



裕元工業(集團)有限公司

Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號 : 551



2017
INTERIM REPORT
中期報告



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

(Incorporated in Bermuda with limited liability)

Stock Code: 00551

2017 Interim Report

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* For identification purposes only



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lu Chin Chu (*Chairman*)
Tsai Pei Chun, Patty⁵ (*Managing Director*)
Chan Lu Min
Lin Cheng-Tien
Lee Shao Wu (*resigned on February 6, 2017*)
Tsai Ming-Lun, Ming
Hu Chia-Ho
Liu George Hong-Chih
Hu Dien Chien (*appointed on March 24, 2017*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Notes:

1. Member of audit committee
2. Chairman of audit committee
3. Member of remuneration committee
4. Chairman of remuneration committee
5. Member of nomination committee
6. Chairman of nomination committee

COMPANY SECRETARY

Ng Yuk Yee, Feona

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 of Singapore
- 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

STOCK CODE: 00551



FINANCIAL HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS

	For the six months ended June 30,		Percentage increase
	2017	2016	
Revenue (US\$'000)	4,448,172	4,280,785	3.91%
Recurring profit attributable to owners of the Company (US\$'000)	240,938	233,681	3.11%
Non-recurring profit attributable to owners of the Company (US\$'000)	17,587	15,030	17.01%
Profit attributable to owners of the Company (US\$'000)	258,525	248,711	3.95%
Basic earnings per share (US cents)	15.71	15.11	3.97%
Dividend per share			
– interim dividend (HK\$)	0.40	0.40	-
– special dividend (HK\$)	3.50	-	-





REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Deloitte.

德勤

**TO THE BOARD OF DIRECTORS OF
YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED**
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated interim financial information of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 28, which comprise the condensed consolidated statement of financial position as of June 30, 2017 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 11, 2017



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, 2017 with comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2017

	NOTES	For the six months ended June 30, 2017 (unaudited) US\$'000	2016 (unaudited) US\$'000
Revenue	3	4,448,172	4,280,785
Cost of sales		(3,316,793)	(3,221,375)
Gross profit		1,131,379	1,059,410
Other income		58,434	50,194
Selling and distribution expenses		(467,520)	(399,333)
Administrative expenses		(304,331)	(301,450)
Other expenses		(128,128)	(114,802)
Finance costs		(17,908)	(10,842)
Share of results of associates		21,482	25,210
Share of results of joint ventures		5,233	(3,729)
Other gains and losses	4	17,349	15,899
Profit before taxation		315,990	320,557
Income tax expense	5	(36,440)	(45,248)
Profit for the period	6	279,550	275,309
Attributable to:			
Owners of the Company		258,525	248,711
Non-controlling interests		21,025	26,598
		279,550	275,309
		US cents	US cents
Earnings per share	8		
– Basic		15.71	15.11
– Diluted		15.68	15.08



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2017

	For the six months ended June 30,	
	2017 (unaudited) US\$'000	2016 (unaudited) US\$'000
Profit for the period	279,550	275,309
Other comprehensive income (expense)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	22,418	(11,728)
Fair value gain on available-for-sale investments	6,955	3,824
Share of other comprehensive income of associates and joint ventures	10,356	909
Reserve released upon disposal of subsidiaries	(751)	–
Other comprehensive income (expense) for the period	38,978	(6,995)
Total comprehensive income for the period	318,528	268,314
Total comprehensive income attributable to:		
Owners of the Company	288,459	246,066
Non-controlling interests	30,069	22,248
	318,528	268,314



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2017

	NOTES	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
Non-current assets			
Investment properties	9	56,330	56,147
Property, plant and equipment	9	2,111,659	2,018,480
Deposits paid for acquisition of property, plant and equipment		139,863	105,807
Prepaid lease payments		158,800	161,489
Intangible assets	10	131,277	88,367
Goodwill		272,262	267,006
Interests in associates		469,540	492,208
Interests in joint ventures		273,655	367,195
Amounts due from joint ventures		2,582	2,516
Available-for-sale investments		43,514	36,541
Held-to-maturity investments		9,452	10,119
Rental deposits and prepayments		19,723	18,306
Deferred tax assets		44,635	24,573
		3,733,292	3,648,754
Current assets			
Inventories		1,392,383	1,260,147
Trade and other receivables	11	1,651,095	1,591,434
Prepaid lease payments		4,832	4,692
Taxation recoverable		11,512	2,673
Investments held for trading		17,069	17,053
Derivative financial instruments		2,631	2,531
Held-to-maturity investments		608	–
Bank balances and cash		988,951	1,041,486
		4,069,081	3,920,016
Assets classified as held for sale		1,475	43,004
		4,070,556	3,963,020



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2017

	NOTES	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
Current liabilities			
Trade and other payables	12	1,243,542	1,378,482
Taxation payable		43,333	29,828
Derivative financial instruments		183	9,785
Consideration payable for acquisition of business		–	8,689
Bank borrowings	13	412,574	240,070
		1,699,632	1,666,854
Liabilities associated with assets classified as held for sale		–	33,109
		1,699,632	1,699,963
Net current assets		2,370,924	2,263,057
Total assets less current liabilities		6,104,216	5,911,811
Non-current liabilities			
Long-term bank borrowings	13	795,000	720,000
Deferred tax liabilities		50,608	35,129
Defined benefit obligations		67,861	62,686
		913,469	817,815
Net assets		5,190,747	5,093,996
Capital and reserves			
Share capital	14	53,211	53,211
Reserves		4,763,039	4,688,255
Equity attributable to owners of the Company		4,816,250	4,741,466
Non-controlling interests		374,497	352,530
Total equity		5,190,747	5,093,996



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2017

	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
				(note a)	(note b)	(note c)				(note d)					
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	-	-	-	-	-	-	-	-	-	-	(7,394)	-	(7,394)	(4,334)	(11,728)
Fair value gain on available-for-sale investments	-	-	3,824	-	-	-	-	-	-	-	-	-	3,824	-	3,824
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	925	-	925	(16)	909
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 options	-	-	-	-	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
At January 1, 2017 (audited)	53,211	695,536	24,030	(16,688)	25,549	4,551	6,221	(10,265)	476	68,945	36,469	3,853,431	4,741,466	352,530	5,093,996
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	13,618	-	13,618	8,800	22,418
Fair value gain on available-for-sale investments	-	-	6,955	-	-	-	-	-	-	-	-	-	6,955	-	6,955
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	10,112	-	10,112	244	10,356
Reserve released upon disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(751)	-	(751)	-	(751)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	258,525	258,525	21,025	279,550
Total comprehensive income for the period	-	-	6,955	-	-	-	-	-	-	-	22,979	258,525	288,459	30,069	318,528
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	824	-	-	-	824	1,112	1,936
Deemed acquisition of subsidiaries (Note 15)	-	-	-	-	-	-	-	-	-	-	-	-	-	14	14
Disposal of subsidiaries (Note 16)	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,797)	(4,797)
Acquisition of additional interests in subsidiaries	-	-	-	-	(3,134)	-	-	-	-	-	-	-	(3,134)	3,036	(98)
Dividends (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(211,400)	(211,400)	-	(211,400)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,468)	(7,468)
Transfer to non-distributable reserve fund	-	-	-	-	-	-	-	-	-	2,736	-	(2,736)	-	-	-
Exercise of a subsidiary's share options	-	-	-	-	35	-	-	-	-	-	-	-	35	1	36
At June 30, 2017 (unaudited)	53,211	695,536	30,985	(16,688)	22,450	4,551	6,221	(10,265)	1,300	71,681	59,448	3,897,820	4,816,250	374,497	5,190,747



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2017

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) The other reserve of the Group represents the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received upon acquisition of additional interests in subsidiaries or partial disposal of interests in subsidiaries without losing control.
- (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, 2017

	NOTES	For the six months ended June 30, 2017 (unaudited) US\$'000	2016 (unaudited) US\$'000
Net cash from operating activities		221,750	142,002
Net cash used in investing activities			
Purchase of property, plant and equipment		(216,691)	(164,920)
Placement of structured bank deposits		(48,666)	–
Advance to a former joint venture		(48,000)	–
Deposits paid for acquisition of property, plant and equipment		(41,711)	(23,268)
Repayment of consideration payable for acquisition of business		(8,917)	–
Capital injection to associates		(1,166)	(3,672)
Addition of prepaid land leases		(248)	(5,759)
Release of structured bank deposits		48,666	–
Dividends received from associates		32,070	8,531
Proceeds from disposal of associates		25,071	–
Proceeds from disposal of property, plant and equipment		11,686	28,315
Dividends received from joint ventures		11,000	10,000
Refund of investment costs in joint ventures		8,000	–
Interest received		4,750	4,305
Deemed acquisition of subsidiaries, net of cash and cash equivalents acquired	15	3,927	–
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of	16	2,996	3,200
Dividends received from available-for-sale investments		306	225
Proceeds from disposal of prepaid land leases		193	1,723
Purchase of held-to-maturity investments		–	(10,166)
Repayment from joint ventures		–	1,531
Release of pledged bank deposits		–	912
Deposit received for an asset held for sale		–	229
		(216,734)	(148,814)
Net cash used in financing activities			
Repayment of bank borrowings		(1,217,281)	(1,370,822)
Dividends paid		(211,400)	(169,735)
Interest paid		(17,908)	(10,842)
Dividends paid to non-controlling interests of subsidiaries		(7,468)	(4,821)
Acquisition of additional interests in subsidiaries		(98)	(811)
Bank borrowings raised		1,400,149	1,463,727
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options		36	1,024
Repurchase of ordinary shares of a subsidiary		–	(9,953)
Contribution from non-controlling interests of subsidiaries		–	2,743
		(53,970)	(99,490)
Net decrease in cash and cash equivalents		(48,954)	(106,302)
Effect of foreign exchange rate changes		(4,930)	1,739
Cash and cash equivalents at beginning of the period		1,042,835	1,031,357
Cash and cash equivalents at end of the period, represented by bank balances and cash		988,951	926,794



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 month ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2016.

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 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 and apparel products ("Retailing Business") which includes the operating and leasing of large scale commercial spaces to retailers and distributors.

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

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Revenue		
Manufacturing Business	2,990,046	3,012,998
Retailing Business	1,458,126	1,267,787
	4,448,172	4,280,785

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Gain on disposal of associates	9,762	–
Gain on deemed disposal of an associate	2,184	–
Gain on changes in fair value of derivative financial instruments	9,388	13,259
Gain on disposal of subsidiaries (<i>Note 16</i>)	118	421
Loss on deemed disposal of a joint venture	(4,103)	–
Fair value changes on consideration payable for acquisition of business	–	2,307
Impairment loss on interest in a joint venture	–	(88)
	17,349	15,899



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
Hong Kong Profits Tax (<i>note i</i>)	–	–
PRC Enterprise Income Tax ("EIT") (<i>note ii</i>)	29,192	22,712
Overseas income tax (<i>notes iii & iv</i>)	13,442	21,470
	42,634	44,182
(Over)underprovision in prior periods:		
PRC EIT	(2,451)	5,115
Overseas income tax	2,073	2,326
	(378)	7,441
Current tax charge – total	42,256	51,623
Deferred tax credit	(5,816)	(6,375)
	36,440	45,248

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 enterprise income tax laws, implementation rules and notices in the PRC, except for the followings:

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

The applicable tax rate for the subsidiaries in Vietnam range from nil to 20% during the period (June 30, 2016: range from 5% 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, 2016: 25%) and 17% (June 30, 2016: 17%) respectively.

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Profit for the period has been arrived at after charging (crediting):		
Total staff cost	1,068,044	1,067,942
Net exchange (gain) loss (included in other (income) expenses)	(9,005)	4,716
Release of prepaid lease payments	3,711	2,660
Amortization of intangible assets (included in selling and distribution expenses)	7,296	3,283
Depreciation of property, plant and equipment	134,325	127,017
Allowance (reversal of allowance) for inventories (included in cost of sales)	5,294	(3,979)
Impairment loss recognized on trade and other receivables, net (included in other expenses)	375	591
Loss on disposal of property, plant and equipment (included in other expenses)	11,070	1,254
Loss on disposal of prepaid lease payments (included in other expenses)	15	298
Research and development expenditure (included in other expenses)	108,401	97,345
Subsidies, rebates and other income from suppliers (included in other income)	(11,189)	(9,145)



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

7. DIVIDENDS

For the six months ended June 30,	
2017	2016
(unaudited)	(unaudited)
US\$'000	US\$'000

Dividends recognized as distribution during the period:

2016 final dividend of HK\$1.00 per share (2016: 2015 final dividend of HK\$0.80 per share)	211,400	169,735
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During the current interim period, a final dividend of HK\$1.00 per share has been declared for the year ended December 31, 2016 (2016: final dividend for the year ended December 31, 2015 of HK\$0.80 per share). The final dividend of approximately HK\$1,645,835,000 (2016: HK\$1,317,537,000), equivalent to US\$211,400,000 (2016: US\$169,735,000), was paid on June 20, 2017 to the shareholders of the Company.

An interim dividend of HK\$0.40 per share (2016: HK\$0.40 per share) has been declared for the period ended June 30, 2017. The interim dividend of approximately HK\$658,334,000 (2016: HK\$658,768,000) will be paid on October 10, 2017.

In addition to the interim dividend, the directors of the Company are pleased to announce and declare a special dividend of HK\$3.50 per share. The special dividend of approximately HK\$5,760,424,000 will be paid at the same time as the interim dividend on October 10, 2017.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

8. EARNINGS PER SHARE

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

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US\$'000	US\$'000
<hr/>		
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	258,525	248,711
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	(252)	(282)
Earnings for the purpose of diluted earnings per share	258,273	248,429
<hr/>		
	2017	2016
	(unaudited)	(unaudited)
<hr/>		
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,645,835,486	1,646,249,695
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	1,054,351	721,489
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,646,889,837	1,646,971,184

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)).

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

The directors are of the opinion that the carrying values of the Group's investment properties as at June 30, 2017 are not materially different from their fair values 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\$224,630,000 (six months ended June 30, 2016: US\$166,282,000).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

10. INTANGIBLE ASSETS

Effective from March 2017, the estimated useful lives of certain brand names of the intangible assets were revised to better reflect the useful lives of the intangible assets as follows:

	Old useful lives	New useful lives
Brand names	Indefinite	5 years (<i>note</i>)

Note: Amortization for brand names is provided on a straight-line basis over their estimated useful lives.

The effects/expected effects of the above change in estimated useful lives in the current interim period/future annual reporting periods are as follows:

	For the six months ended June 30,		For the year ending December 31,			
	2017	2017	2018	2019	2020	2021
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Increase in amortization charge	(4,077)	(10,194)	(12,233)	(12,233)	(12,233)	(12,233)
Increase in release of deferred tax liabilities	1,019	2,548	3,058	3,058	3,058	3,058
Net decrease in profit for the period/year	(3,058)	(7,646)	(9,175)	(9,175)	(9,175)	(9,175)

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\$1,195,752,000 (December 31, 2016: US\$1,181,098,000) 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, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
0 to 30 days	771,804	690,268
31 to 90 days	394,048	446,609
Over 90 days	29,900	44,221
	1,195,752	1,181,098



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\$397,435,000 (December 31, 2016: US\$444,907,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
0 to 30 days	289,522	331,159
31 to 90 days	95,188	101,695
Over 90 days	12,725	12,053
	397,435	444,907

13. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings of approximately US\$1,400 million (six months ended June 30, 2016: US\$1,464 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.

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorized:		
Ordinary shares of HK\$0.25 each:		
At January 1, 2016, June 30, 2016, January 1, 2017 and June 30, 2017	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK\$0.25 each:		
At January 1, 2016, June 30, 2016, January 1, 2017 and June 30, 2017	1,648,928,486	412,232
	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
Shown in the condensed consolidated interim financial information	53,211	53,211



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15. DEEMED ACQUISITION OF SUBSIDIARIES

For the six months ended June 30, 2017

On March 20, 2017, the Group entered into a settlement agreement with the joint venture partner of Texas Clothing Holding Corp. ("Texas Clothing"), a joint venture which principally engaged in design, imports and sales of apparels in the United States of America, where Texas Clothing would repurchase all of its own shares held by the joint venture partner at a consideration of US\$80,000,000. Accordingly, Texas Clothing and its subsidiaries (the "Texas Clothing Group"), become a subsidiary of the Company and has been accounted for using the purchase method. In view of the fact that, the Group obtained control of Texas Clothing without transferring any cash consideration, the fair value of previously held equity interest in Texas Clothing is therefore considered as the deemed consideration in this acquisition.

Further details of the acquisition, including the deemed consideration, provisional assets acquired and liabilities recognized at the date of acquisition (which is April 7, 2017) are set out below.

	US\$'000
Provisional fair value of assets acquired and liabilities recognized at the date of acquisition were as follows:	
Property, plant and equipment	17,617
Inventories	90,483
Trade and other receivables	65,950
Intangible assets	47,931
Deferred tax assets	13,133
Taxation recoverable	1,104
Bank balances and cash	3,927
Trade and other payables	(41,796)
Amount due to the Group	(48,000)
Bank borrowings	(58,066)
Taxation payable	(2,014)
Deferred tax liabilities	(16,648)
	73,621
Provisional goodwill arising on acquisition:	
Deemed consideration	
Fair value of previously held equity interest in Texas Clothing	76,803
Plus: non-controlling interests (0.0175% in Texas Clothing)	14
Less: net assets acquired	(73,621)
	3,196
Net cash inflows, represented by bank balances and cash	3,927



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

15. DEEMED ACQUISITION OF SUBSIDIARIES (continued)

For the six months ended June 30, 2017 (continued)

Included in the profit for the period is US\$5,657,000 attributable to the additional business generated by the Texas Clothing Group. Revenue for the period includes US\$78,527,000 generated from the Texas Clothing Group.

Had the acquisition been completed on January 1, 2017, total group revenue for the period would have been US\$4,545,030,000, and profit for the period would have been US\$280,193,000. The pro forma information is for illustrative purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

16. DISPOSAL OF SUBSIDIARIES

For the six months ended June 30, 2017

On December 15, 2016, the Group entered into a disposal agreement with Excel Effect Investments Limited, the non-controlling interest of Profit Concept Group Limited ("Profit Concept"), pursuant to which the Group agreed to dispose of its entire interests of 51% in Profit Concept and its subsidiaries (collectively referred to as the "Disposal Group"), which are principally engaged in retailing of sportswear, for a consideration of approximately US\$4,359,000. Therefore, the assets and liabilities attributable to the Disposal Group, which are expected to be sold within twelve months from December 31, 2016, have been classified as assets held for sale of approximately US\$41,566,000 and liabilities associated with assets classified as held for sale of approximately US\$33,109,000 as at December 31, 2016.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

16. DISPOSAL OF SUBSIDIARIES (continued)

For the six months ended June 30, 2017 (continued)

The transaction was completed during the six months ended June 30, 2017 and the aggregate amounts of assets and liabilities attributable to the Disposal Group on the date of disposal were as follows:

	US\$'000
Net assets disposed of:	
Property, plant and equipment	604
Rental deposits and prepayments	1,335
Inventories	20,152
Trade and other receivables	28,940
Taxation recoverable	683
Bank balances and cash	1,363
Trade and other payables	(43,288)
Total net assets	9,789
Less: non-controlling interests	(4,797)
	4,992
Gain on disposal of subsidiaries:	
Consideration received	4,359
Net assets disposed of	(4,992)
Translation reserve released upon disposal	751
Gain on disposal	118
Net cash inflow arising on disposal:	
Cash consideration received	4,359
Less: bank balances and cash disposed of	(1,363)
	2,996

During the six months ended June 30, 2017, the Disposal Group did not contribute significantly to the results and cash flows of the Group prior to the disposal.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

16. DISPOSAL OF SUBSIDIARIES (continued)

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 were 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)
Total net assets	2,879
Gain on disposal of subsidiaries:	
Consideration received and receivable	3,300
Net assets disposed of	(2,879)
Gain on disposal	421
Net cash inflow arising on disposal:	
Cash consideration	3,300
Less: consideration receivable (included in trade and other receivables)	(100)
	3,200



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

- (a) 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:

	Fair value as at		Fair value hierarchy
	June 30, 2017 (unaudited) US\$'000	December 31, 2016 (audited) US\$'000	
Financial assets at fair value through profit or loss			
Derivative financial instruments			
Foreign currency derivatives (<i>note i</i>)	1,734	1,716	Level 2
Interest rate swap (<i>note ii</i>)	897	815	Level 2
Investments held for trading (<i>note iii</i>)	17,069	17,053	Level 1
Available-for-sale investments			
Listed equity securities (<i>note iv</i>)	43,185	36,231	Level 1
Total	62,885	55,815	
Financial liabilities at fair value through profit or loss			
Derivative financial instruments			
Foreign currency derivatives (<i>note i</i>)	183	9,785	Level 2

Notes:

- (i) Foreign currency derivative mainly represents foreign currency forward contracts and currency structured forward contracts. These financial assets and liabilities are measured at fair value with reference to discounted cash flows. Future cash flows are estimated based on 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) The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.
- (iii) The fair values of investments held for trading are determined with reference to prices provided by the respective issuing financial institutions.
- (iv) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted market bid prices in active market.
- (b) 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

	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	32,875	49,375
– amount utilized	15,500	16,950
(ii) associates		
– amount guaranteed	56,926	56,771
– amount utilized	1,941	983

(II) Commitments

	At June 30, 2017 (unaudited) US\$'000	At December 31, 2016 (audited) US\$'000
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of:		
– construction of buildings	87,364	16,705
– acquisition of property, plant and equipment	14,403	13,133
	101,767	29,838



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. SHARE AWARD SCHEMES

(I) Share Award Scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 by the Company. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2017	2016
As at January 1	1,119,500	1,440,000
Granted	–	34,000
Exercised	–	(1,372,500)
Lapsed/cancelled	(67,000)	(67,500)
As at June 30	1,052,500	34,000

On March 29, 2016 and October 3, 2016, an aggregate of 34,000 shares and 1,085,500 shares were granted to certain employees and directors of the Company respectively pursuant to the Yue Yuen Share Award Scheme. The fair values of the share awards as at the respective date of grant, determined by Greater China Appraisal Limited using the Black-Scholes Option Pricing Model, were totally amounted to HK\$729,000 and HK\$27,908,000 (equivalent to approximately US\$94,000 and US\$3,598,000) respectively. The key inputs into the Black-Scholes Option Pricing Model at the respective date of grant are as follows:

Date of grant	October 3, 2016	March 29, 2016
Closing share price at the date of grant	HK\$31.75	HK\$26.45
Annual risk free rate	0.46%	0.64%
Expected volatility	28.57%	28.47%
Vesting period	2 years	2 years
Expected dividend yield	4.20%	4.43%

The variables and assumptions used in computing the fair value of the share awards are based on the director's of the Company best estimate. The value of a share award varies with different variables of certain subjective assumptions.

The closing prices of the Company's shares immediately before the grant of the share awards on March 29, 2016 and October 3, 2016 were HK\$27.10 and HK\$32.00 per share respectively.

During the six months ended June 30, 2017, the Group recognized a net expense of US\$824,000 (six months ended June 30, 2016: US\$275,000) as equity-settled share-based payments in the condensed consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share award's respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

A total of 3,093,000 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2017 (December 31, 2016: 3,093,000 ordinary shares).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. SHARE AWARD SCHEMES (continued)

(II) Share Award Scheme of Pou Sheng

Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, has its share award scheme (the "Pou Sheng Share Award Scheme") was adopted pursuant to a board resolution passed by Pou Sheng's directors on May 9, 2014 and amended on November 11, 2016. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2017	2016
As at January 1	45,129,810	27,738,000
Granted	6,026,000	6,530,000
Lapsed/cancelled	(7,432,000)	(2,675,000)
As at June 30	43,723,810	31,593,000

The Board of Directors of Pou Sheng granted on March 25, 2017 (six month ended June 30, 2016: March 24, 2016 and May 13, 2016, respectively) an aggregate of 6,026,000 (six months ended June 30, 2016: 5,130,000 and 1,400,000, respectively) awarded shares to certain employees and a director of the Pou Sheng Group pursuant to the Pou Sheng Share Award scheme.

During the period, the total fair values of the share awards as at the respective dates of grant, determined by APAC Asset Valuation and Consulting Limited using the Black-Scholes Option Pricing Model, amounted to HK\$7,234,000 (approximately US\$932,000) (six months ended June 30, 2016: HK\$7,398,000 (approximately US\$953,000)). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	March 25, 2017	May 13, 2016	March 24, 2016
Closing share price of Pou Sheng at the date of grant	HK\$1.87	HK\$2.07	HK\$1.61
Annual risk free rate	0.620%-1.140%	0.600%	0.845%
Expected volatility	48%-59%	57%	54%
Vesting period	1-3 years	2.3 years	3 years
Expected dividend yield	2.0%	Nil	Nil



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19. SHARE AWARD SCHEMES (continued)

(II) SHARE AWARD SCHEME OF POU SHENG (continued)

The variables and assumptions used in computing the fair value of the share awards are based on the directors of Pou Sheng's best estimate. The value of a share award varies with different variables of certain subjective assumptions.

The closing price of the Pou Sheng's shares immediately before the grant of the share awards on March 25, 2017 was HK\$1.87 (March 24, 2016 and May 13, 2016: were HK\$1.67 and HK\$2.00, respectively) per share.

During the six months ended June 30, 2017, the Group recognized a net expense of US\$866,000 (six months ended June 30, 2016: US\$327,000) 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 prior to their vesting dates after recognizing share award expenses.

As at June 30, 2017, a total of 130,000,000 ordinary shares (December 31, 2016: 130,000,000 ordinary shares) of Pou Sheng were held by the trustee of the Pou Sheng Share Award Scheme.

20. COMPARATIVE FIGURES

The comparative figures of selling and distribution expenses and other expenses in the condensed consolidated income statement were reclassified to conform to the presentation in the current interim period.



MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended June 30, 2017, the Group recorded revenue of US\$4,448.2 million, representing a growth of 3.9%, compared to the same period in 2016. Profit attributable to owners of the Group grew by 4.0% to US\$258.5 million, as compared to US\$248.7 million recorded for the six months in 2016. Basic earnings per share for the first half of 2017 increased by 4.0% to US15.71 cents as compared with US15.11 cents for the same period in 2016.

RECURRING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Excluding all items of non-recurring operating in nature, the recurring profit for the six months ended June 30, 2017, increased 3.1% to US\$240.9 million, compared to a recurring profit of US\$233.7 million for the same period in 2016. During the first half of 2017, the non-recurring profit amounted to US\$17.6 million, which included US\$9.4 million of gain due to fair value changes on derivative financial instruments, as well as a US\$9.8 million of gain on disposal of associates. For the six months ended June 30, 2016, the profit attributable to owners of the Company included a non-recurring profit of US\$15.0 million, of which included US\$13.3 million of gain due to fair value changes on derivative financial instruments.

OPERATIONS

General Overview

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

The key objective of the Group's manufacturing business is to become a close partner with leading brand name customers, forging long-term relationships by offering a wide range of support options and advanced solutions, including product design, development, manufacturing and supply chain diversification. These services and solutions enable its customers to focus on building their portfolio and promoting their brands.

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

All of the Group's businesses abided by the Group's principles on sustainable development, ethical conduct and values during the first half of 2017. Each business unit considers the interests of all stakeholders, including employees and the surrounding community, when making important business decisions. In addition, fundamental principles and core values are established and evaluated across all business units to promote a culture of ethical conduct and integrity.



OPERATIONS (continued)

Total Revenue by Product Category

The revenue for the footwear manufacturing business recorded a mild decline of 0.7% to US\$2,990.0 million during the first half of 2017 when compared to the same period in 2016, and the volume of footwear sold decreased by 1.6% as compared with the same period in 2016. The gross profit for the manufacturing business improved from US\$607.9 million to US\$622.9 million with a gross profit margin of 20.8%. The improvement was attributable mainly to better operational efficiency, despite the impact of rising wages and a mild uptick in material costs as a result of commodity price trends. The Group continued to work with international brand customers to further enhance productivity across production sites, as well as supply chain efficiency in key regions. For the six months period, Vietnam, Indonesia and China continued to be the Group's main production locations by volume, representing 46%, 35% and 17% of our total shoe production respectively.

In terms of total revenue by product category, athletic shoes accounted for 46.6% of revenue, followed by casual/outdoor shoes, which accounted for 12.8%. When considering manufacturing revenue by footwear only, athletic shoes still represented the principal category, accounting for 77.1% of footwear manufacturing revenue, followed by casual/outdoor shoes, which accounted for 21.2% of the Group's total footwear manufacturing revenue. During the first half, the Group is progressing as planned with its business model transformation – from offering 'economies of scale' and expertise in footwear manufacturing to offering 'economies of value'. With continued enhancement of new manufacturing processes, advanced manufacturing solutions, and a wider choice of advanced materials, the Group strives to provide brand customers with an enhanced value proposition, while enabling brand customers to adjust quickly to changing consumer preferences and to differentiate their product portfolios.

The Group's retail business, including Pou Sheng and others, grew by 15.0% to US\$1,458.1 million in the six months period when compared to revenue of US\$1,267.8 million for the same period last year. The Group's main retail subsidiary, Pou Sheng, which involves the sale of international brand-name athletic and casual footwear and apparel, are derived primarily from retail omni-channels and sport services platform across major cities in Greater China Region. Pou Sheng has adopted RMB as its reporting currency since the Interim 2016 in order to reduce the impact of foreign exchanges rate movements on its reported results and to provide shareholders with an accurate reflection of the Group's main retail business underlying performance. In RMB terms, Pou Sheng revenue for the six months ended June 30, 2017 increased by 14.5% to RMB9,515.1 million, compared to RMB8,312.9 million for the same period last year.

As of June 30, 2017, the Group had 5,464 directly operated counters/stores and 3,036 stores operated by sub-distributors in Greater China region.

Total Revenue by Product Category	For the six months ended June 30,				
	2017		2016		% change
	US\$ millions	%	US\$ millions	%	
Athletic Shoes	2,071.5	46.6	2,064.8	48.2	0.3
Casual/Outdoor Shoes	569.0	12.8	610.5	14.3	(6.8)
Sports Sandals	44.7	1.0	54.4	1.3	(17.8)
Retail Sales – Shoes, Apparel & Leasing	1,458.1	32.8	1,267.8	29.6	15.0
Soles, Components & Others	304.9	6.8	283.3	6.6	7.6
Total Revenue	4,448.2	100.0	4,280.8	100.0	3.9



OPERATIONS (continued)

Total Revenue by Product Category (continued)

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

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

Production Review

During the six months under review, the Group's manufacturing business produced a total of 163.0 million pairs of shoes, decreased 1.6% when compared to 165.7 million pairs produced during the same period in 2016. The average selling prices for each pair of shoes was US\$16.47, compared to US\$16.48 during the six months period ended June 30, 2016.

Cost Review

With respect to the footwear manufacturing operations, revenue for the first half of 2017 amounted to US\$3.0 billion (2016: US\$3.0 billion) whereas the direct labor costs were US\$0.6 billion (2016: US\$0.6 billion). Total main material costs were US\$1.1 billion (2016: US\$1.1 billion) and total production overheads amounted to US\$0.6 billion (2016: US\$0.6 billion).

For the Group's retail business, revenue for the first half of 2017 amounted to US\$1.5 billion (2016: US\$1.3 billion). Retail stock costs were US\$0.9 billion (2016: US\$0.8 billion).

For the Group, selling and distribution expenses for the first half of 2017 were US\$467.5 million (2016: US\$399.3 million), equivalent to approximately 10.5% (2016: 9.3%) of revenue. The increase in selling and distribution expenses was attributable mainly to the expansion and optimization of directly operated stores and a rise in sales staff remuneration at Pou Sheng. Administrative expenses for the period were US\$304.3 million (2016: US\$301.5 million), equivalent to approximately 6.8% (2016: 7.0%) of revenue, remain stable. Since cost pressures continue to be significant for both the manufacturing and retail businesses, the management of both units will continuously look for ways to improve efficiency and productivity.

Product Development

During the period under review, the Group spent US\$108.4 million (2016: US\$97.3 million) on product development. Product development expenses included items such as sample development, preparation work for technical development packages and production efficiency enhancement. For each of the major brand name customers that have a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. Besides this product development work, the Group also cooperates with its customers to seek improvements in production processes, lead times and to formulate new techniques to produce high-quality footwear, as well as incorporate environmentally friendly materials into the footwear design, development and manufacturing.



FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remained solid. As at June 30, 2017, the Group had cash and cash equivalents of US\$989.0 million (December 31, 2016: US\$1,042.8 million) and total bank borrowings were US\$1,207.6 million (December 31, 2016: US\$960.1 million). The Group's gearing ratio (total borrowings to total equity) was 23.3% (December 31, 2016: 18.8%). As of June 30, 2017, the Group had net borrowing amounting to US\$218.6 million (December 31, 2016: net cash US\$82.8 million). The borrowing increase was mainly attributable to consolidation of one subsidiary in the second quarter 2017 and purchases and improvements associated with Pou Sheng's new store openings. The Group had used forward contracts for currency hedging purposes.

The Group will carefully consider all the relevant factors including the market conditions, financing costs, and its impact on the capital structure and leverage level etc., in deciding on the appropriate amount, means, tenors for its major financing activities.

Capital Expenditure

During the six months period, the capital expenditure for the manufacturing business and Pou Sheng was US\$218.5 million (2016: US\$172.3 million) and US\$40.1 million (2016: US\$21.6 million) respectively.

In sum, the Group's capital expenditure amounted to US\$258.6 million (2016: US\$193.9 million) for the period. The capital expenditure has included store opening at Pou Sheng, capacity expansion and production facilities maintenance in Vietnam and Indonesia, as well as R&D for the Group's product development and process re-engineering, which is funded primarily by internal resources.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in notes 18 to the condensed consolidated interim financial information.

Significant Investments and Material Acquisitions/Disposals

During the six months period, the share of results from associates and joint ventures recorded a combined profit of US\$26.7 million, compared to a combined profit of US\$21.5 million for the same period of last year. The increase was mainly attributable to impairment loss recognized on certain assets of the joint ventures during the period last year.

Details of the material acquisitions and disposals of subsidiaries in the period are set out in notes 15 and notes 16 to the condensed consolidated interim financial information.



FINANCIAL REVIEW (continued)

Foreign Exchange Exposure

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

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

Goodwill and Intangible Assets

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

Employees

As at June 30, 2017, the Group had approximately 360,000 employees employed across the regions globally. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

PROSPECTS

The manufacturing business continued to face headwinds and challenges stemming from the changes in macroeconomic condition and the operating environment. The uneven economic outlook may affect consumer sentiment and participation in major sport tournaments in some markets. While economic recovery in the US and China has picked up, many European countries continues to grow at a slow or modest pace due to Brexit, the threat of terrorist attacks and elections. In the face of the rising cost structure imposed by stricter government policies, higher minimum wages in many manufacturing locations and more demands from labor groups, the Group will continued to diversify our manufacturing capacity and offer new solutions to our brand customers to help them manage input costs, comply with relevant standards and requirements, as well as handle risk management.

The Group is committed to investing in programs to upgrade and further integrate our production capacity, as well as to enhancing our manufacturing processes in order to meet customer demands for quality, style and fabrics customization. The ability to incorporate manufacturing excellence and make use of advanced materials is essential for fostering closer strategic partnerships with key brand customers. The optimization and upgrade of production capacity across different countries remains the Group's top priority.

With uptick in China's GDP growth, favorable policies towards the sport industry, and increasing participation in fitness and health, the outlook for the sportswear retail business remains promising. The retail business unit will continue to expand its omni-channels in accordance with the marketing strategy of our international brand customers. The Group will also roll-out 'experiential' new store formats to attract new customer categories, such as 'premium' and 'kids', as well as further optimize its inventory management so it can continue to capture a higher share of consumer spending on functional footwear and apparel in China. The sport services division will play a complementary role to drive product sales by reinforcing its 364+1-day communications and interactions with sport participants.



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 (2016: HK\$0.40 per share) for the six months ended June 30, 2017 to shareholders whose names appear on the register of members of the Company on Tuesday, September 19, 2017. The interim dividend will be paid on Tuesday, October 10, 2017.

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

SPECIAL DIVIDEND

In addition to an interim dividend, the Board is pleased to announce and declare a special dividend of HK\$3.50 per share to shareholders whose names appear on the register of members of the Company on Tuesday, September 19, 2017. The special dividend shall be paid at the same time as the interim dividend on Tuesday, October 10, 2017.

Post special dividend payout, the Company's balance sheet remains healthy and our credit metrics and liquidity continue to be solid to help capture the upside potential of the Company's future strategic plans.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, September 19, 2017 to Thursday, September 21, 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend and the special 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 18, 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2017, 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 and underlying shares of HK\$0.25 each of the Company

Name of director	Capacity	Number of shares/ underlying 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 (Note 2)	Beneficial owner	78,000 (Note 3)	0.00%
Tsai Ming-Lun, Ming	Beneficial owner	33,000 (Note 3)	0.00%
Hu Chia-Ho	Beneficial owner	78,000 (Note 3)	0.00%
Liu George Hong-Chih	Beneficial owner	78,000 (Note 3)	0.00%



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

(b) Interests in the ordinary shares and underlying 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/ underlying shares held <i>(Long position)</i>	Percentage of the issued share capital of Pou Sheng <i>(Note 4)</i>
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Hu Chia-Ho	Beneficial owner	800,000 <i>(Note 5)</i>	0.01%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

Notes:

- The total issued share capital of the Company as at June 30, 2017 is 1,648,928,486 shares.
- Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.
- Each of Mr. Lee Shao Wu, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 33,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016.
- The total issued share capital of Pou Sheng as at June 30, 2017 is 5,337,948,615 shares.
- Mr. Hu Chia-Ho has interested in share options granted under the share option scheme of Pou Sheng entitling him to subscribe for 800,000 ordinary shares of Pou Sheng.

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, 2017.



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

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 by the Company 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 during the period ended June 30, 2017, are set out below:

	Date of grant	Vesting date	Number of awarded shares				
			Outstanding as at January 1, 2017	Granted during the period	Lapsed/cancelled during the period	Vested during the period	Outstanding as at June 30, 2017
Directors of the Company							
Lee Shao Wu (<i>Note 1</i>)	03.10.2016	02.10.2018	33,000	-	-	-	33,000
Tsai Ming-Lun, Ming	03.10.2016	02.10.2018	33,000	-	-	-	33,000
Hu Chia-Ho	03.10.2016	02.10.2018	33,000	-	-	-	33,000
Liu George Hong-Chih	03.10.2016	02.10.2018	33,000	-	-	-	33,000
Sub-total			132,000	-	-	-	132,000
Employees of the Group and/or Associated Entities							
	29.03.2016	29.03.2018	34,000	-	(34,000)	-	-
	03.10.2016	02.10.2018	953,500	-	(33,000)	-	920,500
Sub-total			987,500	-	(67,000)	-	920,500
Total			1,119,500	-	(67,000)	-	1,052,500

Note:

- Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.

During the six months ended June 30, 2017, the Group recognized a net expense of US\$824,000 (six months ended June 30, 2016: US\$275,000) 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) Subsidiary Stock Option Plan

Prior to April 7, 2017, Texas Clothing Holding Corp. ("TCHC") was a joint venture of the Company (interest in which was held through the Company's subsidiary). On April 7, 2017, TCHC made a repurchase of its own shares (other than those held by the Company's subsidiary and certain shares held by the minority shareholders of TCHC) and TCHC therefore became an indirect subsidiary of the Company.

The existing stock option plan of TCHC was adopted by the board of directors of TCHC on November 7, 2012 (the "TCHC Stock Option Plan"), which was before TCHC became a subsidiary of the Company. The TCHC Stock Option Plan is valid and effective for a period of ten years commencing on November 7, 2012, after which no further stock options may be offered or granted.

No new options have been granted after TCHC became a subsidiary of the Company. The Company proposes to amend certain terms of the TCHC Stock Option Plan (which will be made subject to shareholders' approval of the Company at a special general meeting to be convened) for the purpose of compliance with the applicable requirements of the Listing Rules.

The total number of shares available for issue pursuant to an exercise of options to be granted under the TCHC Stock Option Plan is 1,167,704 shares, representing approximately 35.30% of the total number of TCHC's issued shares as at June 30, 2017. An aggregate of 669,485 shares are issuable pursuant to an exercise of outstanding stock options granted under the TCHC Stock Option Plan, representing approximately 20.24% of the total number of TCHC's issued shares as at June 30, 2017.

Details of movement in stock options under the TCHC Stock Option Plan during the period under review are listed below:—

				Number of underlying shares comprised in the TCHC's stock options					
	Date of grant	Exercise price US\$	Exercisable period (Note 7)	Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017	
Employees of TCHC									
	25.01.2013	13.92	09.04.2013 to 25.01.2023	45,952	—	—	—	45,952	
			Tranche - A	09.04.2014 to 25.01.2023	45,951	—	—	—	45,951
			09.04.2015 to 25.01.2023	45,951	—	—	—	45,951	
			09.04.2016 to 25.01.2023	45,951	—	—	—	45,951	
			25.01.2014 to 25.01.2023	40,436	—	—	—	40,436	
			25.01.2015 to 25.01.2023	40,436	—	—	—	40,436	
			25.01.2016 to 25.01.2023	40,436	—	—	—	40,436	
			25.01.2017 to 25.01.2023	40,441	—	—	—	40,441	
	05.03.2014	13.92	(Note 6)	7,352	—	—	—	7,352	



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

				Number of underlying shares comprised in the TCHC's stock options					
	Date of grant	Exercise price US\$	Exercisable period (Note 7)	Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017	
Tranche - B	25.01.2013	20.72	09.04.2013 to 25.01.2023	20,219	-	-	-	20,219	
			09.04.2014 to 25.01.2023	20,219	-	-	-	20,219	
			09.04.2015 to 25.01.2023	20,219	-	-	-	20,219	
			09.04.2016 to 25.01.2023	20,218	-	-	-	20,218	
			25.01.2014 to 25.01.2023	8,716	-	-	-	8,716	
			25.01.2015 to 25.01.2023	8,717	-	-	-	8,717	
			25.01.2016 to 25.01.2023	8,717	-	-	-	8,717	
			25.01.2017 to 25.01.2023	8,721	-	-	-	8,721	
	05.03.2014	20.72	05.03.2015 to 05.03.2024	998	-	-	-	998	
			05.03.2016 to 05.03.2024	998	-	-	-	998	
			05.03.2017 to 05.03.2024	998	-	-	-	998	
			05.03.2018 to 05.03.2024	998	-	-	-	998	
	Tranche - C	25.01.2013	27.33	09.04.2013 to 25.01.2023	21,408	-	-	-	21,408
				09.04.2014 to 25.01.2023	21,408	-	-	-	21,408
09.04.2015 to 25.01.2023				21,408	-	-	-	21,408	
09.04.2016 to 25.01.2023				21,408	-	-	-	21,408	
25.01.2014 to 25.01.2023				9,227	-	-	-	9,227	
25.01.2015 to 25.01.2023				9,231	-	-	-	9,231	
25.01.2016 to 25.01.2023				9,231	-	-	-	9,231	
25.01.2017 to 25.01.2023				9,232	-	-	-	9,232	
05.03.2014		27.33	05.03.2015 to 05.03.2024	1,056	-	-	-	1,056	
			05.03.2016 to 05.03.2024	1,057	-	-	-	1,057	
			05.03.2017 to 05.03.2024	1,056	-	-	-	1,056	
			05.03.2018 to 05.03.2024	1,057	-	-	-	1,057	
Tranche - D		02.09.2015	32.21	02.09.2016 to 02.09.2025	9,730	-	-	-	9,730
				02.09.2017 to 02.09.2025	9,731	-	-	-	9,731
	02.09.2018 to 02.09.2025			9,731	-	-	-	9,731	
	02.09.2019 to 02.09.2025			9,731	-	-	-	9,731	
Sub-Total				638,346 (Note 2)	-	-	-	638,346 (Note 2)	



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

Date of grant	Exercise price US\$	Exercisable period (Note 7)	Number of underlying shares comprised in the TCHC's stock options					
			Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017	
Among the above, the following employees have been granted with options in excess of 1% of the total number of TCHC's issued shares in any 12-month period:								
Michael Stitt	25.01.2013	13.92	09.04.2013 to 25.01.2023	45,952	-	-	-	45,952
			09.04.2014 to 25.01.2023	45,951	-	-	-	45,951
			09.04.2015 to 25.01.2023	45,951	-	-	-	45,951
			09.04.2016 to 25.01.2023	45,951	-	-	-	45,951
25.01.2013	20.72	09.04.2013 to 25.01.2023	09.04.2013 to 25.01.2023	20,219	-	-	-	20,219
			09.04.2014 to 25.01.2023	20,219	-	-	-	20,219
			09.04.2015 to 25.01.2023	20,219	-	-	-	20,219
			09.04.2016 to 25.01.2023	20,218	-	-	-	20,218
25.01.2013	27.33	09.04.2013 to 25.01.2023	09.04.2013 to 25.01.2023	21,408	-	-	-	21,408
			09.04.2014 to 25.01.2023	21,408	-	-	-	21,408
			09.04.2015 to 25.01.2023	21,408	-	-	-	21,408
			09.04.2016 to 25.01.2023	21,408	-	-	-	21,408
Sub-total				350,312 (Note 3)	-	-	-	350,312
Marc Joseph	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2015 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2016 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2017 to 25.01.2023	9,191	-	-	-	9,191
25.01.2013	20.72	25.01.2014 to 25.01.2023	25.01.2014 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2015 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2016 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2017 to 25.01.2023	2,154	-	-	-	2,154
25.01.2013	27.33	25.01.2014 to 25.01.2023	25.01.2014 to 25.01.2023	2,279	-	-	-	2,279
			25.01.2015 to 25.01.2023	2,280	-	-	-	2,280
			25.01.2016 to 25.01.2023	2,280	-	-	-	2,280
			25.01.2017 to 25.01.2023	2,280	-	-	-	2,280
Sub-total				54,493 (Note 4)	-	-	-	54,493



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

				Number of underlying shares comprised in the TCHC's stock options				
Date of grant	Exercise price US\$	Exercisable period (Note 7)	Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017	
Tad Parnell	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2015 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2016 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2017 to 25.01.2023	9,191	-	-	-	9,191
25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	-	-	-	2,153	
		25.01.2015 to 25.01.2023	2,153	-	-	-	2,153	
		25.01.2016 to 25.01.2023	2,153	-	-	-	2,153	
		25.01.2017 to 25.01.2023	2,154	-	-	-	2,154	
25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	-	-	-	2,279	
		25.01.2015 to 25.01.2023	2,280	-	-	-	2,280	
		25.01.2016 to 25.01.2023	2,280	-	-	-	2,280	
		25.01.2017 to 25.01.2023	2,280	-	-	-	2,280	
Sub-total			54,493 (Note 4)	-	-	-	54,493	



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

				Number of underlying shares comprised in the TCHC's stock options				
Date of grant	Exercise price US\$	Exercisable period (Note 7)	Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017	
Tony Anzovino	25.01.2013	25.01.2014 to 25.01.2023	7,352	-	-	-	7,352	
		25.01.2015 to 25.01.2023	7,352	-	-	-	7,352	
		25.01.2016 to 25.01.2023	7,352	-	-	-	7,352	
		25.01.2017 to 25.01.2023	7,353	-	-	-	7,353	
25.01.2013	20.72	25.01.2014 to 25.01.2023	1,155	-	-	-	1,155	
		25.01.2015 to 25.01.2023	1,155	-	-	-	1,155	
		25.01.2016 to 25.01.2023	1,155	-	-	-	1,155	
		25.01.2017 to 25.01.2023	1,156	-	-	-	1,156	
25.01.2013	27.33	25.01.2014 to 25.01.2023	1,223	-	-	-	1,223	
		25.01.2015 to 25.01.2023	1,223	-	-	-	1,223	
		25.01.2016 to 25.01.2023	1,223	-	-	-	1,223	
		25.01.2017 to 25.01.2023	1,224	-	-	-	1,224	
05.03.2014	13.92	(Note 6)	7,352	-	-	-	7,352	
05.03.2014	20.72	05.03.2015 to 05.03.2024	998	-	-	-	998	
		05.03.2016 to 05.03.2024	998	-	-	-	998	
		05.03.2017 to 05.03.2024	998	-	-	-	998	
		05.03.2018 to 05.03.2024	998	-	-	-	998	
05.03.2014	27.33	05.03.2015 to 05.03.2024	1,056	-	-	-	1,056	
		05.03.2016 to 05.03.2024	1,057	-	-	-	1,057	
		05.03.2017 to 05.03.2024	1,056	-	-	-	1,056	
		05.03.2018 to 05.03.2024	1,057	-	-	-	1,057	
Sub-total			54,493 (Note 4)	-	-	-	54,493	



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

				Number of underlying shares comprised in the TCHC's stock options				
	Date of grant	Exercise price US\$	Exercisable period (Note 7)	Outstanding as at April 7, 2017 (Note 1)	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	Outstanding as at June 30, 2017
Brian Main	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2015 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2016 to 25.01.2023	9,190	-	-	-	9,190
			25.01.2017 to 25.01.2023	9,191	-	-	-	9,191
	25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2015 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2016 to 25.01.2023	2,153	-	-	-	2,153
			25.01.2017 to 25.01.2023	2,154	-	-	-	2,154
	25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	-	-	-	2,279
			25.01.2015 to 25.01.2023	2,280	-	-	-	2,280
			25.01.2016 to 25.01.2023	2,280	-	-	-	2,280
			25.01.2017 to 25.01.2023	2,280	-	-	-	2,280
Sub-total				54,493 (Note 4)	-	-	-	54,493
Former Employees of TCHC								
Tranche - D (Note 5)	02.09.2015	32.21	02.09.2016 to 16.07.2017	7,784	-	-	-	7,784
			02.09.2017 to 16.07.2017	7,785	-	-	-	7,785
			02.09.2018 to 16.07.2017	7,785	-	-	-	7,785
			02.09.2019 to 16.07.2017	7,785	-	-	-	7,785
Sub-total				31,139	-	-	-	31,139
Total				669,485				669,485



SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

Notes:

1. TCHC became a subsidiary of the Company on April 7, 2017.
2. This is the aggregate figure for current employees of TCHC, including the five employees with options granted in excess of 1% of the total number of TCHC's issued shares in any 12-month period.
3. This employee of TCHC was granted with options in excess of 1% of the total number of TCHC's issued shares in any 12-month period and holds outstanding options exercisable into approximately 10.59% of TCHC's issued shares as at June 30, 2017.
4. Each of these four employees of TCHC was granted with options in excess of 1% of the total number of TCHC's issued shares in any 12-month period and holds outstanding options exercisable into approximately 1.65% of TCHC's issued shares as at June 30, 2017.
5. This one former employee's employment was terminated on May 17, 2017, thus the options granted to him have expired on July 16, 2017.
6. The options will become vested and fully exercisable upon the occurrence of a liquidity event, and will expire the earlier of one year after the occurrence of a liquidity event or March 15 of the calendar year after the occurrence of the liquidity event. If not exercised, the options will expire ten years after the date of grant on March 5, 2024.
7. The vesting period of the stock options is from the date of grant until the commencement of the exercisable period.

Save as disclosed above, no stock options had been granted, exercised, lapsed or cancelled under the TCHC Stock Option Plan during the period under review.

(d) 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 share option scheme of Pou Sheng was adopted by its shareholders on May 14, 2008 and amended on March 7, 2012 (the "Pou Sheng Share Option Scheme"). 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 282,867,810 shares, representing approximately 5.30% of the total number of Pou Sheng's issued shares. As at June 30, 2017, an aggregate of 54,349,190 shares are issuable for share options granted under the Pou Sheng Share Option Scheme, representing approximately 1.02% of the total number of Pou Sheng's issued shares.

For the Pou Sheng's share options in respect of 11,663,190 shares granted on November 14, 2016, upon the terms of the operation and share incentive agreement governing the grant, the total amount payable on acceptance of the options was US\$303,950.77 and the payment must be made within 5 days from the date on which the offer letters were delivered to the relevant grantees. Save for the aforesaid, under the rules of the Pou Sheng Share Option Scheme, the amount payable on acceptance of an offer of HK\$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.



SHARE INCENTIVE SCHEMES (continued)

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

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

	Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the Pou Sheng's share options				
					Outstanding as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017
Director of the Company									
Hu Chia-Ho	21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	120,000	-	-	-	120,000
			21.01.2010-20.01.2012	21.01.2012-20.01.2018	120,000	-	-	-	120,000
			21.01.2010-20.01.2013	21.01.2013-20.01.2018	240,000	-	-	-	240,000
			21.01.2010-20.01.2014	21.01.2014-20.01.2018	320,000	-	-	-	320,000
Sub-total					800,000	-	-	-	800,000
Employees/ Consultants of Pou Sheng									
	21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,548,450	-	-	-	1,548,450
			21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,553,450	-	-	-	1,553,450
			21.01.2010-20.01.2013	21.01.2013-20.01.2018	3,161,900	-	-	-	3,161,900
			21.01.2010-20.01.2014	21.01.2014-20.01.2018	4,399,200	-	-	-	4,399,200
	20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	2,525,000	-	(25,000)	-	2,500,000
			20.01.2011-19.01.2013	20.01.2013-19.01.2019	2,875,000	-	(75,000)	-	2,800,000
			20.01.2011-19.01.2014	20.01.2014-19.01.2019	3,264,000	-	-	-	3,264,000
			20.01.2011-19.01.2015	20.01.2015-19.01.2019	3,375,000	-	-	-	3,375,000
	14.11.2016	2.494	14.11.2016-31.08.2017	01.09.2017-01.09.2019	1,166,320	-	-	-	1,166,320
			14.11.2016-31.08.2018	01.09.2018-01.09.2020	1,166,320	-	-	-	1,166,320
			14.11.2016-31.08.2019	01.09.2019-01.09.2021	1,166,320	-	-	-	1,166,320
			14.11.2016-31.08.2020	01.09.2020-01.09.2022	2,332,640	-	-	-	2,332,640
			14.11.2016-31.08.2021	01.09.2021-01.09.2023	5,831,590	-	-	-	5,831,590
Sub-total					34,365,190	-	(100,000)	-	34,265,190



SHARE INCENTIVE SCHEMES (continued)

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

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the Pou Sheng's share options				
				Outstanding as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2017
Former Employees of Pou Sheng								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,870,000	-	(16,000)	-	1,854,000
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,899,000	-	(45,000)	-	1,854,000
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	2,763,000	-	(39,000)	-	2,724,000
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	852,000	-	-	-	852,000
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	6,987,500	-	-	-	6,987,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	3,337,500	-	-	-	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	1.050	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				19,384,000	-	(100,000)	-	19,284,000
Total				54,549,190	-	(200,000)	-	54,349,190

The weighted average closing price of the shares of Pou Sheng immediately before the dates on which the share options were exercised during the period is HK\$2.22 per share.

Save as disclosed above, no share option had been granted, exercised, lapsed or cancelled under the Pou Sheng Share Option Scheme during the period.



SHARE INCENTIVE SCHEMES (continued)

(e) Share Award Scheme of Pou Sheng

The Pou Sheng share award scheme was adopted on May 9, 2014 and duly amended on November 11, 2016 (the "Pou Sheng Share Award Scheme") for recognising the contributions by certain persons, including directors of Pou Sheng 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 4% of the issued shares 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 shares 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 before vesting 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).



SHARE INCENTIVE SCHEMES (continued)

(e) Share Award Scheme of Pou Sheng (continued)

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

	Date of grant	Vesting period	Number of awarded shares				
			Outstanding as at January 1, 2017	Granted during the period	Vested during the period	Lapsed/cancelled during the period	Outstanding as at June 30, 2017
Director/former Director of Pou Sheng							
Lee Shao Wu (Note 1)	25.03.2017	25.03.2017-24.03.2018	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2019	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2020	-	400,000	-	-	400,000
Kwan, Heh-Der (Note 2)	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			2,600,000	1,000,000	-	(2,600,000)	1,000,000
Employees of Pou Sheng							
	01.09.2014	01.09.2014-31.08.2017	7,100,000	-	-	(2,400,000)	4,700,000
	21.03.2015	21.03.2015-20.03.2018	7,783,000	-	-	(1,025,000)	6,758,000
	14.08.2015	14.08.2015-13.08.2018	8,330,000	-	-	(60,000)	8,270,000
	24.03.2016	24.03.2016-23.03.2019	4,920,000	-	-	(1,200,000)	3,720,000
	13.08.2016	13.08.2016-12.08.2019	5,460,000	-	-	-	5,460,000
	12.11.2016	12.11.2016-30.08.2019	600,000	-	-	-	600,000
	14.11.2016	14.11.2016-31.08.2017	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2018	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2019	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2020	1,667,360	-	-	-	1,667,360
	14.11.2016	14.11.2016-31.08.2021	4,168,410	-	-	-	4,168,410
	25.03.2017	25.03.2017-24.03.2020	-	5,026,000	-	(147,000)	4,879,000
Sub-total			42,529,810	5,026,000	-	(4,832,000)	42,723,810
Total			45,129,810	6,026,000	-	(7,432,000)	43,723,810

Notes:

- Mr. Lee Shao Wu resigned as an executive director of the Company on February 6, 2017.
- Mr. Kwan, Heh-Der resigned as an executive director and the chief executive officer of Pou Sheng on January 6, 2017 and the share awards granted to him lapsed on that date.

The closing price of the shares of Pou Sheng immediately before the grant of awarded shares on March 25, 2017 is HK\$1.87 per share.

During the six months ended June 30, 2017, the Group recognized a net expense of US\$866,000 (six months ended June 30, 2016: US\$327,000) 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 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, 2017, 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	46.88%
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%
<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, 2017 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 and Wealthplus. 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.

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, 2017.



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

During the six months ended June 30, 2017, 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 of the Company 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, 2017 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 maintaining high standard of corporate governance practices by focusing on transparency, accountability and responsibility to the Company's shareholders. During the six months ended June 30, 2017, the Company has applied the principles of and has complied with all the applicable code provisions of 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 2016 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 set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. Having made specific enquiries of all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code for the six months ended June 30, 2017.



SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the six month period ended June 30, 2017.

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. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.

Independent Non-executive Directors:

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

By Order of the Board
Yue Yuen Industrial (Holdings) Limited
Lu Chin Chu
Chairman

Hong Kong, August 11, 2017

Website: www.yueyuen.com



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

www.yueyuen.com

