





裕元工業(集團)有限公司\*  
**Yue Yuen Industrial (Holdings) Limited**

*(Incorporated in Bermuda with limited liability)*

Stock Code: 00551

## 2016 Interim Report

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\* For identification purpose only



## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Lu Chin Chu (*Chairman*)  
Tsai Pei Chun, Patty<sup>5</sup> (*Managing Director*)  
Kuo Tai Yu (*retired on March 2, 2016*)  
Chan Lu Min  
Lin Cheng-Tien  
Lee Shao Wu  
Tsai Ming-Lun, Ming  
Hu Chia-Ho  
Liu George Hong-Chih

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Leung Yee Sik<sup>1, 2, 3, 4</sup>  
Huang Ming Fu<sup>1, 3, 5, 6</sup>  
Chu Li-Sheng<sup>1, 3, 5</sup>  
Yen Mun-Gie (also known as Teresa Yen)<sup>1, 3, 5</sup>  
Hsieh Yung Hsiang (also known as Alfred Hsieh)<sup>1, 3</sup>

#### Notes:

- <sup>1.</sup> Member of audit committee
- <sup>2.</sup> Chairman of audit committee
- <sup>3.</sup> Member of remuneration committee
- <sup>4.</sup> Chairman of remuneration committee
- <sup>5.</sup> Member of nomination committee
- <sup>6.</sup> Chairman of nomination committee

### COMPANY SECRETARY

Ng Yuk Yee, Feona (*appointed on March 23, 2016*)  
Chau Chi Ming (*resigned on March 23, 2016*)

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### PRINCIPAL PLACE OF BUSINESS

22nd Floor, C-Bons International Center  
108 Wai Yip Street  
Kwun Tong, Kowloon, Hong Kong

### AUDITOR

Deloitte Touche Tohmatsu

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

- Bank of America Merrill Lynch
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- China Construction Bank (Asia) Corporation Ltd.
- CTBC Bank
- Citibank, N.A.
- China Citic Bank International Ltd.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- Mizuho Bank Ltd.
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Hongkong and Shanghai Banking Corporation Limited
- United Overseas Bank Ltd.

### SOLICITORS

Reed Smith Richards Butler

### WEBSITE

[www.yueyuen.com](http://www.yueyuen.com)

### STOCK CODE: 00551



## FINANCIAL HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS

	For the six months ended June 30,		Percentage increase
	2016	2015	
Revenue ( <i>US\$'000</i> )	<b>4,280,785</b>	4,245,431	0.83%
Recurring profit attributable to owners of the Company ( <i>US\$'000</i> )	<b>233,681</b>	208,755	11.94%
Non-recurring profit attributable to owners of the Company ( <i>US\$'000</i> )	<b>15,030</b>	1,525	885.57%
Profit attributable to owners of the Company ( <i>US\$'000</i> )	<b>248,711</b>	210,280	18.28%
Basic earnings per share ( <i>US cents</i> )	<b>15.11</b>	12.77	18.32%
Dividend per share – interim dividend ( <i>HK\$</i> )	<b>0.40</b>	0.40	–





## INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company") 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, 2016 with comparative figures for the corresponding period in 2015 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2016

	NOTES	<b>For the six months ended June 30, 2016 (unaudited) US\$'000</b>	2015 (unaudited) US\$'000
Revenue	3	<b>4,280,785</b>	4,245,431
Cost of sales		<b>(3,221,375)</b>	(3,286,215)
Gross profit		<b>1,059,410</b>	959,216
Other income		<b>50,194</b>	74,287
Selling and distribution expenses		<b>(415,520)</b>	(383,581)
Administrative expenses		<b>(301,450)</b>	(324,978)
Other expenses		<b>(98,615)</b>	(92,619)
Finance costs		<b>(10,842)</b>	(9,901)
Share of results of associates		<b>25,210</b>	24,909
Share of results of joint ventures		<b>(3,729)</b>	11,954
Other gains and losses	4	<b>15,899</b>	1,491
Profit before taxation		<b>320,557</b>	260,778
Income tax expense	5	<b>(45,248)</b>	(35,733)
Profit for the period	6	<b>275,309</b>	225,045
Attributable to:			
Owners of the Company		<b>248,711</b>	210,280
Non-controlling interests		<b>26,598</b>	14,765
		<b>275,309</b>	225,045
		<b>US cents</b>	US cents
Earnings per share	8		
– Basic		<b>15.11</b>	12.77
– Diluted		<b>15.08</b>	12.42



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2016

	For the six months ended June 30,	
	2016 (unaudited) US\$'000	2015 (unaudited) US\$'000
Profit for the period	<b>275,309</b>	225,045
<b>Other comprehensive (expense) income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange difference arising on the translation of foreign operations	<b>(10,819)</b>	6,691
Fair value gain on available-for-sale investments	<b>3,824</b>	12,889
Reclassified to profit or loss upon disposal of available-for-sale investments	–	(975)
Other comprehensive (expense) income for the period	<b>(6,995)</b>	18,605
Total comprehensive income for the period	<b>268,314</b>	243,650
Total comprehensive income attributable to:		
Owners of the Company	<b>246,066</b>	228,393
Non-controlling interests	<b>22,248</b>	15,257
	<b>268,314</b>	243,650



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2016

	NOTES	At June 30, 2016 (unaudited) US\$'000	At December 31, 2015 (audited) US\$'000
<b>Non-current assets</b>			
Investment properties	9	<b>39,489</b>	39,489
Property, plant and equipment	9	<b>1,948,799</b>	1,945,235
Deposits paid for acquisition of property, plant and equipment		<b>86,984</b>	65,078
Prepaid lease payments		<b>168,631</b>	168,839
Intangible assets		<b>95,593</b>	99,968
Goodwill		<b>272,687</b>	275,072
Investments in associates		<b>492,764</b>	472,452
Investments in joint ventures		<b>378,692</b>	393,477
Amounts due from joint ventures		<b>8,192</b>	8,276
Available-for-sale investments	17(iii)	<b>31,841</b>	28,017
Held-to-maturity investments		<b>10,177</b>	–
Rental deposits and prepayments		<b>17,880</b>	17,307
Deferred tax assets		<b>19,821</b>	14,571
		<b>3,571,550</b>	3,527,781
<b>Current assets</b>			
Inventories		<b>1,180,904</b>	1,254,152
Trade and other receivables	10	<b>1,555,463</b>	1,413,759
Prepaid lease payments		<b>4,660</b>	4,788
Taxation recoverable		<b>8,733</b>	7,304
Investments held for trading	17(ii)	<b>6,663</b>	8,930
Derivative financial instruments	17(i)	<b>58</b>	261
Pledged bank deposits		–	912
Bank balances and cash		<b>926,794</b>	1,046,599
		<b>3,683,275</b>	3,736,705
Assets classified as held for sale	11	<b>1,982</b>	–
		<b>3,685,257</b>	3,736,705



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2016

	NOTES	At June 30, 2016 (unaudited) US\$'000	At December 31, 2015 (audited) US\$'000
<b>Current liabilities</b>			
Trade and other payables	12	<b>1,321,442</b>	1,482,042
Taxation payable		<b>37,170</b>	29,650
Derivative financial instruments	17(i)	<b>5,854</b>	20,545
Consideration payable for acquisition of business	17(iv)	<b>8,977</b>	11,299
Bank overdrafts		–	15,242
Bank borrowings	13	<b>174,593</b>	433,164
		<b>1,548,036</b>	1,991,942
<b>Net current assets</b>		<b>2,137,221</b>	1,744,763
<b>Total assets less current liabilities</b>		<b>5,708,771</b>	5,272,544
<b>Non-current liabilities</b>			
Long-term bank borrowings	13	<b>720,000</b>	370,000
Deferred tax liabilities		<b>35,210</b>	36,335
		<b>755,210</b>	406,335
<b>Net assets</b>		<b>4,953,561</b>	4,866,209
<b>Capital and reserves</b>			
Share capital	14	<b>53,211</b>	53,211
Reserves		<b>4,520,857</b>	4,445,354
<b>Equity attributable to owners of the Company</b>		<b>4,574,068</b>	4,498,565
<b>Non-controlling interests</b>		<b>379,493</b>	367,644
<b>Total equity</b>		<b>4,953,561</b>	4,866,209



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2016

	Equity attributable to owners of the Company														
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Other reserve	Other revaluation reserve	Property revaluation reserve	Shares held under share award scheme	Share award reserve	Non-distributable reserve fund	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2015 (audited)	53,211	695,536	11,022	(16,688)	50,569	4,551	519	(8,814)	1,417	44,620	114,374	3,448,665	4,398,982	382,461	4,781,443
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	6,199	-	6,199	492	6,691
Fair value gain on available-for-sale investments	-	-	12,889	-	-	-	-	-	-	-	-	-	12,889	-	12,889
Reclassified to profit or loss upon disposal of available-for-sale investments	-	-	(975)	-	-	-	-	-	-	-	-	-	(975)	-	(975)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	210,280	210,280	14,765	225,045
Total comprehensive income for the period	-	-	11,914	-	-	-	-	-	-	-	6,199	210,280	228,393	15,257	243,650
Purchase of shares under share award scheme	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,633)	(1,633)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	861	-	-	-	861	147	1,008
Realized on expiry of call option	-	-	-	-	(18,272)	-	-	-	-	-	-	18,272	-	-	-
Realized on disposal of joint ventures	-	-	-	-	-	-	-	-	-	-	(1,309)	1,309	-	-	-
Realized on deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	12	(12)	-	-	-
Disposal of subsidiaries (Note 16)	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,701)	(5,701)
Dividends (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(169,904)	(169,904)	-	(169,904)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,429)	(2,429)
Transfer to non-distributable reserve fund	-	-	-	-	-	-	-	-	-	6,655	-	(6,655)	-	-	-
At June 30, 2015 (unaudited)	53,211	695,536	22,936	(16,688)	32,297	4,551	519	(8,814)	2,278	51,275	119,276	3,501,955	4,458,332	388,102	4,846,434
At January 1, 2016 (audited)	53,211	695,536	15,816	(16,688)	31,222	4,551	519	(10,954)	3,181	51,400	73,528	3,597,243	4,498,565	367,644	4,866,209
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(6,469)	-	(6,469)	(4,350)	(10,819)
Fair value gain on available-for-sale investments	-	-	3,824	-	-	-	-	-	-	-	-	-	3,824	-	3,824
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	248,711	248,711	26,598	275,309
Total comprehensive income (expense) for the period	-	-	3,824	-	-	-	-	-	-	-	(6,469)	248,711	246,066	22,248	268,314
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	275	-	-	-	275	316	591
Awarded shares exercised	-	-	-	-	-	-	-	4,567	(3,444)	-	-	(1,123)	-	-	-
Repurchase of ordinary share of a subsidiary	-	-	-	-	(791)	-	-	-	-	-	-	-	(791)	(9,162)	(9,953)
Acquisition of additional interests in subsidiaries	-	-	-	-	(624)	-	-	-	-	-	-	-	(624)	(187)	(811)
Dividends (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(169,735)	(169,735)	-	(169,735)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,821)	(4,821)
Transfer to non-distributable reserve fund	-	-	-	-	-	-	-	-	-	7,807	-	(7,807)	-	-	-
Exercise of a subsidiary's share option	-	-	-	-	312	-	-	-	-	-	-	-	312	712	1,024
Contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	2,743	2,743
At June 30, 2016 (unaudited)	53,211	695,536	19,640	(16,688)	30,119	4,551	519	(6,387)	12	59,207	67,059	3,667,289	4,574,068	379,493	4,953,561



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2016

*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 reorganization 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").

On March 31, 2015, the USD Call Option 2015 remained unexercised and lapsed. Accordingly, the premium received by the Company of approximately US\$18.3 million was derecognized and transferred to the retained profits in that period.

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 recognized 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 recognized 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, 2016

		For the six months ended June 30,	
	NOTES	2016 (unaudited) US\$'000	2015 (unaudited) US\$'000
Net cash from operating activities		<b>142,002</b>	384,813
Net cash used in investing activities			
Purchase of property, plant and equipment		<b>(164,920)</b>	(185,191)
Deposits paid for acquisition of property, plant and equipment		<b>(23,268)</b>	(22,400)
Purchase of held-to-maturity investments		<b>(10,166)</b>	–
Prepaid lease payments		<b>(5,759)</b>	–
Investments in associates		<b>(3,672)</b>	–
Proceeds from disposal of property, plant and equipment		<b>28,315</b>	7,873
Dividends received from joint ventures		<b>10,000</b>	10,500
Dividends received from associates		<b>8,531</b>	2,473
Interest received		<b>4,305</b>	5,341
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of	16	<b>3,200</b>	2,852
Proceed from disposal of prepaid lease payments		<b>1,723</b>	12,364
Release of pledged bank deposits		<b>912</b>	–
Dividends received from available-for-sale investments		<b>225</b>	–
Refund of investment cost in a joint venture		–	14,997
Repayment from joint ventures		<b>1,531</b>	15,752
Proceeds from disposal of joint ventures		–	18,811
Proceeds from disposal of available-for-sale investments		–	5,943
Acquisition of business, net of cash and cash equivalents acquired	15	–	(2,060)
Deposit received for an asset held for sale	11	<b>229</b>	–
		<b>(148,814)</b>	(112,745)
Net cash used in financing activities			
Repayment of bank borrowings		<b>(1,370,822)</b>	(815,876)
Dividends paid		<b>(169,735)</b>	(169,904)
Interest paid		<b>(10,842)</b>	(9,901)
Shares repurchased by a subsidiary		<b>(9,953)</b>	–
Dividends paid to non-controlling interests of subsidiaries		<b>(4,821)</b>	(2,429)
Acquisition of additional interest of subsidiary		<b>(811)</b>	–
Bank borrowings raised		<b>1,463,727</b>	750,224
Contribution from non-controlling interests of subsidiaries		<b>2,743</b>	–
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options		<b>1,024</b>	–
Purchase of shares under share award scheme of a subsidiary		–	(1,633)
		<b>(99,490)</b>	(249,519)
Net (decrease) increase in cash and cash equivalents		<b>(106,302)</b>	22,549
Effect of foreign exchange rate changes		<b>1,739</b>	(850)
Cash and cash equivalents at beginning of the period		<b>1,031,357</b>	971,323
Cash and cash equivalents at end of the period, represented by bank balances and cash		<b>926,794</b>	993,022



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended June 30, 2016 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended December 31, 2015.

#### Held-to-maturity investments

Held-to-maturity investment are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group’s management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any identified impairment losses.

In the current interim period, the Group has applied the following new amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the first time in current year.

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The application of the amendments to HKFRSs did not have any material impact on the Group’s condensed consolidated interim financial information.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 3. REVENUE AND SEGMENTAL INFORMATION

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

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

	For the six months ended June 30,	
	2016 (unaudited) US\$'000	2015 (unaudited) US\$'000
<b>Revenue</b>		
Manufacturing Business	<b>3,012,998</b>	3,059,087
Retailing Business	<b>1,267,787</b>	1,186,344
	<b>4,280,785</b>	4,245,431

### 4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2016 (unaudited) US\$'000	2015 (unaudited) US\$'000
Gain on changes in fair value of derivative financial instruments	<b>13,259</b>	12,214
Fair value changes on consideration payable for acquisition of business	<b>2,307</b>	637
Gain on disposal of subsidiaries (Note 16)	<b>421</b>	184
Impairment loss on investment in a joint venture	<b>(88)</b>	(5,483)
Impairment loss on consideration receivable for disposal of properties	-	(2,566)
Impairment loss on amounts due from joint ventures	-	(6,568)
Loss on deregistration of a subsidiary	-	(13)
Gain on disposal of a joint venture	-	3,086
	<b>15,899</b>	1,491



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2016 (unaudited) US\$'000	2015 (unaudited) US\$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
Hong Kong Profits Tax ( <i>Note i</i> )	–	1
PRC Enterprise Income Tax ("EIT") ( <i>Note ii</i> )	<b>27,827</b>	19,315
Overseas income tax ( <i>Notes iii &amp; iv</i> )	<b>23,796</b>	19,558
	<b>51,623</b>	38,874
Deferred tax credit	<b>(6,375)</b>	(3,141)
	<b>45,248</b>	35,733

*Notes:*

(i) Hong Kong

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

(ii) PRC

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

Pursuant to 《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) and the Bulletin of the State Administration of Taxation [2012] No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the revenue in the current period accounts for more than 70% of its total revenue shall pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company are located in the specified provinces of Western Regions and engaged in the industrial activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both periods.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 5. INCOME TAX EXPENSE (continued)

Notes: (continued)

(iii) Vietnam

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

The applicable tax rate for the subsidiaries in Vietnam range from 5% to 22% during the period (June 30, 2015: range from nil to 22%).

(iv) Overseas

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

Taxation arising in other jurisdictions including Indonesia and Republic of China ("Taiwan") is calculated at the rates prevailing in the respective jurisdictions, which were 25% (June 30, 2015: 25%) and 17% (June 30, 2015: 17%) respectively.

### 6. PROFIT FOR THE PERIOD

	<b>For the six months ended June 30,</b>	
	<b>2016</b>	2015
	<b>(unaudited)</b>	(unaudited)
	<b>US\$'000</b>	US\$'000
Profit for the period has been arrived at after charging (crediting):		
Total staff cost	<b>1,067,942</b>	1,052,905
Net exchange loss (gain) (included in other expenses (income))	<b>4,716</b>	(8,165)
Release of prepaid lease payments	<b>2,660</b>	2,809
Amortization of intangible assets (included in selling and distribution expenses)	<b>3,283</b>	3,941
Depreciation of property, plant and equipment	<b>127,017</b>	120,995
Reversal of allowance for inventories (included in cost of sales)	<b>(3,979)</b>	(7,723)
Impairment loss recognized on trade and other receivables, net (included in other expenses)	<b>591</b>	3,447
Loss on disposal of property, plant and equipment (included in other expenses)	<b>1,254</b>	7,155
Loss (gain) on disposal of prepaid lease payments (included in other expenses (income))	<b>298</b>	(8,614)
Research and development expenditure (included in other expenses)	<b>81,158</b>	75,437
Subsidies, rebates and other income from suppliers (included in other income)	<b>(9,145)</b>	(12,879)



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 7. DIVIDENDS

<b>For the six months ended June 30,</b>	
<b>2016</b>	2015
<b>(unaudited)</b>	(unaudited)
<b>US\$'000</b>	US\$'000

Dividends recognized as distribution during the period:

2015 final dividend of HK\$0.80 per share (2015: 2014 final dividend of HK\$0.80 per share)	<b>169,735</b>	169,904
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During the current interim period, the directors of the Company declared a final dividend of HK\$0.80 per share for the year ended December 31, 2015 (2015: final dividend for the year ended December 31, 2014 of HK\$0.80 per share). The final dividend of approximately HK\$1,317,537,000 (2015: HK\$1,316,959,000), equivalent to US\$169,735,000 (2015: US\$169,904,000), was paid on June 17, 2016 to the shareholders of the Company.

### 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

<b>For the six months ended June 30,</b>	
<b>2016</b>	2015
<b>(unaudited)</b>	(unaudited)
<b>US\$'000</b>	US\$'000

Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	<b>248,711</b>	210,280
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	<b>(282)</b>	–
Earnings for the purpose of diluted earnings per share	<b>248,429</b>	210,280



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 8. EARNINGS PER SHARE (continued)

	2016 (unaudited)	2015 (unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,646,249,695</b>	1,646,198,486
Effect of dilutive potential ordinary shares:		
USD Call Option 2015	–	45,869,131
Unvested awarded shares	<b>721,489</b>	1,460,635
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,646,971,184</b>	1,693,528,252

*Note:*

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 19(I)).

The computation of diluted earnings per share for the six months ended June 30, 2015 did not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise prices of those options were higher than the average market price of Pou Sheng's shares during that period.

### 9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors are of the opinion that the carrying value of the Group's investment properties as at June 30, 2016 is not materially different from their fair value at that date. Accordingly, no valuation movement has been recognized 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\$166,282,000 (six months ended June 30, 2015: US\$187,066,000).



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 10. 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\$1,139,703,000 (December 31, 2015: US\$1,030,532,000) 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:

	<b>At June 30, 2016 (unaudited) US\$'000</b>	At December 31, 2015 (audited) US\$'000
0 to 30 days	<b>811,245</b>	671,157
31 to 90 days	<b>315,835</b>	343,216
Over 90 days	<b>12,623</b>	16,159
	<b>1,139,703</b>	1,030,532

### 11. ASSET CLASSIFIED AS HELD FOR SALE

	<b>At June 30, 2016 (unaudited) US\$'000</b>	At December 31, 2015 (audited) US\$'000
Interest in an associate ( <i>Note i</i> )	<b>479</b>	–
Interest in a joint venture ( <i>Note ii</i> )	<b>1,503</b>	–
	<b>1,982</b>	–

Class of assets of the disposal groups is as follows:



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 11. ASSET CLASSIFIED AS HELD FOR SALE (continued)

*Notes:*

- (i) On April 5, 2016, the Group entered into a disposal agreement with the partners of an associate, pursuant to which the Group agreed to dispose of its investment in the relevant associate (the "Disposal"). Therefore, the interest in the associate, which is expected to be sold within twelve months from the end of the reporting period, has been classified as an asset held for sale and is presented separately in the condensed consolidated statement of financial position.

A deposit of US\$283,000 in relation to the Disposal has been received by the Group after the end of the reporting period. The net proceeds of the Disposal are expected to exceed the carrying amount of the relevant asset, and accordingly, no impairment loss has been recognized.

At the date of this report, the transaction has not yet been completed.

- (ii) On January 25, 2016, the Group entered into a disposal framework agreement with the joint venture partners of a joint venture, pursuant to which the Group agreed to dispose of its investment in the relevant joint venture (the "JV Disposal"). Therefore, the interest in the joint venture, which is expected to be sold within twelve months from the end of the reporting period, has been classified as an asset held for sale and is presented separately in the condensed consolidated statement of financial position.

A deposit of US\$229,000 in relation to the JV Disposal has been received by the Group in the current period and the amount is included in trade and other payables in the condensed consolidated statement of financial position. The net proceeds of the JV Disposal are less than the carrying amount of the relevant asset, and accordingly, impairment loss of US\$88,000 has been recognized.

At the date of this report, the transaction has not yet been completed.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$449,737,000 (December 31, 2015: US\$513,238,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	<b>At June 30, 2016 (unaudited) US\$'000</b>	<b>At December 31, 2015 (audited) US\$'000</b>
0 to 30 days	<b>322,952</b>	375,523
31 to 90 days	<b>109,271</b>	113,169
Over 90 days	<b>17,514</b>	24,546
	<b>449,737</b>	513,238

### 13. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings of approximately US\$1,464 million (six months ended June 30, 2015: US\$750 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 or prevailing lending rate quoted by the People's Bank of China, as appropriate.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.25 each		
Authorized:		
At January 1, 2015, June 30, 2015, January 1, 2016 and June 30, 2016	2,000,000,000	500,000
Issued and fully paid:		
At January 1, 2015, June 30, 2015, January 1, 2016 and June 30, 2016	1,648,928,486	412,232
	<b>At June 30, 2016 (unaudited) US\$'000</b>	At December 31, 2015 (audited) US\$'000
Shown in the condensed consolidated interim financial information	<b>53,211</b>	53,211

### 15. ACQUISITION OF BUSINESS

#### For the six months ended June 30, 2015

On May 28, 2015, the Group acquired a business, which principally engaged in sports marketing and sports agency in Taiwan, from two independent third parties at a consideration of US\$2,593,000.

The Group obtained control over the business on the date of completion of the acquisition, which has been accounted for using the purchase method. The amount of goodwill arising as a result of this acquisition was US\$1,546,000.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 16. DISPOSAL OF SUBSIDIARIES

#### For the six months ended June 30, 2016

During the six months ended June 30, 2016, the Group completed the disposal of 100% equity interest in Yi Sheng Leather Co., Ltd. and its subsidiaries (the "Yi Sheng Group") at an aggregate consideration of US\$3,300,000. The Yi Sheng group is principally engaged in trading of leather.

The aggregate amounts of assets and liabilities attributable to Yi Sheng Group on the date of disposal are as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	2,861
Prepaid lease payments	856
Trade and other receivables	161
Trade and other payables	(870)
Taxation payable	(129)
<b>Total net assets</b>	<b>2,879</b>
Gain on disposal of subsidiaries:	
Consideration received and receivable	3,300
Net assets disposed of	(2,879)
<b>Gain on disposal</b>	<b>421</b>
Net cash inflow arising on disposal:	
Cash consideration	3,300
Less: consideration receivable (included in trade and other receivables)	(100)
	<b>3,200</b>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 16. DISPOSAL OF SUBSIDIARIES (continued)

#### For the six months ended June 30, 2015

During the six months ended June 30, 2015, the Group completed the disposal of 51% equity interests in Valuable Developments Limited and its subsidiaries (the "Valuable Developments Group") at an aggregate consideration of US\$4,742,000.

The aggregate amounts of assets and liabilities attributable to the Valuable Developments Group on the date of disposal were as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	3,477
Prepaid lease payments	711
Goodwill	23
Inventories	3,390
Trade and other receivables	8,365
Bank balances and cash	1,890
Trade and other payables	(7,295)
Bank borrowings	(302)
Total net assets	10,259
Less: Non-controlling interests	(5,701)
	4,558
Gain on disposal of subsidiaries:	
Consideration received	4,742
Net assets disposed of	(4,558)
Gain on disposal	184
Net cash inflow arising on disposal:	
Cash consideration received	4,742
Less: bank balances and cash disposed of	(1,890)
	2,852



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Set out below is the information about how the fair values of the Group's financial instruments that are measured at fair value are determined, including the valuation techniques and inputs used:

	<b>Fair value as at</b>		
	<b>June 30,</b>	December 31,	<b>Fair value</b>
	<b>2016</b>	2015	<b>hierarchy</b>
	<b>(unaudited)</b>	(audited)	
	<b>US\$'000</b>	US\$'000	
<b>Financial assets at fair value through profit or loss</b>			
Derivative financial instruments <i>(Note i)</i>	<b>58</b>	261	Level 2
Investments held for trading <i>(Note ii)</i>	<b>6,663</b>	8,930	Level 2
<b>Available-for-sale investments</b>			
Listed equity securities <i>(Note iii)</i>	<b>31,841</b>	28,017	Level 1
Total	<b>38,562</b>	37,208	
<b>Financial liabilities at fair value through profit or loss</b>			
Derivative financial instruments <i>(Note i)</i>	<b>5,854</b>	20,545	Level 2
Consideration payable for acquisition of business <i>(Note iv)</i>	<b>8,977</b>	11,299	Level 3
Total	<b>14,831</b>	31,844	

Notes:

- (i) Derivative financial instruments mainly represents foreign currency forward contracts, currency structured forward contracts and currency swap. The valuation techniques of these financial assets and liabilities include Black-Scholes Option Pricing Model. Key inputs to the valuation model includes forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
- (ii) Investment held for trading mainly represent unlisted overseas funds. The fair values of investments held for trading are determined with reference to prices provided by the respective issuing financial institutions.
- (iii) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted market bid prices in active market.





## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Notes: (continued)

(iv) (continued)

#### Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 Measurements of the Group's consideration payable for acquisition of business for the six months ended June 30, 2016 and 2015.

	US\$'000
<i>For the six months ended June 30, 2016</i>	
At January 1, 2016 (audited)	11,299
Fair value changes, recognized in profit or loss (included in other gains and losses)	(2,307)
Exchange realignment	(15)
At June 30, 2016 (unaudited)	8,977
<i>For the six months ended June 30, 2015</i>	
At January 1, 2015 (audited)	16,436
Fair value changes, recognized in profit or loss (included in other gains and losses)	(637)
Exchange realignment	9
At June 30, 2015 (unaudited)	15,808

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 any of the six-month period ended June 30, 2016 or June 30, 2015.

(v) Fair value of financial instruments that are recorded at amortized cost.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated interim financial information approximate their fair values at the end of the reporting period.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 18. CONTINGENCIES AND COMMITMENTS

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

#### (I) Contingencies

	<b>At June 30, 2016 (unaudited) US\$'000</b>	At December 31, 2015 (audited) US\$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	<b>59,125</b>	59,625
– amount utilized	<b>28,000</b>	23,000
(ii) associates		
– amount guaranteed	<b>56,185</b>	56,376
– amount utilized	<b>3,256</b>	3,099

#### (II) Commitments

	<b>At June 30, 2016 (unaudited) US\$'000</b>	At December 31, 2015 (audited) US\$'000
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of:		
– construction of buildings	<b>28,576</b>	14,210
– acquisition of property, plant and equipment	<b>11,749</b>	8,258
– acquisition of prepaid lease payments	<b>1,086</b>	2,338
	<b>41,411</b>	24,806



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 19. SHARE AWARD SCHEMES

#### (I) Share Award Scheme of the Company

The share award scheme (the "Yue Yuen Share Award Scheme") was approved by the shareholders of the Company and adopted on January 28, 2014. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2016	2015
As at January 1	1,440,000	1,485,000
Granted	34,000	–
Exercised	(1,372,500)	–
Lapsed/cancelled	(67,500)	(45,000)
As at June 30	34,000	1,440,000

In March 29, 2016, 34,000 shares were granted to an employee pursuant to the share award scheme. The closing price of the Company's shares immediately before the date of grant were HK\$26.45 per share. The fair values of the share awards as at the date of grant, determined by Greater China Appraisal Limited using the Black-Scholes Option Pricing Model, amounted to HK\$729,000 (equivalent to approximately US\$94,000). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	March 29, 2016
Closing share price at the date of grant	HK\$26.45
Annual risk free rate	0.64%
Expected volatility	28%
Vesting period	2 years
Expected dividend yield	4.43%

During the six months ended June 30, 2016, the Group recognized a net expense of US\$275,000 (six months ended June 30, 2015: US\$861,000) as equity-settled share-based payments in the condensed consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

A total of 2,007,500 ordinary share of the Company were held by the trustee of the share award scheme of the Company at June 30, 2016 (December 31, 2015: 3,380,000 ordinary shares).



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

### 19. SHARE AWARD SCHEMES (continued)

#### (II) Share Award Scheme of Pou Sheng

The share award scheme (the "Pou Sheng Share Award Scheme") was approved by the shareholders of Pou Sheng and adopted on May 9, 2014. Movement in the number of awarded shares outstanding is as follows:

	<b>Number of awarded shares</b>	
	<b>2016</b>	2015
As at January 1	<b>27,738,000</b>	11,500,000
Granted	<b>6,530,000</b>	8,900,000
Lapsed/cancelled	<b>(2,675,000)</b>	(1,492,000)
As at June 30	<b>31,593,000</b>	18,908,000

The board of directors of Pou Sheng approved on March 20, 2015, March 23, 2016 and May 12, 2016 to grant an aggregate of 8,900,000, 5,130,000 and 1,400,000 awarded shares respectively to certain employees and a director of the Pou Sheng Group pursuant to the share award scheme.

During the current interim period, the total fair values of the share awards as at the respective dates of grant, determined by APAC Asset Valuation using the Black-Scholes Option Pricing Model, amounted to HK\$7,398,000 (approximately US\$953,000) (six months ended June 30, 2015: HK\$3,293,000 (approximately US\$425,000)). The key inputs into the Black-Scholes Option Pricing Model are as follows:

	<b>May 13, 2016</b>	<b>March 24, 2016</b>	March 21, 2015
Date of grant			
Closing share price of Pou Sheng at the date of grant	<b>HK\$2.07</b>	<b>HK\$1.61</b>	HK\$0.55
Annual risk free rate	<b>0.60%</b>	<b>0.85%</b>	0.73%
Expected volatility	<b>57%</b>	<b>54%</b>	50%
Vesting period	<b>2.3 years</b>	<b>3 years</b>	3 years
Expected dividend yield	<b>Nil</b>	<b>Nil</b>	Nil

The closing price of the Pou Sheng's shares immediately before the grant of the share awards on March 24, 2016 and May 13, 2016 were HK\$1.67 and HK\$2.00 (March 21, 2015: HK\$0.55) per share.

During the six months ended June 30, 2016, the Group recognized a net expense of US\$327,000 (six months ended June 30, 2015: US\$134,000) as equity-settled share-based payments in the condensed consolidated income statement under the Pou Sheng Share Award Scheme with reference to the share award's respective vesting period and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

During the six months ended June 30, 2015, 20,000,000 ordinary shares of Pou Sheng have been acquired at an aggregate cost of HK\$12,656,000 (approximately US\$1,633,000). A total of 100,000,000 ordinary shares of Pou Sheng were held by the trustee of the share award scheme of Pou Sheng at June 30, 2016 and December 31, 2015.



## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

For the six months ended June 30, 2016, the Group recorded revenue of US\$4,280.8 million, representing growth of 0.8% compared to the same period revenue in 2015 of US\$4,245.4 million. Profit attributable to owners of the Company increased by 18.3% to US\$248.7 million compared to US\$210.3 million recorded in the same period in 2015. Basic earnings per share for half year 2016 increased by 18.3% to US15.11 cents compared to US12.77 cents of the same period in 2015.

### RECURRING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

For the six months ended June 30, 2016, excluding all items non-recurring operating in nature, the recurring profit attributable to owners amounted to US\$233.7 million, representing an increase of 11.9% compared to that of US\$208.8 million in the same period in 2015. During the half year 2016, a non-recurring gain totaling US\$15.0 million was recognized, of which included US\$13.3 million of gain due to fair value changes on derivative financial instruments. For the six month period ended June 30, 2015, profit attributable to owners of the Company included a non-recurring gain of US\$1.5 million, of which included US\$12.2 million of gain due to fair value changes on derivative financial instruments but offset by impairment losses.

### OPERATIONS

#### General Overview

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

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

For a better understanding of the business model of the retail business, please refer to the interim report of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company.

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



## OPERATIONS (continued)

### Total Revenue by Product Category

The revenue for footwear manufacturing activity for the Group declined slightly in the first half of 2016 compared to the revenue recorded in the first half of 2015. A higher volume growth was offset by decline in average selling price. Gross profit margins for the manufacturing business improved mainly due to more stable operations while rising wages for workers were partly offset by a reduction in material costs. 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 location is as follows: 22% in the PRC, 43% in Vietnam, 34% in Indonesia and 1% in others.

When reviewing total revenue by product category, athletic shoes accounted for 48.2% of revenue, and casual/outdoor shoes 14.3%. When considering only footwear manufacturing revenue, the athletic shoes are the principal category, representing 75.6% of footwear manufacturing revenue. Correspondingly casual/outdoor shoes represented 22.4% of footwear manufacturing revenue. The Group works with the brand name customers to offer a wide range of footwear that vary in design, functionalities, and price points. The business strategy allows the Group to establish economies of scale and expertise in manufacturing to meet the different demands and interests of the brand name customers.

Retail Sales is derived primarily from the retail operations in the PRC involving the sales of various international brand name athletic footwear and apparel in the major cities. The revenue for Pou Sheng increased by 6.8% to US\$1,268.4 million in the six months period compared to US\$1,187.2 million recorded in the same period last year. Pou Sheng has adopted RMB as its presentation currency from USD starting from 2016 interim results, in order to reduce the impact of movements in exchange rates on reported results and to provide the shareholders with a more accurate reflection of the Pou Sheng's underlying performance. In RMB terms, Pou Sheng revenue for the first six months in 2016 increased by 12.3% to RMB8,312.9 million compared to RMB7,401.7 million in the same period last year. As at June 30, 2016, the Group had 5,131 directly operated counters/stores and 3,091 stores operated by sub-distributors in the PRC. The operating environment for the sportswear retail business in the PRC continues to be positive despite the slowing economic growth in the PRC.

### Total Revenue by Product Category

	For the six months ended June 30,				
	2016		2015		% change
	US\$ millions	%	US\$ millions	%	
Athletic Shoes	2,064.8	48.2	2,005.4	47.2	3.0
Casual/Outdoor Shoes	610.5	14.3	675.5	15.9	(9.6)
Sports Sandals	54.4	1.3	52.5	1.3	3.6
Retail Sales – Shoes, Apparel & Leasing	1,267.8	29.6	1,186.3	27.9	6.9
Soles, Components & Others	283.3	6.6	325.7	7.7	(13.0)
<b>Total Revenue</b>	<b>4,280.8</b>	<b>100.0</b>	<b>4,245.4</b>	<b>100.0</b>	<b>0.8</b>



## OPERATIONS (continued)

### Total Revenue by Product Category (continued)

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

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

### Production Review

During the six months under review, the Group produced a total of 165.7 million pairs of shoes, up by 4.1% compared to 159.1 million pairs produced in the same period in 2015. The average selling price for shoes was US\$16.48 per pair compared to US\$17.18 during the six month period ended June 30, 2015.

### Cost Review

With respect to the footwear manufacturing operations, revenue for the half year amounted to US\$3.0 billion (2015: US\$3.1 billion), whereas the direct labor costs were US\$0.6 billion (2015: US\$0.5 billion). Total main material costs were US\$1.1 billion (2015: US\$1.3 billion) and total production overhead amounted to US\$0.6 billion (2015: US\$0.6 billion).

With respect to Pou Sheng, revenue for the half year amounted to US\$1.3 billion (2015: US\$1.2 billion). Retail stock costs were US\$0.8 billion (2015: US\$0.8 billion).

For the Group, selling and distribution expenses for the half year were US\$415.5 million (2015: US\$383.6 million), equivalent to approximately 9.7% (2015: 9.0%) of revenue. The increase in selling and distribution expenses was attributable mainly to the increased number of directly operated stores for Pou Sheng. Administrative expenses for the period were US\$301.5 million (2015: US\$325.0 million), equivalent to approximately 7.0% (2015: 7.7%) of revenue. The decrease in administrative expenses was attributable mainly to employee related provisions. Since cost pressure continues to be significant, particularly in the manufacturing business, cost management is a high priority for the managements of the Group's business.

For the six months ended June 30, 2016, the Group recorded a gain of US\$13.3 million due to fair value changes on derivative financial instruments, compared to a gain of US\$12.2 million in the same period in 2015.

### Product Development

During the half year under review, the Group spent US\$81.2 million (2015: US\$75.4 million) in product development. The product development expenses included items such as sample development, preparation work for the technical development package, and production efficiency enhancement. For each of the major brand name customers that has a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. Besides this product development work, the Group also cooperates with its customers to seek improvements in production lead times and develop new techniques to produce high-quality footwear, as well as the innovation and incorporation of environmentally friendly materials into footwear design, development and manufacturing.





## **FINANCIAL REVIEW (continued)**

### **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 condensed consolidated statement of financial position due to previous acquisitions of businesses in the retail and manufacturing industries.

### **Employees**

As at June 30, 2016, the Group had about 407,000 staff employed across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period, and offers equal opportunities to all staff.

## **PROSPECTS**

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



## OTHER INFORMATION

### INTERIM DIVIDEND

The board of directors of the Company (the "Board") is pleased to declare an interim dividend of HK\$0.40 per share for the six months ended June 30, 2016 to shareholders whose names appear on the register of members on Thursday, September 22, 2016. The interim dividend will be paid on Thursday, October 6, 2016.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, September 20, 2016 to Thursday, September 22, 2016, 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 19, 2016.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2016, 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") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### (a) Interests in the ordinary shares of HK\$0.25 each of the Company

Name of director	Capacity	Number of shares held (Long position)	Percentage of the issued share capital of the Company (Note 1)
Lu Chin Chu	Beneficial owner	45,000	0.00%
Lin Cheng-Tien	Beneficial owner	45,000	0.00%
Lee Shao Wu	Beneficial owner	45,000	0.00%
Hu Chia-Ho	Beneficial owner	45,000	0.00%
Liu George Hong-Chih	Beneficial owner	45,000	0.00%



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

### (b) Interests in the ordinary shares of HK\$0.01 each of Pou Sheng, an associated corporation of the Company within the meaning of Part XV of the SFO

Name of director	Capacity	Number of shares held (Long position)	Percentage of the issued share capital of Pou Sheng (Note 2)
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

*Notes:*

1. The total issued share capital of the Company as at June 30, 2016 is 1,648,928,486 shares.
2. The total issued share capital of Pou Sheng as at June 30, 2016 is 5,332,348,615 shares.

Other than the interests disclosed above, none of the directors nor the chief executives of the Company 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, 2016.



## SHARE INCENTIVE SCHEMES

### (a) Share Option Scheme of the Company

The Company recognizes the importance of attracting talents and retaining employees and the contributions by other eligible participants by providing them with incentives and rewards through granting share-based incentives so as to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. 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 “Yue Yuen Share Option Scheme”) under which the Board may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from February 27, 2009 to February 26, 2019, after which no further options may be offered or granted.

As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 164,892,848 shares, representing approximately 10% of the issued share capital of the Company as at the date of this report.

Without prior approval from the shareholders of the Company, the maximum number of shares issued and to be issued upon exercise of the options granted and to be granted (including exercised, cancelled and outstanding options) to any individual in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of grant, in aggregate over of 0.1% of the shares of the Company in issue on the date of such grant and with an aggregate value in excess of HK\$5 million (equivalent to approximately US\$0.6 million) must be approved in advance by the shareholders of the Company.

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK\$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.

The exercise price is to be determined by the Board, and will not be less than the highest of (i) the closing price of the Company’s shares on the date of grant, (ii) the average closing price of the Company’s shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

No share option has been granted under the Yue Yuen Share Option Scheme since its adoption.



## SHARE INCENTIVE SCHEMES (continued)

### (b) Share Award Scheme of the Company

On January 28, 2014, the Company adopted a share award scheme (the “Yue Yuen Share Award Scheme”) to recognize 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 (“Associated Entity”)) and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded shares as it may determine appropriate 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. 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, the Yue Yuen 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.

Eligible participant(s) selected by the Board for participation in the Yue Yuen Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Yue Yuen Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

Details of the movements of the awards, including the number of shares which were awarded according to the terms of the Yue Yuen Share Award Scheme during the period ended June 30, 2016, are set out below:

	Date of grant	Vesting date	Number of awarded shares				Balance as at June 30, 2016
			Balance as at January 1, 2016	Granted during the period	Lapsed/ Cancelled during the period	Vested during the period	
<b>Directors of the Company</b>							
Lu Chin Chu	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Lin Cheng-Tien	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Lee Shao Wu	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Hu Chia-Ho	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Liu George Hong-Chih	27.03.2014	27.03.2016	45,000	-	-	(45,000)	-
Sub-total			225,000	-	-	(225,000)	-
<b>Employees of the Group and/or Associated Entities</b>							
	27.03.2014	27.03.2016	1,192,500	-	(67,500)	(1,125,000)	-
	29.05.2014	29.05.2016	22,500	-	-	(22,500)	-
	29.03.2016	29.03.2018	-	34,000	-	-	34,000
Sub-total			1,215,000	34,000	(67,500)	(1,147,500)	34,000
Total			1,440,000	34,000	(67,500)	(1,372,500)	34,000

During the six months ended June 30, 2016, the Group recognized a net expense of US\$275,000 (six months ended June 30, 2015: US\$861,000) as equity-settled share-based payments in the condensed consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards’ respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.



## 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 interests with that of Pou Sheng.

The existing share option scheme of Pou Sheng (the "Pou Sheng Share Option Scheme") was adopted by its shareholders on May 14, 2008 and amended on March 7, 2012. 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.

Pursuant to the terms of the Pou Sheng Share Option Scheme, the total number of shares which may be issued upon exercise of all share options to be granted shall not exceed 10% of the total number of Pou Sheng's issued shares as at the date on which dealings in Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares).

As at the date of this report, the total number of shares available for issue under the Pou Sheng Share Option Scheme is 294,531,000 shares, representing approximately 5.52% of the total number of Pou Sheng's issued shares. As at June 30, 2016, an aggregate of 48,286,000 shares are issuable for share options granted under the Pou Sheng Share Option Scheme, representing approximately 0.91% of the total number of Pou Sheng's issued shares.

During the six months ended June 30, 2016, the Group recognized a net income of US\$11,000 (six months ended June 30, 2015: a net expense of US\$13,000) as equity-settled share-based payments in the condensed consolidated income statement under the Pou Sheng Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates after recognizing share option expenses.

## SHARE INCENTIVE SCHEMES (continued)

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

Pursuant to the Pou Sheng Share Option Scheme, movements in share options during the period under review were listed below:

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the share options				Balance as at June 30, 2016
				Balance as at January 1, 2016	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	
<b>Employees/Consultants of Pou Sheng</b>								
21.01.2010	1.62	21.01.2010-20.01.2011	21.01.2011-20.01.2018	2,413,950	-	(261,000)	177,000 <sup>Note 1</sup>	2,329,950
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	2,413,950	-	(261,000)	177,000 <sup>Note 1</sup>	2,329,950
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	4,827,900	-	(502,000)	354,000 <sup>Note 1</sup>	4,679,900
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	6,437,200	-	(616,000)	(808,000) <sup>Note 1</sup>	5,013,200
20.01.2011	1.23	20.01.2011-19.01.2012	20.01.2012-19.01.2019	4,500,000	-	(1,008,500)	-	3,491,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	4,500,000	-	(662,500)	-	3,837,500
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	4,500,000	-	(637,500)	-	3,862,500
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	4,500,000	-	(637,500)	-	3,862,500
07.03.2012	1.05	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	(375,000)	-	-
		07.03.2012-06.03.2014	07.03.2014-06.03.2020	375,000	-	(375,000)	-	-
		07.03.2012-06.03.2015	07.03.2015-06.03.2020	375,000	-	(375,000)	-	-
		07.03.2012-06.03.2016	07.03.2016-06.03.2020	375,000	-	(375,000)	-	-
Sub-total				35,593,000	-	(6,086,000)	(100,000)	29,407,000
<b>Former Employees of Pou Sheng</b>								
21.01.2010	1.62	21.01.2010-20.01.2011	21.01.2011-20.01.2018	2,026,500	-	-	-	2,026,500
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	2,026,500	-	-	-	2,026,500
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	1,857,000	-	(15,000)	-	1,842,000
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	884,000	-	-	-	884,000
20.01.2011	1.23	20.01.2011-19.01.2012	20.01.2012-19.01.2019	7,087,500	-	-	-	7,087,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	3,462,500	-	(125,000)	-	3,337,500
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,000,000	-	-	-	1,000,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	300,000	-	-	-	300,000
07.03.2012	1.05	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2012-06.03.2014	07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2015	07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2016	07.03.2016-06.03.2020	-	-	-	-	-
Sub-total				19,019,000	-	(140,000)	-	18,879,000
Total				54,612,000	-	(6,226,000)	(100,000)	48,286,000

*Note:*

- Included the reverse of a total of 1,180,000 underlying shares comprised in the share options (which were previously mistakenly treated as lapsed) during the period.

The weighted average closing price of the shares of Pou Sheng immediately before the dates on which the share options were exercised is HK\$2.05.

Save as disclosed above, no share options had been granted, exercised, lapsed or cancelled under the Pou Sheng Share Option Scheme during the six months ended June 30, 2016.



## 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 recognizing the contributions by certain persons, including directors and employees of Pou Sheng and its subsidiaries (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 Pou Sheng Share Award 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 of Pou Sheng and approved by the board of directors of Pou Sheng (the "Pou Sheng Board").

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.

Eligible participant(s) selected by the Pou Sheng Board for participation in the Pou Sheng Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Pou Sheng Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

Pursuant to the Pou Sheng Share Award Scheme, movements in Pou Sheng's share awards during the period were listed below:

	Date of grant	Vesting period	Number of awarded shares				
			Balance as at January 1, 2016	Granted during the period	Vested during the period	Lapsed/Cancelled during the period	Balance as at June 30, 2016
<b>Director of Pou Sheng</b>							
Kwan, Heh-Der	01.09.2014	01.09.2014-31.08.2017	1,200,000	-	-	-	1,200,000
	13.05.2016	13.05.2016-30.08.2018	-	1,400,000	-	-	1,400,000
Sub-total			1,200,000	1,400,000	-	-	2,600,000
<b>Employees of Pou Sheng</b>							
	01.09.2014	01.09.2014-31.08.2017	8,300,000	-	-	(1,200,000)	7,100,000
	21.03.2015	21.03.2015-20.03.2018	8,548,000	-	-	(765,000)	7,783,000
	14.08.2015	14.08.2015-13.08.2018	9,690,000	-	-	(500,000)	9,190,000
	24.03.2016	24.03.2016-23.03.2019	-	5,130,000	-	(210,000)	4,920,000
Sub-total			26,538,000	5,130,000	-	(2,675,000)	28,993,000
Total			27,738,000	6,530,000	-	(2,675,000)	31,593,000

During the six months ended June 30, 2016, the Group recognized a net expense of US\$327,000 (six months ended June 30, 2015: US\$134,000) as equity-settled share-based payments in the condensed consolidated income statement under the Pou Sheng Share Award Scheme with reference to the share award's respective vesting period and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.



## 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.

## SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SECURITIES

As at June 30, 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, 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 the ordinary shares and underlying shares of HK\$0.25 each of the Company, which represent 5% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of ordinary shares held	Percentage of the issued share capital of the Company*
<i>Long position</i>			
Pou Chen Corporation (“PCC”)	(a)	824,143,835	49.98%
Wealthplus Holdings Limited (“Wealthplus”)	(a)	773,156,303	46.89%
Max Creation Industrial Limited (“Max Creation”)	(b)	115,001,998	6.97%
World Future Investments Limited (“World Future”)	(c)	115,001,998	6.97%
Mr. Tsai Chi Jui	(c)	115,321,998	6.99%
Ms. Tsai Huang Shu Man	(c)	115,321,998	6.99%
Merrill Lynch & Co. Inc.	(d)	99,315,703	6.02%
Commonwealth Bank of Australia	(e)	82,559,791	5.01%
<i>Short Position</i>			
Merrill Lynch & Co. Inc.	(d)	109,341,792	6.63%

\* The total issued share capital of the Company as at June 30, 2016 is 1,648,928,486 shares.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (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, Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min and Mr. Tsai Ming-Lun, Ming, who are directors of the Company, are also directors of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Chan Lu Min and Mr. Tsai Ming-Lun, Ming (who are directors of the Company) are directors of Wealthplus. Mr. Kung Sung Yen (who was a director of the Company up to March 6, 2015) was a director of Wealthplus up to June 15, 2016. Mr. Kuo Tai Yu (who was a director of the Company up to March 2, 2016) was a director of Wealthplus up to February 23, 2016. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.
- (b) Of the 115,001,998 ordinary shares beneficially owned by Max Creation, 80,494,822 ordinary shares were held by Quicksilver Profits Limited ("Quicksilver"), 20,631,440 ordinary shares were held by Red Hot Investments Limited ("Red Hot") and 13,875,736 ordinary shares were held by Moby Dick Enterprises Limited ("Moby Dick"). Quicksilver, Red Hot and Moby Dick are wholly-owned subsidiaries of Max Creation.
- (c) World Future is deemed to be interested in 115,001,998 ordinary shares under the SFO by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, the father of Ms. Tsai Pei Chun, Patty (who is a director of the Company), is also deemed to be interested in these 115,001,998 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui holds 320,000 ordinary shares directly. 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.
- (d) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) 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 has been prepared based on the disclosure of interest form filed with the Company.



## **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (continued)**

*Notes: (continued)*

- (e) The Commonwealth Bank of Australia is deemed to be interested in 82,559,791 ordinary shares which were held by corporations controlled by it, namely Commonwealth Bank Officers Superannuation Corporation Pty Limited, Colonial Holding Company Limited, Commonwealth Insurance Holdings Limited, Colonial First State Group Ltd, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Ltd, First State Investments (UK Holdings) Ltd, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investments International Limited, Capital 121 Pty Limited, Colonial First State Investments Limited, Realindex Investments Pty Limited, First State Investments (Bermuda) Limited, First State Investments Holdings (Singapore) Limited and First State Investments (Singapore), each a wholly owned subsidiary of the Commonwealth Bank of Australia.

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, 2016.

## **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 2015 annual report on March 23, 2016 are set out below:

Mr. Lu Chin Chu, an executive director of the Company, has been appointed as a director of Wealthplus Holdings Limited, a substantial shareholder of the Company and a wholly-owned subsidiary of Pou Chen Corporation, on June 15, 2016. Pou Chen Corporation is listed on the Taiwan Stock Exchange and a substantial shareholder of the Company.

Ms. Tsai Pei Chun, Patty, an executive director of the Company, has been appointed as a director of Pou Chen Corporation, being listed on the Taiwan Stock Exchange and a substantial shareholder of the Company, on June 15, 2016.

Mr. Tsai Ming-Lun, Ming, an executive director of the Company, has been (i) re-elected as a director of Pou Chen Corporation, being listed on the Taiwan Stock Exchange and a substantial shareholder of the Company; and ii) appointed as a director of Wealthplus Holdings Limited, a substantial shareholder of the Company and a wholly-owned subsidiary of Pou Chen Corporation, on June 15, 2016.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended June 30, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **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, risk management and internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial information.

The external auditor has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2016 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.



