total Turnover	**3,951.3**	**100.0**	**3,699.3**	**100.0**	**6.8**

Production Review

During the six months under review, the Group produced a total of 158.0 million pairs of shoes, compared to 158.7 million pairs produced in the same period in 2013. The average selling price for shoes was US$16.93 per pair compared to US$16.15 during the six month period ended June 30, 2013.

Cost Review

With respect to the footwear manufacturing operations, sales for the half year amounted to US$3.0 billion (2013: US$2.8 billion), whereas the direct labor costs were US$0.5 billion (2013: US$0.5 billion). Total main material costs were US$1.3 billion (2013: US$1.2 billion) and total production overhead amounted to US$0.6 billion (2013: US$0.6 billion).

With respect to Pou Sheng, sales for the half year amounted to US$1.0 billion (2013: US$0.9 billion). Retail stock costs were US$0.7 billion (2013: US$0.6 billion). In relation to Pou Sheng's manufacturing operation, direct labor costs were US$0.3 million (2013: US$5.5 million), total main material costs were US$1.3 million (2013: US$14.2 million), and total production overhead amounted to US$1.2 million (2013: US$8.8 million).

For the Group, selling and distribution expenses for the half year were US$319.7 million (2013: US$301.8 million), equivalent to approximately 8.1% (2013: 8.2%) of turnover. Administrative expenses for the period were US$298.7 million (2013: US$271.1 million), equivalent to approximately 7.6% (2013: 7.3%) of turnover. Since the inflation pressures in both the manufacturing and retail businesses were significant, managements in both units have made cost control as one of their key objectives.

OPERATIONS (continued)

Cost Review (continued)

Other expenses increased significantly to US$198.8 million for the six month period ended June 30, 2014, primarily due to increased contributions to the Employee Benefit Payments for employees in the PRC being recognized in the period. In response to demand from certain employees of the Group's factory in Gaobu (the "Gaobu Factory") during April 2014 (the "Gaobu Factory Incident"), the Board decided to raise contributions to the Employee Benefit Payments for employees of the Gaobu Factory. Following the review of the Group's employee benefits policy in the PRC after the Gaobu Factory Incident, the Board decided to raise contributions to the Employee Benefits Payments for employees of the Group's other factories in the PRC. The above increased contributions to the Employee Benefit Payments in the PRC totaling US$90 million is recognized in the Group's interim financial results.

For the six months ended June 30, 2014, the Group recorded a loss of US$25.2 million due to fair value changes on derivative financial instruments. The loss was attributed to the volatility and depreciation of RMB in the first half of 2014.

Product Development

During the half year under review, the Group spent US$86.5 million (2013: US$84.8 million) in product development. The product development expenses included items such as sample development, preparation work for the technical development package, and production efficiency enhancement. For each of the major brand name customers that has a research/development team, a parallel independent product development centre exists within the Group to look after the said research/development team. Besides this product development work, the Group also cooperates with its customers to seek improvements in production lead times and develop new techniques to produce high-quality footwear.

FINANCIAL REVIEW

Liquidity

The Group's financial position was solid. As at June 30, 2014, the Group had cash and cash equivalents of US$897.8 million (December 31, 2013: US$905.8 million) and total borrowings of US$874.4 million (December 31, 2013: US$919.3 million). The gearing ratio (total borrowings to total equity) was 18.9% (December 31, 2013: 19.4%) and the net debt to equity ratio (total borrowings net of cash on hand to total equity) was -0.5% (December 31, 2013: 0.3%). The net cash position reflects the Group's financial strengths and robust business operations.

During the period, the Group obtained new bank borrowings of approximately US$733 million (2013: US$1,457 million). The proceeds of the 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.

Capital Expenditure

During the six months under review, the capital expenditure amounted to US$135.1 million (2013: US$93.6 million). The Group spent approximately US$38.4 million on constructing new factory buildings and ancillary facilities, mainly in Vietnam and Indonesia. Another US$7.3 million was spent on buildings and properties, and a further US$68.9 million was spent on machinery and leasehold improvements.

The capital expenditure for fiscal 2014 will be funded mainly by internal resources.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates. The details of which can be referred to note 17 of the notes to the condensed consolidated interim financial information.

FINANCIAL REVIEW (continued)

Significant Investments Held and Performance

The details of the investments in associates and joint ventures, available-for-sale investments and investments held for trading have been disclosed in notes 20, 22, 27 and 28 of the 2013 annual report. During the current period, there were no material changes in the investments.

Interim Dividends

An interim dividend of HK$0.35 per share (2013: HK$0.35 per share) has been recommended, and is in accordance with the Group's history of stable dividends.

The Group's operating cash flow remains strong, and a suitable level of cash holdings will be maintained. The policy of upholding steady growth in the normal dividend payment over time remains intact.

Foreign Exchange Exposure

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

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

Goodwill and Intangible Assets

The Group has Goodwill and Intangible Assets recorded on its Consolidated Statement of Financial Position due to previous acquisitions of businesses in the retail and manufacturing industries.

Employees

As at June 30, 2014, the Group had about 417,000 staff employed across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period, and offers equal opportunities to all staff.

PROSPECTS

Rising costs in both the manufacturing and retail businesses require active planning within the Group to ensure stable profits. The Group has invested in supply chain integration and manufacturing excellence programs to improve quality and efficiency in production. Another important task at hand is the reallocation of production capacity across Asia, so as to offer customers different production bases which in turn represent different input cost structures. The retail business unit will continue to refine its sales and store opening strategies, as well as inventory management so as to target a return to profitability and position itself for growth in a few years time.

The recent events that have affected the manufacturing operations in the first six months of 2014 underscore the near term challenges in the business and for the industry in general. However given the Group's long term investments and strategic planning, the management is confident that the Group can turn these challenges into opportunities and move into the next phase of profitable growth while further enhance the Group's competitive strengths. Conditions for the retail business are beginning to show improvement. Discounting activity is stabilizing and inventory levels in the distribution channels are starting to fall compared to levels in previous years. Residents in China are exhibiting greater interest in sports lifestyle and major brands are engaging in demand creation campaigns. These two elements should lead to greater purchasing of performance athletic and casual apparel and footwear going forward.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2014, the interests or short positions 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of 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
Lu Chin Chu	Beneficial owner *(Note 1)*	45,000	0.00%
Tsai Pei Chun, Patty	Beneficiary of a trust *(Note 2)*	101,126,262	6.13%
Lee Shao Wu	Beneficial owner *(Note 1)*	45,000	0.00%
George Hong-Chih Liu	Beneficial owner *(Note 1)*	45,000	0.00%

Notes:

1 Each of Mr. Lu Chin Chu, Mr. Lee Shao Wu and Mr. George Hong-Chih Liu is interested in 45,000 shares of the Company, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 (the "Share Award Scheme").

2 Ms. Tsai Pei Chun, Patty is deemed to be interested in 101,126,262 ordinary shares of the Company by virtue of her capacity as a beneficiary of a discretionary trust.

(b) Ordinary shares of HK$0.01 each in Pou Sheng International (Holdings) Limited ("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
Chan Lu Min	Beneficial owner	851,250	0.01%
Tsai Pei Chun, Patty	Beneficial owner	7,894,000	0.15%

Other than the interests 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 June 30, 2014.

SHARE INCENTIVE SCHEMES

(a) Share Option Scheme of the Company

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

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

(b) Share Award Scheme of the Company

On January 28, 2014, the Company adopted the Share Award Scheme to recognise the contributions by certain personnel of the Group and/or associated entities and to attract suitable personnel for further development of the Group. Under the Share Award Scheme, the Board of the Company may at its discretion grant any eligible participant awarded shares, provided that the total number of awarded shares shall not exceed two per cent of the issued share capital of the Company as at the date of grant, as it may determine appropriate. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed one per cent of the issued share capital of the Company from time to time. Subject to early termination determined by the board of directors of the Company, the Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund will be made by the Company.

Details of the awards, including the number of shares which were awarded according to the terms of the Share Award Scheme during the period ended June 30, 2014, are set out below:

	Date of grant	Vesting date	Number of shares awarded Balance as at June 30, 2014
Employees			
	March 27, 2014	March 27, 2016	1,372,500
	May 29, 2014	May 29, 2016	22,500
Sub-total			1,395,000
Directors			
Mr. Lu Chin Chu	March 27, 2014	March 27, 2016	45,000
Mr. Lee Shao Wu	March 27, 2014	March 27, 2016	45,000
Mr. George Hong-Chih Liu	March 27, 2014	March 27, 2016	45,000
Sub-total			135,000
Total			1,530,000

During the six months ended June 30, 2014, the Group recognised a total expense of US$510,000 as the equity-settled-share based payment in relation to the share awards granted under the Share Award Scheme.

SHARE INCENTIVE SCHEMES (continued)

(c) Share Option Scheme of Pou Sheng

Pou Sheng recognizes the importance of offering incentives and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. Pou Sheng believes that this will align their interest with that of Pou Sheng.

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

In order to provide greater flexibility to the Pou Sheng Board in the treatment of outstanding share 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 March 7, 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 a share 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 share option shall lapse or the period within which such share 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 share 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 share 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 share option period.

No Pou Sheng share options were granted or exercised under the Pou Sheng Share Option Scheme during the six months ended June 30, 2014.

During the six months ended June 30, 2014, the Group recognised a net income of US$28,000 as equity-settled share-based payments in relation to the share options' respective vesting periods and the share options forfeited before vested under the Pou Sheng Share Option Scheme.

SHARE INCENTIVE SCHEMES (continued)

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

The following table discloses movements in Pou Sheng's share 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$	Vesting date	Exercisable period	Number of share options: Balance as at January 1, 2014	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Balance as at June 30, 2014
Employees/Consultants of Pou Sheng									
	21/01/2010	1.62	21/01/2011	21/01/2011–20/01/2018	2,895,450	–	–	–	2,895,450
			21/01/2012	21/01/2012–20/01/2018	2,895,450	–	–	–	2,895,450
			21/01/2013	21/01/2013–20/01/2018	5,790,900	–	–	–	5,790,900
			21/01/2014	21/01/2014–20/01/2018	7,721,200	–	–	(400,000)	7,321,200
	20/01/2011	1.23	20/01/2012	20/01/2012–19/01/2019	5,977,500	–	–	–	5,977,500
			20/01/2013	20/01/2013–19/01/2019	5,977,500	–	–	–	5,977,500
			20/01/2014	20/01/2014–19/01/2019	5,977,500	–	–	(477,500)	5,500,000
			20/01/2015	20/01/2015–19/01/2019	5,977,500	–	–	(727,500)	5,250,000
	07/03/2012	1.05	07/03/2013	07/03/2013–06/03/2020	375,000	–	–	–	375,000
			07/03/2014	07/03/2014–06/03/2020	375,000	–	–	–	375,000
			07/03/2015	07/03/2015–06/03/2020	375,000	–	–	–	375,000
			07/03/2016	07/03/2016–06/03/2020	375,000	–	–	–	375,000
Sub-total					44,713,000	–	–	(1,605,000)	43,108,000
Former Employees of Pou Sheng									
	21/01/2010	1.62	21/01/2011	21/01/2011–20/01/2018	1,605,000	–	–	–	1,605,000
			21/01/2012	21/01/2012–20/01/2018	1,605,000	–	–	–	1,605,000
			21/01/2013	21/01/2013–20/01/2018	999,000	–	–	–	999,000
			21/01/2014	21/01/2014–20/01/2018	–	–	–	–	–
	20/01/2011	1.23	20/01/2012	20/01/2012–19/01/2019	5,760,000	–	–	–	5,760,000
			20/01/2013	20/01/2013–19/01/2019	2,010,000	–	–	–	2,010,000
			20/01/2014	20/01/2014–19/01/2019	–	–	–	–	–
			20/01/2015	20/01/2015–19/01/2019	–	–	–	–	–
	07/03/2012	1.05	07/03/2013	07/03/2013–06/03/2020	375,000	–	–	–	375,000
			07/03/2014	07/03/2014–06/03/2020	–	–	–	–	–
			07/03/2015	07/03/2015–06/03/2020	–	–	–	–	–
			07/03/2016	07/03/2016–06/03/2020	–	–	–	–	–
Sub-total					12,354,000	–	–	–	12,354,000
Grand total					57,067,000	–	–	(1,605,000)	55,462,000

During the six months ended June 30, 2014, no share options were granted or exercised under the Pou Sheng Share Option Scheme.

SHARE INCENTIVE SCHEMES (continued)

(d) Share Award Scheme of Pou Sheng

On May 9, 2014, Pou Sheng adopted a share award scheme (the "Pou Sheng Share Award Scheme") for recognising the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng Group, providing incentives to retain them for the continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The scheme shall be valid and effective for a term of 10 years commencing on May 9, 2014. Any proposed award must be recommended by the Remuneration Committee and approved by the Board of Pou Sheng.

The total number of shares to be awarded under the Pou Sheng Share Award Scheme shall not exceed 2% of the issued share capital of Pou Sheng as at the date of grant. The maximum number of shares which may be awarded to a selected participant (including vested and non-vested shares) shall not exceed 1% of the issued share capital of Pou Sheng from time to time.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as 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.

INTERESTS OF 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 June 30, 2014, 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (continued)

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
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 Chi Neng	(e)	101,126,262	6.13%
Mr. David N.F. Tsai	(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)	101,965,294	6.18%
Short Position			
Merrill Lynch & Co. Inc.	(f)	109,341,792	6.63%
Citigroup Inc.	(g)	92,497,155	5.60%

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (continued)

Long position (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. Lu Chin Chu and Mr. Chan Lu Min, who are directors of the Company, are also directors 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, the elder 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 56.068% 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 was a director of the Company up to May 30, 2014, is a director of Moby Dick and Max Creation. Mr. David N.F. Tsai, who was a director of the Company up to June 28, 2013, is a director of 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 was a director of the Company up to May 30, 2014, is also a director of Quicksilver and Red Hot.

(e) Each of Mr. Tsai Chi Neng and 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 was a director of the Company up to May 30, 2014.

(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).

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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (continued)

Long position (continued)

Notes: (continued)

(g) The 101,965,294 ordinary shares (long position) are held as to 92,638,750 ordinary shares as corporate interest, 9,308,044 ordinary shares in the capacity as Custodian Corporation/approved lending agent and 18,500 ordinary shares as security interest. Further, 92,497,155 ordinary shares in short position are held as corporate interest. Of the 101,965,294 ordinary shares in long position, 92,247,920 ordinary shares represent underlying interests in physically settled unlisted derivatives. Of the 92,497,155 ordinary shares in short position, 92,247,920 ordinary shares represent underlying interests in cash settled unlisted derivatives.

Of the 101,965,294 ordinary shares (long position) held by Citigroup Inc., 92,256,212 ordinary shares (long position) are directly held by Citigroup Global Markets Hong Kong Limited, 246,622 ordinary shares (long position) are directly held by Citigroup Global Markets Limited, 81,286 ordinary shares (long position) are directly held by Citigroup Global Markets Inc., 9,308,044 ordinary shares (long position) are directly held by Citibank N.A., 630 ordinary shares (long position) are directly held by Citigroup Trust South Dakota, and 72,500 ordinary shares (long position) are directly held by Citigroup Global Markets Asia Limited.

Of the 92,497,155 ordinary shares (short position) interested by Citigroup Inc., 92,252,134 ordinary shares (short position) are directly interested by Citigroup Global Markets Hong Kong Limited, and 245,021 ordinary shares (short position) are directly interested by Citigroup Global Markets Limited.

Each of Citigroup Global Markets Hong Kong Limited and Citigroup Global Markets Inc. is 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 30.83% by Citigroup Financial Products Inc., 18.74% by Citigroup Global Markets International LLC and 50.16% by Citigroup Global Markets (International) Finance AG. Each of Citigroup Global Markets International LLC and Citigroup Global Markets (International) Finance AG is wholly-owned by Citigroup Financial Products Inc.. Citigroup Global Markets Asia Limited is wholly-owned by Citigroup Global Markets Hong Kong Holdings 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.. Citigroup Financial Products Inc. is therefore deemed to be interested in an aggregate of 92,656,620 ordinary shares (long position) and 92,497,155 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..

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 9,308,674 ordinary shares (long position).

In light of the above, Citigroup Inc. is deemed to be interested in an aggregate of 101,965,294 ordinary shares (long position) and 92,497,155 ordinary shares (short position). The above has 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 June 30, 2014.

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 2013 annual report on March 26, 2014 are set out below:

Mr. Tsai Chi Neng has resigned as the chairman of the Board and retired as an executive director of the Company on March 26, 2014 and May 30, 2014 respectively.

Mr. Lu Chin Chu has been appointed as an executive director and the chairman of the Board of the Company on March 26, 2014.

Dr. Liu Len Yu has resigned as the chairman of the nomination committee, a member of the audit committee and a member of the remuneration committee on March 26, 2014 and retired as an independent non-executive director of the Company on May 30, 2014.

Mr. Hsieh, Yung Hsiang (also known as Alfred Hsieh) has been appointed as an independent non-executive director, a member of the audit committee and a member of the remuneration committee of the Company on March 26, 2014.

Mr. Huang Ming-Fu has been appointed as the chairman of the nomination committee of the Company on March 26, 2014.

Ms. Yen Mun-Gie (also known as Teresa Yen) has been appointed as a member of the nomination committee of the Company on March 26, 2014.

Mr. Li I Nan, Steve retired as a non-executive director of Symphony Holdings Limited ("Symphony") and ceased to be a member of the audit committee and the nomination committee of Symphony on June 11, 2014.

On January 28, 2014, Mr. Leung Yee Sik, Ms. Yen Mun-Gie and Mr. George Hong-Chih Liu have been appointed members of the scheme execution team for the purpose of the Company's Share Award Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,530,000 shares in the Company at a total consideration of approximately US$5.1 million.

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 interim financial information.

The external auditor has reviewed the interim financial information for the six months ended June 30, 2014 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CORPORATE GOVERNANCE

The Company is committed to the establishment of a good standard of corporate governance practices by emphasizing transparency, accountability and responsibility to the Company's shareholders. During the six months ended June 30, 2014, 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.

The general framework of the Company's corporate governance practices is set out in the corporate governance report in the Company's 2013 annual report, which is available on the Company's website.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 June 30, 2014.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the period ended June 30, 2014.

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, the directors of the Company are:

Executive Directors:
Mr. Lu Chin Chu (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. Tsai Ming-Lun, Ming and Mr. George Hong-Chih Liu.

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

By Order of the Board
Lu Chin Chu
Chairman

Hong Kong, August 13, 2014

Website: www.yueyuen.com