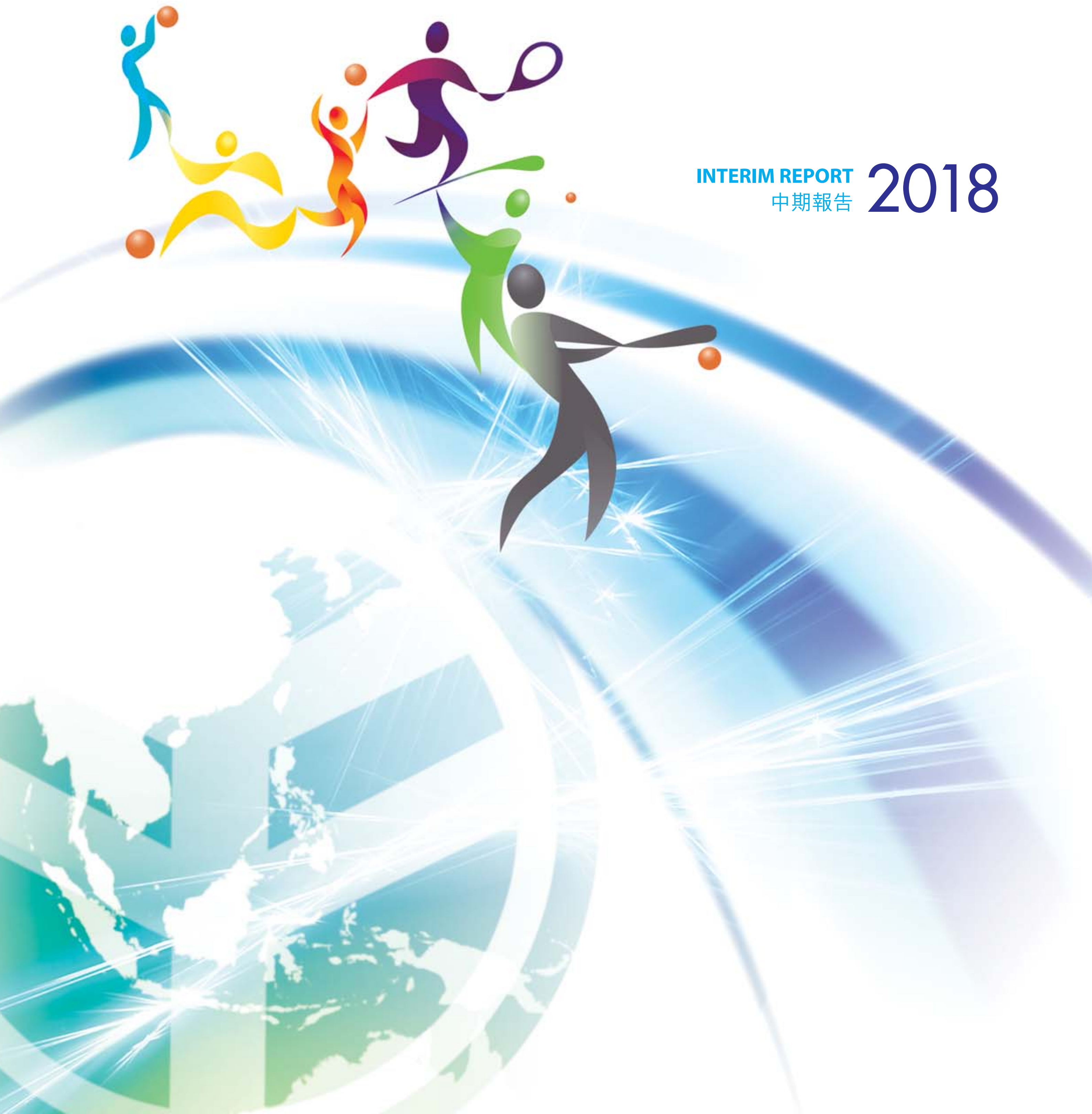
裕元工業(集團)有限公司

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

INTERIM REPORT 中期報告 2018



裕元工業(集團)有限公司*
Yue Yuen Industrial (Holdings) Limited
(Incorporated in Bermuda with limited liability)
Stock Code: 00551

2018 Interim Report

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* *For identification purpose only*

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty [5] *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Tsai Ming-Lun, Ming
Hu Chia-Ho
Liu George Hong-Chih
Hu Dien Chien

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Hak Kun *(appointed on June 1, 2018)* [1, 2, 3, 4]
Leung Yee Sik *(retired on June 4, 2018)*
Huang Ming Fu [1, 3, 5, 6]
Chu Li-Sheng *(retired on June 4, 2018)*
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

- ANZ
- Bank of America Merrill Lynch
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- CTBC Bank
- Citibank, N.A.
- 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 Hongkong and Shanghai Banking Corporation Limited
- United Overseas Bank Ltd.
- J.P. Morgan
- OCBC Bank

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, 2018	2017	Percentage increase/ (decrease)
Revenue *(US$'000)*	**4,769,353**	4,448,172	**7.22%**
Recurring profit attributable to owners of the Company *(US$'000)*	**165,012**	240,938	**(31.51%)**
Non-recurring (loss) profit attributable to owners of the Company *(US$'000)*	**(14,918)**	17,587	**N/A**
Profit attributable to owners of the Company *(US$'000)*	**150,094**	258,525	**(41.94%)**
Basic earnings per share *(US cents)*	**9.14**	15.71	**(41.82%)**
Dividend per share			
– interim dividend *(HK$)*	**0.40**	0.40	**–**
– special dividend *(HK$)*	**N/A**	3.50	**N/A**

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. **德勤**

TO THE BOARD OF DIRECTORS OF
YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業（集團）有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 37, which comprise the condensed consolidated statement of financial position as of June 30, 2018 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 financial statements 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 financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 financial statements 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 financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 10, 2018

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, 2018 with comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2018

	NOTES	**For the six months ended June 30, 2018 (unaudited) US$'000**	2017 (unaudited) US$'000
Revenue	3	**4,769,353**	4,448,172
Cost of sales		**(3,578,123)**	(3,316,793)
Gross profit		**1,191,230**	1,131,379
Other income		**67,684**	58,434
Selling and distribution expenses		**(582,606)**	(467,520)
Administrative expenses		**(309,060)**	(304,331)
Impairment losses on financial assets, net of reversal		**(2,497)**	(375)
Other expenses		**(120,097)**	(127,753)
Finance costs		**(35,937)**	(17,908)
Share of results of associates		**8,296**	21,482
Share of results of joint ventures		**11,712**	5,233
Other gains and losses	4	**(14,918)**	17,349
Profit before taxation		**213,807**	315,990
Income tax expense	5	**(44,080)**	(36,440)
Profit for the period	6	**169,727**	279,550
Attributable to:			
Owners of the Company		**150,094**	258,525
Non-controlling interests		**19,633**	21,025
		169,727	279,550
		US cents	US cents
Earnings per share	8		
– Basic		**9.14**	15.71
– Diluted		**9.10**	15.68

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2018

	For the six months ended June 30, 2018 (unaudited) US$'000	2017 (unaudited) US$'000
Profit for the period	**169,727**	279,550
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value loss on equity instruments at fair value through other comprehensive income	**(18,527)**	–
Remeasurement of defined benefit obligations, net of tax	**(1,019)**	–
Gain on revaluation of properties, transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	**5,878**	–
	(13,668)	–
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(14,434)**	22,418
Share of other comprehensive income of associates and joint ventures	**(9,302)**	10,356
Reserve released upon disposal of associates and a joint venture	**(1,836)**	–
Fair value gain on available-for-sale investments	**–**	6,955
Reserve released upon disposal of subsidiaries	**–**	(751)
	(25,572)	38,978
Other comprehensive (expense) income for the period	**(39,240)**	38,978
Total comprehensive income for the period	**130,487**	318,528
Total comprehensive income for the period attributable to:		
Owners of the Company	**116,186**	288,459
Non-controlling interests	**14,301**	30,069
	130,487	318,528

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2018

	NOTES	**At June 30, 2018 (unaudited) US$'000**	At December 31, 2017 (audited) US$'000
Non-current assets			
Investment properties	9	**107,195**	85,985
Property, plant and equipment	9	**2,288,214**	2,182,285
Deposits paid for acquisition of property, plant and equipment		**155,782**	187,731
Prepaid lease payments		**143,058**	150,078
Intangible assets		**115,303**	124,429
Goodwill		**276,512**	277,505
Interests in associates		**440,582**	480,598
Interests in joint ventures		**244,150**	249,773
Amounts due from joint ventures		**452**	458
Available-for-sale investments		**–**	48,558
Equity instruments at fair value through other comprehensive income		**20,398**	–
Held-to-maturity investments		**–**	8,787
Financial assets at amortized cost		**8,730**	–
Financial assets at fair value through profit or loss		**19,368**	19,580
Rental deposits and prepayments		**22,695**	23,624
Deferred tax assets		**49,567**	46,212
		3,892,006	3,885,603
Current assets			
Inventories		**1,656,836**	1,603,928
Trade and other receivables	10	**1,716,388**	1,696,434
Prepaid lease payments		**4,585**	4,606
Taxation recoverable		**11,958**	11,777
Investments held for trading		**–**	16,555
Financial assets at fair value through profit or loss		**8,218**	–
Equity instruments at fair value through other comprehensive income		**4,534**	–
Derivative financial instruments		**868**	2,581
Held-to-maturity investments		**–**	1,213
Financial assets at amortized cost		**606**	–
Bank balances and cash		**1,001,610**	1,053,547
		4,405,603	4,390,641
Assets classified as held for sale		**9,119**	795
		4,414,722	4,391,436

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2018

	NOTES	**At June 30, 2018 (unaudited) US$'000**	At December 31, 2017 (audited) US$'000
Current liabilities			
Trade and other payables	11	**1,323,797**	1,452,314
Contract liabilities		**41,806**	–
Taxation payable		**50,947**	50,017
Derivative financial instruments		**20,781**	–
Bank overdrafts		**–**	16,722
Bank borrowings	12	**873,514**	679,347
		2,310,845	2,198,400
Net current assets		**2,103,877**	2,193,036
Total assets less current liabilities		**5,995,883**	6,078,639
Non-current liabilities			
Long-term bank borrowings	12	**1,328,001**	1,283,993
Deferred tax liabilities		**38,987**	39,532
Defined benefits obligations		**100,690**	85,068
		1,467,678	1,408,593
Net assets		**4,528,205**	4,670,046
Capital and reserves			
Share capital	13	**52,772**	53,197
Reserves		**4,072,724**	4,225,463
Equity attributable to owners of the Company		**4,125,496**	4,278,660
Non-controlling interests		**402,709**	391,386
Total equity		**4,528,205**	4,670,046

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000 (note c)	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Non-distributable reserve fund US$'000 (note d)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 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 14)*	–	–	–	–	–	–	–	–	–	–	–	–	–	14	14
Disposal of subsidiaries *(Note 15)*	–	–	–	–	–	–	–	–	–	–	–	–	–	(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
At January 1, 2018 (audited)	**53,197**	**694,027**	**36,023**	**(16,688)**	**22,336**	**4,551**	**10,559**	**(10,206)**	**2,172**	**81,255**	**83,442**	**3,317,992**	**4,278,660**	**391,386**	**4,670,046**
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	**(9,195)**	–	**(9,195)**	**(5,239)**	**(14,434)**
Fair value loss on equity instruments at fair value through other comprehensive income	–	–	**(18,527)**	–	–	–	–	–	–	–	–	–	**(18,527)**	–	**(18,527)**
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	–	–	–	–	–	**(9,209)**	–	**(9,209)**	**(93)**	**(9,302)**
Reserve released upon disposal of associates and a joint venture	–	–	–	–	–	–	–	–	–	–	**(1,836)**	–	**(1,836)**	–	**(1,836)**
Remeasurement of defined benefit obligations, net of tax	–	–	–	–	–	–	–	–	–	–	–	**(1,019)**	**(1,019)**	–	**(1,019)**
Gain on revaluation of properties, plant and equipment and prepaid lease payment to investment properties	–	–	–	–	–	–	**7,838**	–	–	–	–	–	**7,838**	–	**7,838**
Deferred tax arising from gain on revaluation of properties, plant and equipment and prepaid lease payment to investment properties	–	–	–	–	–	–	**(1,960)**	–	–	–	–	–	**(1,960)**	–	**(1,960)**
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	**150,094**	**150,094**	**19,633**	**169,727**
Total comprehensive income for the period	–	–	**(18,527)**	–	–	–	**5,878**	–	–	–	**(20,240)**	**149,075**	**116,186**	**14,301**	**130,487**
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	–	–	–	–	–	–	–	–	**780**	–	–	**(359)**	**421**	**1,175**	**1,596**
Share repurchased and cancelled	**(425)**	**(39,700)**	–	–	–	–	–	–	–	–	–	–	**(40,125)**	–	**(40,125)**
Released upon disposal of equity instruments at fair value through other comprehensive income	–	–	**(1,218)**	–	–	–	–	–	–	–	–	**1,218**	–	–	–
Contribution from a non-controlling interests of a subsidiary	–	–	–	–	**37**	–	–	–	–	–	–	–	**37**	**1,105**	**1,142**
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	**(582)**	**(582)**
Dividends *(Note 7)*	–	–	–	–	–	–	–	–	–	–	–	**(229,704)**	**(229,704)**	–	**(229,704)**
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	**(5,085)**	**(5,085)**
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	–	–	**7,474**	–	**(7,474)**	–	–	–
Exercise of a subsidiary's share options	–	–	–	–	**21**	–	–	–	–	–	–	–	**21**	**409**	**430**
At June 30, 2018 (unaudited)	**52,772**	**654,327**	**16,278**	**(16,688)**	**22,394**	**4,551**	**16,437**	**(10,206)**	**2,952**	**88,729**	**63,202**	**3,230,748**	**4,125,496**	**402,709**	**4,528,205**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2018

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the share issued by the Company and the nominal amount of the share 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, 2018

	NOTES	For the six months ended June 30, **2018** **(unaudited)** **US$'000**	2017 (unaudited) US$'000
Net cash from operating activities		**193,862**	221,750
Net cash used in investing activities			
Purchase of property, plant and equipment		**(256,976)**	(216,691)
Placement of structured bank deposits		**(31,202)**	(48,666)
Deposits paid for acquisition of property, plant and equipment		**(17,329)**	(41,711)
Purchase of intangible assets		**(1,422)**	–
Addition of prepaid land leases		**(1,033)**	(248)
Release of structured bank deposits		**31,202**	48,666
Proceeds from disposal of property, plant and equipment		**20,609**	11,686
Proceeds from disposal of associates		**16,043**	25,071
Dividends received from joint ventures		**15,880**	11,000
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of	15	**14,209**	2,996
Dividends received from associates		**11,475**	32,070
Proceeds from disposal of equity investments at fair value through other comprehensive income		**9,445**	–
Proceeds from disposal of assets classified as held for sale		**6,377**	–
Interest received		**5,793**	4,750
Proceeds from disposal of investment properties		**2,579**	–
Redemption of financial assets at amortized cost		**609**	–
Dividends received from equity instruments at fair value through other comprehensive income		**88**	–
Proceeds from disposal of prepaid land leases		**30**	193
Advance to a former joint venture		**–**	(48,000)
Repayment of consideration payable for acquisition of business		**–**	(8,917)
Capital injection to associates		**–**	(1,166)
Refund of investment costs in joint ventures		**–**	8,000
Deemed acquisition of subsidiaries, net of cash and cash equivalents acquired	14	**–**	3,927
Dividends received from available-for-sale investments		**–**	306
		(173,623)	(216,734)
Net cash used in financing activities			
Repayment of bank borrowings		**(1,350,851)**	(1,217,281)
Dividends paid		**(229,704)**	(211,400)
Share repurchased		**(40,125)**	–
Interest paid		**(34,581)**	(17,908)
Dividends paid to non-controlling interests of subsidiaries		**(5,085)**	(7,468)
Acquisition of additional interests in subsidiaries		**(582)**	(98)
Bank borrowings raised		**1,593,889**	1,400,149
Contribution from a non-controlling interests of subsidiaries		**1,142**	–
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options		**430**	36
		(65,467)	(53,970)
Net decrease in cash and cash equivalents		**(45,228)**	(48,954)
Effect of foreign exchange rate changes		**10,013**	(4,930)
Cash and cash equivalents at beginning of the period		**1,036,825**	1,042,835
Cash and cash equivalents at end of the period, represented by bank balances and cash		**1,001,610**	988,951

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements 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 of Hong Kong Limited (the "Listing Rules") 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 financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amount or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of these new and amendments to HKFRSs did not have any material impact on the Group's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognizes revenue from the following major sources:

- Revenue from manufacturing and sales of footwear products; and
- Revenue from retail and distribution of sportswear and apparel products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a promise in a contract with a customer to transfer to the customer a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.1.2 Impacts

Upon adoption of HKFRS 15, advance from customers included in trade and other payables amounting to US$51,589,000 was reclassified to contract liabilities as at the date of initial application, January 1, 2018.

As a result, other than reclassification of contract liabilities, the adoption of HKFRS 15 does not have material impact on when the Group recongize revenue from sales of goods and services.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 "Financial Instruments", and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; and 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognized financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

<u>Classification and measurement of financial assets (continued)</u>

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognized through a loss allowance account.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	Available-for-sale investments US$'000	Held-to-maturity investments US$'000	Equity instruments at FVTOCI US$'000	Financial assets at amortized cost (previously classified as loans and receivables) US$'000
Closing balance at December 31, 2017 – HKAS 39		48,558	10,000	–	–
Effect arising from initial application of HKFRS 9:					
Reclassification					
From available-for-sale investments	(a)	(48,558)	–	48,558	–
From held-to-maturity investments	(b)	–	(10,000)	–	10,000
Opening balance at January 1, 2018		**–**	**–**	**48,558**	**10,000**

(a) Available-for-sale investments

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale investments, of which US$335,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, US$48,558,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which US$335,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of US$36,023,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Held-to-maturity investments

Listed debt instruments previously classified as held-to-maturity investments are reclassified and measured at amortized cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at January 1, 2018.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortized cost mainly comprise of bank balances and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at January 1, 2018, the Group has assessed and reviewed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment loss was identified.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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. The revenue from both manufacturing and retailing businesses is recognized at a point in time.

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,	
	2018	2017
	(unaudited)	(unaudited)
	US$'000	US$'000
Revenue		
Manufacturing Business	**2,825,105**	2,990,046
Retailing Business	**1,944,248**	1,458,126
	4,769,353	4,448,172

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US$'000	US$'000
Gain on disposal of associates	**6,605**	9,762
Gain on disposal of subsidiaries *(Note 15)*	**4,780**	118
Gain on disposal of a joint venture	**1,053**	–
Fair value changes on investment properties	**149**	–
Fair value loss on financial assets at fair value through profit or loss	**(212)**	–
Impairment loss on interests in associates	**(4,799)**	–
Fair value (loss) gain on derivative financial instruments	**(22,494)**	9,388
Gain on deemed disposal of associates	**–**	2,184
Loss on deemed disposal of a joint venture	**–**	(4,103)
	(14,918)	17,349

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE

	For the six months ended June 30, 2018 (unaudited) US$'000	2017 (unaudited) US$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
PRC Enterprise Income Tax ("EIT") *(note i)*	**28,640**	29,192
Overseas income tax *(notes ii)*	**15,686**	13,442
	44,326	42,634
Under(over)provision in prior periods:		
PRC EIT	**1,228**	(2,451)
Overseas income tax	**4,006**	2,073
	5,234	(378)
Current tax charge – total	**49,560**	42,256
Deferred tax credit	**(5,480)**	(5,816)
	44,080	36,440

notes:

(i) PRC

The 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 that certain subsidiaries of the Company which are located in the specified provinces of the Western Regions of the PRC and engaged in the business activities under the tax bulletin issued in the PRC. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

notes: (continued)

(ii) Overseas

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 to nine 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% for both periods.

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

Taxation arising in other jurisdictions including Indonesia, Republic of China ("Taiwan") and United States of America ("US") is calculated at the rates prevailing in the respective jurisdictions, which were 25% (June 30, 2017: 25%), 20% (June 30, 2017: 17%) and 21% (June 30, 2017: 35%) respectively.

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US$'000	US$'000
Profit for the period has been arrived at after charging (crediting):		
Total staff cost	**1,117,539**	1,068,044
Net exchange gain (included in other income)	**(5,840)**	(9,005)
Release of prepaid lease payments	**2,198**	3,711
Amortization of intangible assets (included in selling and distribution expenses)	**9,870**	7,296
Depreciation of property, plant and equipment	**155,441**	134,325
(Reversal of allowance) allowance for inventories (included in cost of sales)	**(1,074)**	5,294
Loss on disposal of property, plant and equipment (included in other expenses)	**5,300**	11,070
Loss on disposal of prepaid lease payments (included in other expenses)	**57**	15
Research and development expenditure (included in other expenses)	**101,341**	108,401
Subsidies, rebates and other income from suppliers (included in other income)	**(17,514)**	(11,189)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US$'000	US$'000
Dividends recognized as distribution during the period:		
2017 final dividend of HK$1.10 per share (2017: 2016 final dividend of HK$1.00 per share)	**229,704**	211,400

During the current interim period, a final dividend of HK$1.10 per share for the year ended December 31, 2017 was declared (2017: final dividend for the year ended December 31, 2016 of HK$1.00 per share). The final dividend of approximately HK$1,802,731,000 (2017: HK$1,645,835,000), equivalent to US$229,704,000 (2017: US$211,400,000), was paid on June 29, 2018 to the shareholders of the Company.

An interim dividend of HK$0.40 (2017: HK$0.40) per share has been declared for the period ended June 30, 2018. The interim dividend of approximately HK$652,841,000 (2017: HK$658,334,000) will be paid on October 11, 2018.

During the six months ended June 30, 2017, in addition to the interim dividend, a special dividend of HK$3.50 per share was declared. The special dividend of approximately HK$5,760,424,000, equivalent to US$737,269,000, was paid on October 10, 2017 to the shareholders of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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,	
	2018	2017
	(unaudited)	(unaudited)
	US$'000	US$'000
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	**150,094**	258,525
Effect of dilutive potential ordinary shares:		
Adjustments to the share of profits of subsidiaries based on dilution of their earnings per share	**(602)**	(252)
Earnings for the purpose of diluted earnings per share	**149,492**	258,273

	2018	2017
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,641,403,862**	1,645,835,486
Effect of dilutive potential ordinary shares: Unvested awarded shares	**1,041,345**	1,054,351
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,642,445,207**	1,646,889,837

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 18(I)).

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

During the current interim period, the Group transferred property, plant and equipment of US$10,392,000 and prepaid lease payments of US$5,585,000 to investment properties. Revaluation on transfer from property, plant and equipment and prepaid lease payment, net of tax of US$5,878,000 has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited which are independent qualified professional valuers not connected with the Group. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties.

During the current interim period, the Group acquired property, plant and equipment of US$305,992,000 (six months ended June 30, 2017: US$224,630,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from 30 days to 90 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of US$1,181,419,000 (December 31, 2017: US$1,236,086,000) 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, 2018 (unaudited) US$'000	At December 31, 2017 (audited) US$'000
0 to 30 days	**787,486**	758,844
31 to 90 days	**373,499**	453,325
Over 90 days	**20,434**	23,917
	1,181,419	1,236,086

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$425,216,000 (December 31, 2017: US$461,480,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	At June 30, 2018 (unaudited) US$'000	At December 31, 2017 (audited) US$'000
0 to 30 days	**330,076**	345,244
31 to 90 days	**90,791**	106,376
Over 90 days	**4,349**	9,860
	425,216	461,480

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings of approximately US$1,593,889,000 (six months ended June 30, 2017: US$1,400,149,000). 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.

13. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Authorized:		
Ordinary shares of HK$0.25 each:		
At January 1, 2017, June 30, 2017, January 1, 2018 and June 30, 2018	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2017 and June 30, 2017	1,648,928,486	412,232
Share repurchased and cancelled	(426,500)	(107)
At January 1, 2018	1,648,501,986	412,125
Share repurchased and cancelled	(13,324,500)	(3,331)
At June 30, 2018	1,635,177,486	408,794

	At June 30, 2018 (unaudited) US$'000	At December 31, 2017 (audited) US$'000
Shown in the condensed consolidated financial statements	**52,772**	53,197

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. 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.("TCHC"), a joint venture which principally engaged in design, imports and sales of apparels in the US, where TCHC would repurchase all the shares of TCHC held by the joint venture partner at a consideration of US$80,000,000. Accordingly, TCHC and its subsidiaries (the "TCHC Group") become a 99.98% subsidiary of the Company and has been accounted for using the purchase method. In view of the fact that, the Group obtained control of TCHC without transferring any cash consideration, the fair value of previously held equity interest in TCHC 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 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 TCHC	76,803
Plus: non-controlling interests (0.0175% in TCHC)	14
Less: net assets acquired	(73,621)
	3,196
Net cash inflows, represented by bank balances and cash	3,927

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. DEEMED ACQUISITION OF SUBSIDIARIES (continued)

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

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 competed on January 1, 2017, nor is it intended to be a projection of future results.

15. DISPOSAL OF SUBSIDIARIES

For the six months ended June 30, 2018

During the six months ended June 30, 2018, the Group disposed its entire interest in Faith Year Investments Limited and its subsidiaries and Year Fortune Group Limited (the "Faith Year and Year Fortune Group") to an associate at an aggregate consideration of US$31,618,000, of which US$10,546,000 would be used to set off against the amount due to Faith Year and Year Fortune Group. The Faith Year and Year Fortune Group is principally engaged in manufacturing and sales of sportswear products.

The aggregate amounts of assets and liabilities attributable to the Faith Year and Year Fortune Group on the date of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	**915**
Deposits paid for acquisition of property, plant and equipment	**39**
Inventories	**9,951**
Trade and other receivables	**3,838**
Amounts due from immediate holding company	**10,546**
Bank balances and cash	**6,863**
Trade and other payables	**(4,131)**
Taxation payable	**(436)**
Amounts due to group companies	**(747)**
	26,838
Gain on disposal of subsidiaries:	
Consideration	**31,618**
Net assets disposed of	**(26,838)**
Gain on disposal	**4,780**
Net cash inflow arising on disposal:	
Cash consideration received from an associate	**21,072**
Less: bank balances and cash disposed of	**(6,863)**
	14,209

The subsidiaries disposed of during the six months ended June 30, 2018 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. DISPOSAL OF SUBSIDIARIES (continued)

For the six months ended June 30, 2017

On December 15, 2016, the Group entered into a disposal agreement with a non-controlling interest of Profit Concept Group Limited ("Profit Concept"), pursuant to which the Group agreed to dispose of its entire interests 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.

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 release 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 30 June, 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 FINANCIAL STATEMENTS (continued)

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

	Fair value as at June 30, 2018 (unaudited) US$'000	Fair value as at December 31, 2017 (audited) US$'000	Fair value hierarchy
Derivative financial instruments			
Foreign currency derivatives *(note i)*	**–**	1,583	Level 2
Interest rate swap *(note ii)*	**868**	998	Level 2
Financial assets at FVTPL			
Credit linked notes *(note iii)*	**19,368**	19,580	Level 1
Investments held for trading *(note iii)*	**8,218**	16,555	Level 1
Available-for-sale investments			
Listed equity securities *(note iv)*	**–**	48,223	Level 1
Equity instruments at FVTOCI			
Listed equity securities *(note iv)*	**24,604**	–	Level 1
Unlisted equity investments	**328**	–	Level 3
Total	**53,386**	86,939	
Derivative financial instruments			
Foreign currency derivatives *(note i)*	**(20,781)**	–	Level 2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

(a) (continued)

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 credit linked notes and 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 financial statements approximate their fair values at the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. CONTINGENCIES AND COMMITMENTS

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

(I) Contingencies

	At June 30, 2018 (unaudited) US$'000	At December 31, 2017 (audited) US$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	**31,425**	26,425
– amount utilized	**12,227**	15,500
(ii) associates		
– amount guaranteed	**21,705**	17,345
– amount utilized	**12,642**	5,693

(II) Commitments

	At June 30, 2018 (unaudited) US$'000	At December 31, 2017 (audited) US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	**92,229**	97,681
– acquisition of property, plant and equipment	**12,426**	70,226
– acquisition of land leases	**1,484**	1,484
	106,139	169,391

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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	
	2018	2017
As at January 1,	**1,052,500**	1,119,500
Granted	**35,000**	–
Lapsed/cancelled	**(33,000)**	(67,000)
As at June 30,	**1,054,500**	1,052,500

On June 1, 2018, an aggregate of 35,000 shares were granted to a director of the Company pursuant to the Yue Yuen Share Award Scheme. The fair value of the share awards as at the date of grant, determined by Greater China Appraisal Limited using the Black-Scholes Option Pricing Model, amounted to HK$673,000 (equivalent to approximately US$86,000). The key inputs into the Black-Scholes Option Pricing Model at the date of grant are as follows:

Date of grant	June 1, 2018
Closing share price at the date of grant	HK$24.25
Annual risk free rate	1.72%
Expected volatility	34.44%
Vesting period	2 years
Expected dividend yield	4.52%

The variables and assumptions used in computing the fair value of the share awards are based on the directors of the Company's 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 date of grant on June 1, 2018 was HK$24.25 per share.

During the six months ended June 30, 2018, the Group recognized a net expense of US$780,000 (six months ended June 30, 2017: US$824,000) as equity-settled share-based payments in the condensed consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

A total of 3,075,500 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2018 (December 31, 2017: 3,075,500 ordinary shares).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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") adopted pursuant to a board resolution passed by Pou Sheng's directors on May 9, 2014 and amended on November 11, 2016. Movements in the number of awarded shares outstanding are as follows:

	Number of awarded shares	
	2018	2017
As at January 1,	**41,079,130**	45,129,810
Granted	**–**	6,026,000
Vested	**(4,935,000)**	–
Cancelled	**(2,883,000)**	(7,432,000)
As at June 30,	**33,261,130**	43,723,810

The Board of Directors of Pou Sheng approved on March 25, 2017 to grant an aggregate of 6,026,000 awarded shares to certain employees and a director of the Pou Sheng Group pursuant to the Pou Sheng Share Award Scheme.

During the six months period ended June 30, 2017, the fair value of the share awards as at the date 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). The key inputs into the Black-Scholes Option Pricing Model were as follows:

Date of grant	March 25, 2017
Closing share price of Pou Sheng at the date of grant	HK$1.87
Annual risk free rate	0.62% – 1.14%
Expected volatility	48% – 59%
Vesting period	1 – 3 years
Expected dividend yield	2.0%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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 per share.

During the six months ended June 30, 2018, the Group recognized a net expense of US$646,000 (six months ended June 30, 2017: US$866,000) 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 forfeited prior to their vesting dates after recognizing share award expenses.

As at June 30, 2018, a total of 120,131,320 ordinary shares (December 31, 2017: 125,066,320 ordinary shares) of Pou Sheng were held by the trustee of the Pou Sheng Share Award Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results

For the six months ended June 30, 2018, the Group recorded revenue of US$4,769.4 million, representing an increase of 7.2%, compared with the corresponding period of last year. Profit attributable to owners of the Group declined by 41.9% to US$150.1 million, as compared to US$258.5 million recorded for the corresponding period of last year. Basic earnings per share for the first half of 2018 declined by 41.8% to US9.14 cents, compared with US15.71 cents for the corresponding period of last year.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring nature, the recurring profit for the six months ended June 30, 2018, declined by 31.5% to US$165.0 million, compared to a recurring profit of US$240.9 million for the corresponding period of last year. For the six months ended June 30, 2017, the Company recognized a non-recurring profit of US$17.6 million, which included a fair value gain of US$9.4 million on derivative financial instruments and a one-off gain of US$9.8 million on the disposal of associates. By contrast, during the first half of 2018, the Group recorded a non-recurring loss of US$14.9 million, included a fair value loss of US$22.5 million on derivative financial instruments that was partly offset by a one-off gains arising from disposal of associates and subsidiaries.

OPERATIONS

General Overview

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. Throughout the first half of 2018, the Group faced unprecedented headwinds including operational changes and disruptions associated with the fast fashion trend, as well as more flexible procurement approaches by brand customers, which resulted in more volatile monthly revenue, much lower order visibility, as well as operating deleverage within the manufacturing business. To address these challenges, the Group will continue increasing automation levels and enhancing operational efficiency so as to provide differentiated value-added and one-stop OEM/ODM services to leading international brand customers that it has maintained long-term relationships with.

OPERATIONS (continued)

General Overview (continued)

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region, as well as event management and sport services. In response to intensifying competition and omni-channel integration between 'brick and mortar' channels and e-commerce channels, the Group is currently in the process of strengthening its market presence and optimizing profitability by implementing customer experience-focused initiatives, expanding its omni-channel capabilities and investing in the latest information systems and technologies in order to further digitize its operations and shorten the sales cycle. For a more detailed explanation of the Group's retail business model, please refer to the interim report of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company.

Throughout the first half of 2018, the Group made further progress in adapting its manufacturing business to an ever-changing market environment, in particular increasing demand for greater versatility and flexibility among consumers, as well as for shorter lead-times. In particular, the Group focused on: enhancing its lean manufacturing and efficiency; upgrading its equipment and machinery; and improving its technological innovation, process re-engineering and automation to improve efficiency at key production sites across the region, in line with customer demand.

The Group remains committed to sustainability, ethical conduct and corporate values. Each business unit considers the interests of all stakeholders, including employees and the surrounding community, when making important business decisions. The Group monitors and manages its business units using comprehensive guidelines on industrial relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity.

The Group is also dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. For more details on the Group's sustainable development strategy and reporting on Environmental, Social and Governance ("ESG"), please refer to the Group's ESG report for 2017.

Total Revenue by Product Category

In the six months ended June 30, 2018, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) declined 4.5% to US$2,563.6 million, compared with the corresponding period of last year, with the volume of shoes produced and average selling price per pair decreasing by 2.5% to 158.9 million pairs and by 2.0% to US$16.14 per pair, respectively, as compared with the corresponding period of last year. The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) and the apparel wholesale business TCHC Group during the first half of 2018 was US$3,016.6 million, a decrease of 1.7%.

The gross profit of the Group's manufacturing business decreased by 14.9% to US$530.0 million in the first half of 2018 due to fluctuating order patterns and unfavorable product mix, which resulted in operating deleverage and negatively impacted the gross profit margin for the manufacturing business.

OPERATIONS (continued)

Total Revenue by Product Category (continued)

During the first half of 2018, Vietnam, Indonesia and the PRC continued to be the Group's main production locations by volume, representing 46%, 37% and 15% of total shoe production, respectively, during the period.

The Group's athletic footwear category outperformed all other categories as a result of the global athleisure trend, accounting for 77.9% of footwear manufacturing revenue during the first half of 2018. Casual/outdoor shoes accounted for 20.4% of footwear manufacturing revenue during the same period. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 41.9% of total revenue, followed by casual/outdoor shoes, which accounted for 11.0% of total revenue.

The Group's distribution sales are derived primarily from its retail operations in the Greater China region, namely the sale of international brand-name athletic footwear and apparel in major cities, which operates under Pou Sheng, the Group's retail subsidiary. It also includes sales from TCHC Group, the apparel wholesale business in North America. In the six months ended June 30, 2018, the revenue attributable to Pou Sheng grew by 27.1% to US$1,752.8 million, compared to US$1,379.6 million in the previous financial year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 17.7% to RMB11,202.0 million, compared to RMB9,515.1 million in the corresponding period of last year. Pou Sheng's gross profit margin decreased from 34.6% in the same period of last year to 33.5% in the first half of 2018, mainly due to channel mix changes and increased discounts and clearance sales for emerging brands.

As of June 30, 2018, Pou Sheng had 5,531 directly operated retail outlets and 3,417 stores operated by sub-distributors in the PRC.

Total Revenue by Product Category	**For the six months ended June 30,**				
	2018		2017		
	US$ million	**%**	US$ million	%	% change
Athletic Shoes	**1,996.7**	**41.9**	2,071.5	46.6	(3.6)
Casual/Outdoor Shoes	**522.3**	**11.0**	569.0	12.8	(8.2)
Sports Sandals	**44.6**	**0.9**	44.7	1.0	(0.2)
Soles, Components & Others	**261.5**	**5.5**	304.9	6.8	(14.2)
Apparel Wholesale	**191.5**	**4.0**	78.5	1.8	143.9
Retail Sales – shoes, apparel & leasing	**1,752.8**	**36.7**	1,379.6	31.0	27.1
Total Revenue	**4,769.4**	**100.0**	4,448.2	100.0	7.2

Orders from international brands are received by a sales department that manages each customer and normally take about ten to twelve weeks to fill. Some orders requested a shorter lead-time of 30-45 days.

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

OPERATIONS (continued)

Production Review

During the first half of 2018, the Group's manufacturing business produced a total of 158.9 million pairs of shoes, a decrease of 2.5% compared to the 163.0 million pairs produced in the corresponding period of last year. The average selling price per pair was US$16.14, compared to US$16.47 in the corresponding period of last year.

Cost Review

With respect to the Group's manufacturing business, revenue in six months ended June 30, 2018 amounted to US$2.8 billion (first half of 2017: US$3.0 billion) whereas the direct labor costs were US$0.6 billion (first half of 2017: US$0.6 billion). Total main material costs were US$1.0 billion (first half of 2017: US$1.1 billion) and total production overheads amounted to US$0.6 billion (first half of 2017: US$0.6 billion).

For the Group's distribution business, revenue during the first half of 2018 amounted to US$1.9 billion (first half of 2017: US$1.5 billion). Distribution stock costs were US$1.3 billion (first half of 2017: US$0.9 billion).

The Group's total selling and distribution expenses for the first half of 2018 amounted to US$582.6 million (first half of 2017: US$467.5 million), equivalent to approximately 12.2% (first half of 2017: 10.5%) of revenue. The increase in selling and distribution expenses was in proportion with the strong growth of the Group's distribution business, which has a higher ratio of selling and distribution expenses to revenue compared to the manufacturing business.

Administrative expenses for the first half of 2018 amounted to US$309.1 million (first half of 2017: US$304.3 million), equivalent to approximately 6.5% (first half of 2017: 6.8%) of revenue, remaining stable.

With cost pressures remaining significant for both the manufacturing and distribution businesses, the management of both units will continuously look for ways to improve efficiency and productivity.

Product Development

During the first half of 2018, the Group spent US$101.3 million (first half of 2017: US$108.4 million) on product development, including investments in sample and technical development, as well as in production efficiency enhancements. For each of the major branded 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. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead times and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmentally-friendly materials into the design, development and manufacture of footwear.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remained solid. As at June 30, 2018, the Group had cash and cash equivalents of US$1,001.6 million (December 31, 2017: US$1,036.8 million) and total bank borrowings of US$2,201.5 million (December 31, 2017: US$1,963.3 million). The Group's gearing ratio (total borrowings to total equity) was 48.6% (December 31, 2017: 42.0%). As of June 30, 2018, the Group had net borrowing of US$1,199.9 million (December 31, 2017: net borrowing of US$926.5 million). The increase in borrowing was mainly attributable to the efforts to improve the Group's cost of capital while still keeping gearing at a comfortable level, as well as increased bank borrowings by Pou Sheng for working capital purposes.

The Group used forward contracts for currency hedging purposes.

Capital Expenditure

During the first half of 2018, the capital expenditure for the Group's manufacturing and distribution segments were US$237.9 million (first half of 2017: US$218.5 million) and US$37.4 million (first half of 2017: US$40.1 million) respectively. Capital expenditure during the first half of 2018 included capacity upgrades and the maintenance of production facilitates in Vietnam and Indonesia, as well as investment in innovation centers for the Group's product development and process re-engineering, which was funded by both external and internal resources. For the distribution segment, resources were invested in the expansion, upgrade and maintenance of new concept and experience stores.

Contingent Liabilities

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

Significant Investments and Material Acquisitions/Disposals

During the first half 2018, the share of results from associates and joint ventures was a combined profit of US$20.0 million, compared to a combined profit of US$26.7 million in the corresponding period of last year.

Details of the material acquisitions and disposals of subsidiaries in the period are set out in note 14 and note 15 to the condensed consolidated financial statements.

FINANCIAL REVIEW (continued)

Foreign Exchange Exposure

All revenues from the manufacturing business are denominated in US dollars. The majority of material and component costs are paid in US dollars, while expenses incurred locally are paid for in the local currency i.e. wages, utilities and local regulatory fees. A certain portion of RMB and Indonesia Rupiah exposure are partly hedged with forward contracts.

For the Group's retail business in the PRC, all revenues are denominated in RMB. Correspondingly, all expenses are also denominated in RMB. For the retail business of other regions, 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 distribution and manufacturing industries.

Employees

As at June 30, 2018, the Group had approximately 345,000 employees across all regions, of which 315,000 were employed by the Group's manufacturing segment, a decrease of 4.2% and 4.5% respectively as compared to 360,000 employees (whole Group) and 330,000 employees (manufacturing segment only) as at June 30, 2017. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

The Group believes that employees are important assets, and has planned a holistic approach to the recruitment, employment, training and retention of employees.

The Group employs a competitive remuneration scheme and provides comprehensive employee benefits, in line with the relevant laws and regulations applicable to each of its operating locations. It sets aside a certain percentage of profits, according to the annual performance of the Group, as year-end bonuses to reward employees' contributions and work enthusiasm, allowing them to share in its operating results. It also provides insurance plans that are tailor-made to each operating location to reduce the medical expense burden of employees, as well as pension fund contributions in compliance with the laws and regulations of the local jurisdictions in which the Group operates.

The Group regularly undertakes internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training and corporate core values training, with the objective of upgrading the quality and expertise of the Group's employees and management, as well as morale.

During the first half of 2018, the social compliance program of the Group's parent, Pou Chen Group obtained accreditation from the Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers' rights around the world, making the Group the only FLA-accredited footwear supplier globally. The accreditation recognized the Group's commitment to globally implement workplace standards; implement a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; invest in a social compliance program, training, and remediation; and improving its transparency in remediating labor violations at its production sites and establishing multiple grievance channels.

PROSPECTS

The Group's manufacturing business continues to face a number of uncertainties and challenges, including intense competition and changing customer order patterns, particularly shortening lead-times and increased seasonality. This will continue to affect operating deleveraging and margins. Other risks include stronger-than-expected wage inflation, raw material price volatility and foreign exchange movements. Although economic growth and consumer sentiment in most major economies, including the United States, the PRC and the Eurozone remains robust, this could be threatened by increasing trade frictions and the implementation of additional trade tariffs. The Group is actively monitoring the macroeconomic and geopolitical situation.

The Group will continue to leverage on its core strengths and competitive edges to hedge against these long and short-term challenges in order to address the demand for shorter lead-times, limit the impact of monthly order volatility, and safeguard its sustainable and steady growth. This includes investing in automation, technology, production workflow optimization, process re-engineering and other enhancements to the Group's manufacturing capabilities. It will also continue to enhance its product and material development capability, innovate on new products and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, while creating long-term synergies for the Group.

For the distribution business, apart from the apparel wholesale business, the Group remains optimistic about the long-term growth prospects for sportswear retailing, given increasing health awareness, higher sports participation rates and the growth of 'athleisure' trend in the Greater China region. Pou Sheng's omni-channel distribution strategy will also continue to benefit from the favorable environment being fostered by official government support for the popularization of sport. It will continue to invest heavily in upgrading its store formats and integrating digital channels to reinforce the consumer experience and stimulate higher-margin sales, while also fulfilling the ever-changing shopping habits of end consumers.

Going forward, the Group remains confident that these strategies will enable it to continue providing its brand customers with end-to-end solutions, while safeguarding its solid long-term profitability and ability to deliver sustainable returns to shareholders.

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 (2017: HK$0.40 per share) for the six months ended June 30, 2018 to shareholders whose names appear on the register of members of the Company on Monday, September 17, 2018. The interim dividend will be paid on Thursday, October 11, 2018.

The Group's operating cash flow remains stable, 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, September 17, 2018 to Wednesday, September 19, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, September 14, 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2018, 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%
Tsai Ming-Lun, Ming	Beneficial owner	33,000 *(Note 2)*	0.00%
Hu Chia-Ho	Beneficial owner	78,000 *(Note 2)*	0.00%
Liu George Hong-Chih	Beneficial owner	78,000 *(Note 2)*	0.00%
Hu Dien Chien	Beneficial owner	52,500 *(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 *(Long position)*	Percentage of the issued share capital of Pou Sheng *(Note 4)*
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

Notes:

1. The total issued share capital of the Company as at June 30, 2018 is 1,635,177,486 shares.
2. Each of 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.
3. Mr. Hu Dien Chien is interested in 35,000 ordinary shares, which were granted by the Company with vesting conditions on June 1, 2018 pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016.
4. The total issued share capital of Pou Sheng as at June 30, 2018 is 5,341,288,615 shares.

Other than the interests disclosed above, none of the directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2018.

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, 2018 are as follows:

			Number of awarded shares				
	Date of grant	Vesting date	Outstanding as at January 1, 2018	Granted during the period	Lapsed/ cancelled during the period	Vested during the period	Outstanding as at June 30, 2018
Directors of the Company							
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
Hu Dien Chien	01.06.2018	29.05.2020	–	35,000	–	–	35,000
Sub-total			99,000	35,000	–	–	134,000
Employees of the Group and/or Associated Entities							
	03.10.2016	02.10.2018	953,500	–	(33,000)	–	920,500
Sub-total			953,500	–	(33,000)	–	920,500
Total			1,052,500	35,000	(33,000)	–	1,054,500

During the six months ended June 30, 2018, the Group recognized a net expense of US$780,000 (six months ended June 30, 2017: US$824,000) 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 majority-owned subsidiary of the Company.

The stock option plan of TCHC was adopted by the board of directors of TCHC (the "TCHC Board") on November 7, 2012 (the "TCHC Stock Option Plan") before TCHC became an indirect majority-owned subsidiary of the Company. The TCHC Stock Option Plan was amended and restated in its entirety on October 9, 2017 (the "Amended TCHC Stock Option Plan") and was approved by shareholders of the Company at a special general meeting held on November 30, 2017. The Amended TCHC Stock Option Plan is applicable to all options already granted and outstanding pursuant to the TCHC Stock Option Plan and did not affect the validity of any previously granted options. Unless otherwise terminated by the TCHC Board pursuant to the terms of the Amended TCHC Stock Option Plan, the Amended TCHC Stock Option Plan is valid and effective for a period of ten years commencing from October 9, 2017 (being the date of approval by the TCHC Board in respect of the Amended TCHC Stock Option Plan), after which no further options may be granted or awarded under the plan.

The purpose of the Amended TCHC Stock Option Plan is to assist TCHC as well as any TCHC Affiliate to attract and retain directors, officers, employees, consultants and contractors of outstanding ability and to promote the alignment of their interests with those of the stockholders of TCHC and TCHC Affiliates. "TCHC Affiliate" means a business entity in which TCHC owns at least a majority of the total combined voting power of all classes of stock or other equity interests and any entity that is designated by the committee appointed by the TCHC Board to administer the Amended TCHC Stock Option Plan (the "TCHC Committee") in which TCHC has a significant interest. Participants of the Amended TCHC Stock Option Plan consist of any officer or employee of TCHC or TCHC Affiliate, member of the TCHC Board or the board of directors of a TCHC Affiliate, and consultant or independent contractor to TCHC or a TCHC Affiliate who has been granted an option under the Amended TCHC Stock Option Plan.

The exercise price of an option granted on or after November 30, 2017 may not be less than 100% of the fair market value (determined in accordance with the terms of the Amended TCHC Stock Option Plan) of a TCHC share on the date of grant. Furthermore, for an option designated by the TCHC Committee as an incentive stock option ("Incentive Stock Option") under Section 422 of the Internal Revenue Code of 1986 of the United States, as amended (the "Code") granted to an officer or employee of TCHC or a TCHC Affiliate who owns stock possessing more than 10% of the total combined voting power of all classes of stock of TCHC or a parent corporation or subsidiary corporation of TCHC ("Ten-Percent Stockholder"), the exercise price may not be less than 110% of the fair market value (determined pursuant to the terms of the Amended TCHC Stock Option Plan) of a TCHC share on the date of grant.

SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

The terms and conditions of options, including inter alia, (i) any minimum period(s) for which an option must be held, and/or (ii) minimum performance targets that must be reached before the options can be exercised in whole or in part or, if none, a negative statement to that effect, are required to be specified in a written agreement evidencing the option. The TCHC Committee determines and specifies in the written agreement the option period for an option, provided that an option may not be exercisable after ten years (five years in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder) from its date of grant. Subject to the terms of the written agreement, an option may be exercised, in whole or in part, by delivering to TCHC a notice of the exercise, in such form as the TCHC Committee may prescribe, accompanied by full payment for the shares of TCHC with respect to which the option is exercised.

As at the date of this report, the total number of shares available for issue pursuant to an exercise of options yet to be granted under the Amended TCHC Stock Option Plan is 81,905 shares, representing approximately 2.48% of the total number of TCHC's shares in issue. An aggregate of 817,207 shares are issuable pursuant to an exercise of outstanding stock options granted under the Amended TCHC Stock Option Plan, representing approximately 24.70% of the total number of TCHC's shares in issue as at the date of this report.

Without prior approval from the stockholders of TCHC, and (for so long as TCHC remains a subsidiary of the Company) the shareholders of the Company, the total number of shares that may be issued upon exercise of the options granted in any twelve-month period to any participant of the Amended TCHC Stock Option Plan is not permitted to exceed 1% of the shares of TCHC in issue as of the date the options are granted.

Details of movement in stock options under the Amended TCHC Stock Option Plan during the period ended June 30, 2018 are listed below:

				Number of underlying shares comprised in the TCHC's stock options				
	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
Employees of TCHC								
Tranche – A	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
			25.01.2014 to 25.01.2023	34,922	–	–	–	34,922
			25.01.2015 to 25.01.2023	34,922	–	–	–	34,922
			25.01.2016 to 25.01.2023	34,922	–	–	–	34,922
			25.01.2017 to 25.01.2023	34,926	–	–	–	34,926
	05.03.2014	13.92	*(Note 4)*	7,352	–	–	–	7,352

SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

	Date of grant	Exercise price US$	Exercisable period (Note 5)	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
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	7,614	–	–	–	7,614
			25.01.2015 to 25.01.2023	7,614	–	–	–	7,614
			25.01.2016 to 25.01.2023	7,614	–	–	–	7,614
			25.01.2017 to 25.01.2023	7,618	–	–	–	7,618
	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	8,060	–	–	–	8,060
			25.01.2015 to 25.01.2023	8,063	–	–	–	8,063
			25.01.2016 to 25.01.2023	8,063	–	–	–	8,063
			25.01.2017 to 25.01.2023	8,064	–	–	–	8,064
	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	30.11.2017	24.18	30.11.2017 to 30.11.2027	90,000	–	–	–	90,000
			30.11.2018 to 30.11.2027	45,000	–	–	–	45,000
			30.11.2019 to 30.11.2027	45,000	–	–	–	45,000
			30.11.2017 to 30.11.2027	19,461	–	–	–	19,461
			02.09.2018 to 30.11.2027	9,731	–	–	–	9,731
			02.09.2019 to 30.11.2027	9,731	–	–	–	9,731
			30.11.2018 to 30.11.2027	7,500	–	–	–	7,500
			30.11.2019 to 30.11.2027	7,500	–	–	–	7,500
			30.11.2020 to 30.11.2027	7,500	–	–	–	7,500
			30.11.2021 to 30.11.2027	7,500	–	–	–	7,500
Total				817,207 (Note 1)	–	–	–	817,207

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 5)*	Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
Among the above, the following employees have been granted with options in excess of 1% of the total number of TCHC's shares in issue 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	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	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 2)*	–	–	–	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	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 3)*	–	–	–	54,493
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

SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

	Date of grant	Exercise price US$	Exercisable period (Note 5)	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
	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 3)*	–	–	–	54,493
Tony Anzovino	25.01.2013	13.92	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 4)*	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 3)*	–	–	–	54,493

SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

	Date of grant	Exercise price US$	Exercisable period (Note 5)	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
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 3)*	–	–	–	54,493
Jay Patel	30.11.2017	24.18	30.11.2017 to 30.11.2027	50,000	–	–	–	50,000
			30.11.2018 to 30.11.2027	25,000	–	–	–	25,000
			30.11.2019 to 30.11.2027	25,000	–	–	–	25,000
Sub-total				100,000 *(Note 6)*	–	–	–	100,000
Steven Richman	30.11.2017	24.18	30.11.2017 to 30.11.2027	25,000	–	–	–	25,000
			30.11.2018 to 30.11.2027	12,500	–	–	–	12,500
			30.11.2019 to 30.11.2027	12,500	–	–	–	12,500
Sub-total				50,000 *(Note 7)*	–	–	–	50,000
Eve Richey	30.11.2017	24.18	30.11.2017 to 30.11.2027	19,461	–	–	–	19,461
			02.09.2018 to 30.11.2027	9,731	–	–	–	9,731
			02.09.2019 to 30.11.2027	9,731	–	–	–	9,731
Sub-total				38,923 *(Note 8)*	–	–	–	38,923

SHARE INCENTIVE SCHEMES (continued)

(c) Subsidiary Stock Option Plan (continued)

Notes:

1. This is the aggregate figure for current employees of TCHC, including the eight employees with options granted in excess of 1% of the total number of TCHC's shares in issue in any 12-month period.
2. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and holds outstanding options exercisable into approximately 10.59% of TCHC's shares in issue as at June 30, 2018.
3. Each of these four employees of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and holds outstanding options exercisable into approximately 1.65% of TCHC's shares in issue as at June 30, 2018.
4. 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.
5. The vesting period of the stock options is from the date of grant until the commencement of the exercisable period.
6. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and holds outstanding options exercisable into approximately 3.02% of TCHC's shares in issue as at June 30, 2018.
7. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and holds outstanding options exercisable into approximately 1.51% of TCHC's shares in issue as at June 30, 2018.
8. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and holds outstanding options exercisable into approximately 1.18% of TCHC's shares in issue as at June 30, 2018.

No stock options had been granted, exercised, lapsed or cancelled under the Amended TCHC Stock Option Plan during the period ended June 30, 2018.

(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 the shareholders of Pou Sheng on May 14, 2008 (the "Pou Sheng Share Option Scheme"), certain terms of which were amended on March 7, 2012, and was valid and effective for a period of ten years from the date of adoption. The Pou Sheng Share Option Scheme expired at the end of the day on May 13, 2018, after which no further share options should be offered or granted. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods.

SHARE INCENTIVE SCHEMES (continued)

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

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 should not exceed 10% of the total number of the Pou Sheng's issued shares as at the date on which dealings in the Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares). Unless approved by the shareholders of Pou Sheng and the Company, the maximum number of Pou Sheng's shares issued and to be issued upon exercise of the share options granted to each grantee under the Pou Sheng Share Option Scheme in any 12-month period should not exceed 1% of the Pou Sheng's shares in issue for the time being.

All the share options granted under the Pou Sheng Share Option Scheme should be exercised at any time during a period to be determined and notified by the board of directors of Pou Sheng (the "Pou Sheng Board") at the time of making an offer and should not be exercised later than 10 years after the date of grant. The minimum period for which a share option must be held before it can be exercised should be determined by the Pou Sheng Board. The exercise price of any share option should be determined by the Pou Sheng Board but in any event should not be less than the higher of (i) the closing price of the Pou Sheng's shares on the date of grant; (ii) the average closing price of the Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Pou Sheng's share. For grantee who is an employee or director of Pou Sheng and its subsidiaries (the "Pou Sheng Group"), he/she has to remain as an employee or director of the Pou Sheng Group until the share options being vested on him/her.

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 share 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 is 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.

As at June 30, 2018, an aggregate of 15,566,000 Pou Sheng's shares have been issued and an aggregate of 32,262,190 Pou Sheng's shares, representing approximately 0.60% of the total number of Pou Sheng's issued shares, are issuable on the exercise of share options for share options granted under the Pou Sheng Share Option Scheme.

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

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, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
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	1,437,450	–	–	(1,437,450)	–
			21.01.2010-20.01.2012	21.01.2012–20.01.2018	1,442,450	–	–	(1,442,450)	–
			21.01.2010-20.01.2013	21.01.2013–20.01.2018	2,939,900	–	–	(2,939,900)	–
			21.01.2010-20.01.2014	21.01.2014–20.01.2018	4,103,200	–	–	(4,103,200)	–
	20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012–19.01.2019	2,112,500	–	(100,000)	–	2,012,500
			20.01.2011-19.01.2013	20.01.2013–19.01.2019	2,362,500	–	(100,000)	–	2,262,500
			20.01.2011-19.01.2014	20.01.2014–19.01.2019	2,526,500	–	(100,000)	–	2,426,500
			20.01.2011-19.01.2015	20.01.2015–19.01.2019	2,637,500	–	(100,000)	–	2,537,500
	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					31,225,190	–	(400,000)	(9,923,000)	20,902,190

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, 2018	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
Former Employees of Pou Sheng									
	21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011–20.01.2018	1,965,000	–	–	(1,965,000)	–
			21.01.2010-20.01.2012	21.01.2012–20.01.2018	1,965,000	–	–	(1,965,000)	–
			21.01.2010-20.01.2013	21.01.2013–20.01.2018	2,946,000	–	–	(2,946,000)	–
			21.01.2010-20.01.2014	21.01.2014–20.01.2018	1,148,000	–	–	(1,148,000)	–
	20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012–19.01.2019	7,375,000	–	(732,500)	–	6,642,500
			20.01.2011-19.01.2013	20.01.2013–19.01.2019	3,775,000	–	(732,500)	–	3,042,500
			20.01.2011-19.01.2014	20.01.2014–19.01.2019	1,437,500	–	(625,000)	–	812,500
			20.01.2011-19.01.2015	20.01.2015–19.01.2019	737,500	–	(250,000)	–	487,500
	07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013–06.03.2020	375,000	–	–	–	375,000
Sub-total					21,724,000	–	(2,340,000)	(8,024,000)	11,360,000
Total					53,749,190	–	(2,740,000)	(18,747,000)	32,262,190

The weighted average closing price of the Pou Sheng's shares immediately before the dates on which the Pou Sheng's share options were exercised during the period is HK$1.61 per share.

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

(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 the Pou Sheng Group, providing incentives to retain them for 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 is valid and effective for a term of 10 years commencing on May 9, 2014. No further share awards should be granted upon termination or expiry of the term of the Pou Sheng Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Pou Sheng Board and approved by the Pou Sheng Board. All the share awards granted under the Pou Sheng Share Award Scheme should be vested in accordance with the conditions (such as employment status and individual performance) as determined by the Pou Sheng Board.

SHARE INCENTIVE SCHEMES (continued)

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

The total number of Pou Sheng's shares to be awarded under the Pou Sheng Share Award Scheme should not exceed 4% of the Pou Sheng's issued shares as at the date of grant. The maximum number of Pou Sheng's shares (including vested and non-vested Shares) which may be awarded to a selected participant should not exceed 1% of the Pou Sheng's issued shares 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 Pou Sheng's shares. The trustee of the Pou Sheng Share Award Scheme shall not exercise the voting rights in respect of any Pou Sheng's shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip dividend).

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

			Number of awarded shares				
	Date of grant	Vesting period	Outstanding as at January 1, 2018	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2018
Director of Pou Sheng							
Lee, Shao-Wu	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
Sub-total			1,000,000	–	(300,000)	–	700,000
Employees of Pou Sheng							
	21.03.2015	21.03.2015-20.03.2018	5,358,000	–	(4,635,000)	(723,000)	–
	14.08.2015	14.08.2015-13.08.2018	8,110,000	–	–	(340,000)	7,770,000
	24.03.2016	24.03.2016-23.03.2019	3,220,000	–	–	(294,000)	2,926,000
	13.08.2016	13.08.2016-12.08.2019	5,460,000	–	–	(510,000)	4,950,000
	12.11.2016	12.11.2016-30.08.2019	600,000	–	–	–	600,000
	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	4,528,000	–	–	(116,000)	4,412,000
	03.07.2017	03.07.2017-02.07.2020	300,000	–	–	–	300,000
	14.11.2017	14.11.2017-28.02.2018	270,000	–	–	(270,000)	–
	14.11.2017	14.11.2017-28.02.2019	315,000	–	–	(315,000)	–
	14.11.2017	14.11.2017-11.12.2019	300,000	–	–	–	300,000
	14.11.2017	14.11.2017-29.02.2020	315,000	–	–	(315,000)	–
	14.11.2017	14.11.2017-13.11.2020	3,800,000	–	–	–	3,800,000
Sub-total			40,079,130	–	(4,635,000)	(2,883,000)	32,561,130
Total			41,079,130	–	(4,935,000)	(2,883,000)	33,261,130

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, 2018, 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***
		Long position	
Pou Chen Corporation ("PCC")	(a)	824,143,835	50.40%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.28%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.07%
		Short Position	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.68%

* The total issued share capital of the Company as at June 30, 2018 is 1,635,177,486 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) 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, 2018.

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since the date of the Company's 2017 annual report on March 23, 2018 are set out below:

Mr. Lu Chin Chu, an executive director of the Company, was appointed as a director of Prosperous Industrial (Holdings) Limited ("Prosperous") on May 12, 2004 and redesignated as a non-executive director of Prosperous on March 29, 2018. Prosperous was listed on the main board of the Stock Exchange on July 13, 2018.

Mr. Wong Hak Kun was appointed as an independent non-executive director, the chairman of the audit committee and the chairman of the remuneration committee of the Company with effect from June 1, 2018. He was appointed as an independent non-executive director of Lung Kee (Bermuda) Holdings Limited, a company listed on the main board of the Stock Exchange, on June 1, 2018.

Mr. Leung Yee Sik resigned as the chairman of the audit committee and the chairman of the remuneration committee of the Company with effect from June 1, 2018 and retired as an independent non-executive director of the Company on June 4, 2018.

Mr. Chu Li-Sheng retired as an independent non-executive director of the Company and ceased to be a member of each of the audit committee, the remuneration committee and the nomination committee of the Company on June 4, 2018.

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

During the six months ended June 30, 2018, the Company repurchased a total of 13,324,500 shares of the Company on the Stock Exchange at a total consideration of HK$313,543,250.00 (equivalent to approximately US$39,981,781.00).

Details of the repurchase of shares of the Company during the six months ended June 30, 2018 are set out as follows and in note 13 to the condensed consolidated financial statements.

Date of repurchase	No. of shares repurchased	Highest price paid HK$	Lowest price paid HK$	Total paid HK$
April 13, 2018	6,580,000	24.65	23.95	160,062,250.00
May 16, 2018	47,500	21.95	21.95	1,042,625.00
May 17, 2018	304,000	21.95	21.95	6,672,800.00
May 23, 2018	8,500	21.95	21.95	186,575.00
May 24, 2018	948,500	22.40	22.00	21,132,325.00
May 25, 2018	1,000,000	22.75	22.15	22,632,625.00
May 28, 2018	1,121,500	22.95	22.70	25,678,950.00
May 29, 2018	292,500	22.95	22.75	6,707,625.00
May 30, 2018	694,000	22.95	22.70	15,910,450.00
June 7, 2018	376,500	23.00	22.90	8,637,925.00
June 8, 2018	951,500	23.00	22.95	21,884,400.00
June 11, 2018	23,500	23.00	23.00	540,500.00
June 12, 2018	76,500	23.00	23.00	1,759,500.00
June 13, 2018	900,000	23.00	22.95	20,694,700.00
Total:	**13,324,500**			**313,543,250.00**

The aforesaid repurchased shares of the Company were cancelled on May 9, June 14 and June 27, 2018 respectively. The Directors believe that the repurchases of shares would lead to an enhancement of the net asset value per share of the Company and its earnings per share. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2018.

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 financial statements.

The external auditor has reviewed the condensed consolidated financial statements for the six months ended June 30, 2018 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, 2018, 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 2017 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, 2018.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the six month period ended June 30, 2018.

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. Wong Hak Kun, Mr. Huang Ming Fu, 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 10, 2018

Website: www.yueyuen.com

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

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