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
2019

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

2019 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 [1, 2, 3, 4]
Ho Lai Hong *(appointed on May 24, 2019)* [1, 3, 5, 6]
Huang Ming Fu *(retired on May 31, 2019)*
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

Chau Chi Ming, Dickens *(appointed on July 31, 2019)*
Ng Yuk Yee, Feona *(resigned on July 31, 2019)*

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
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

- Bank of America Merrill Lynch
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- CTBC Bank
- Citibank, N.A.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- J.P. Morgan
- Mizuho Bank Ltd.
- MUFG Bank Ltd.
- OCBC Bank
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank
- The Hongkong and Shanghai Banking Corporation Limited
- UBS AG
- United Overseas Bank Ltd.

SOLICITORS

Reed Smith Richards Butler

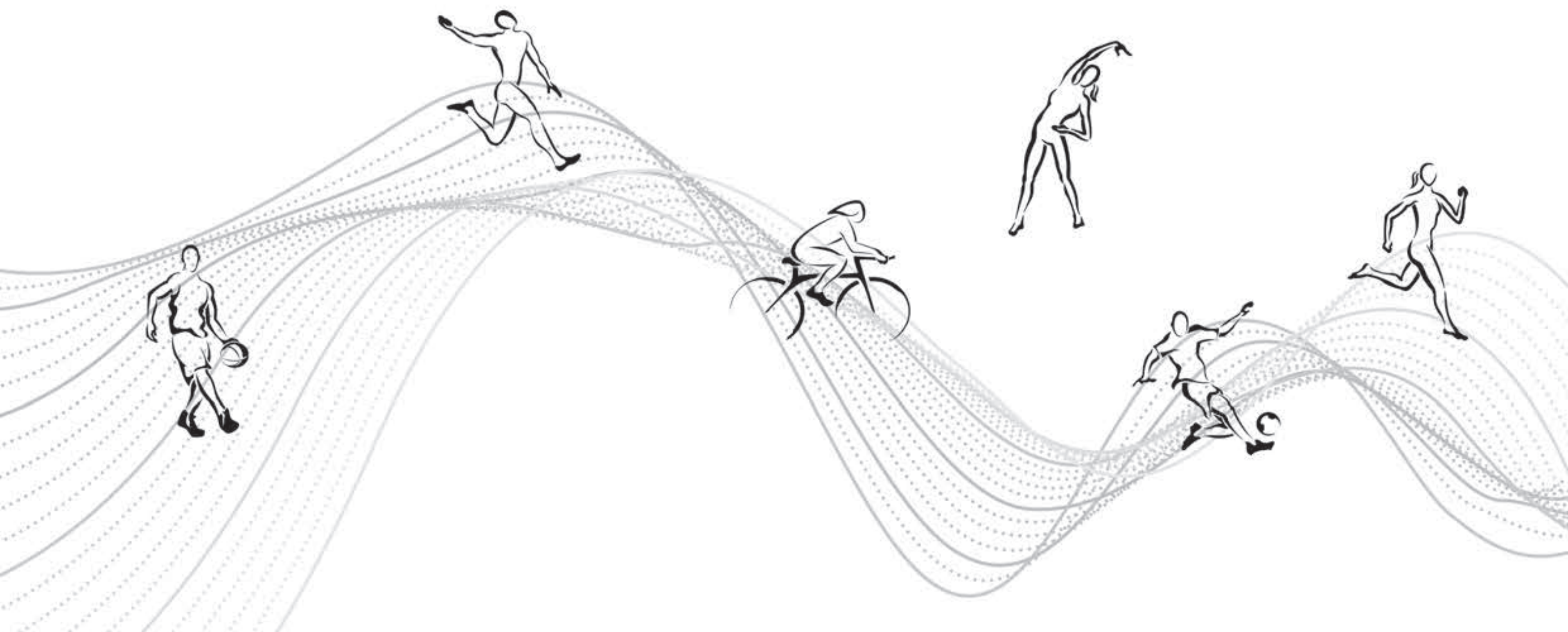
WEBSITE

www.yueyuen.com

STOCK CODE: 00551

FINANCIAL HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS

	For the six months ended June 30, **2019**	2018	**Percentage increase/ (decrease)**
Revenue *(US$'000)*	**5,070,727**	4,769,353	**6.32%**
Recurring profit attributable to owners of the Company *(US$'000)*	**145,579**	165,012	**(11.78%)**
Non-recurring profit (loss) attributable to owners of the Company *(US$'000)*	**20,298**	(14,918)	**N/A**
Profit attributable to owners of the Company *(US$'000)*	**165,877**	150,094	**10.52%**
Basic earnings per share *(US cents)*	**10.28**	9.14	**12.47%**
Dividend per share – interim dividend *(HK$)*	**0.40**	0.40	**–**



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 36, which comprise the condensed consolidated statement of financial position as of June 30, 2019 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 Financial Statements Performed by the Independent Auditor of the Entity" issued by the HKICPA. 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 13, 2019

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, 2019 with comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2019

	NOTES	For the six months ended June 30, **2019** **(unaudited)** **US$'000**	2018 (unaudited) US$'000
Revenue	3	**5,070,727**	4,769,353
Cost of sales		**(3,798,090)**	(3,578,123)
Gross profit		**1,272,637**	1,191,230
Other income		**60,874**	67,684
Selling and distribution expenses		**(622,946)**	(582,606)
Administrative expenses		**(337,194)**	(309,060)
Other expenses		**(128,626)**	(122,594)
Finance costs		**(48,811)**	(35,937)
Share of results of associates		**9,772**	8,296
Share of results of joint ventures		**8,677**	11,712
Other gains and losses	4	**19,742**	(14,918)
Profit before taxation		**234,125**	213,807
Income tax expense	5	**(39,309)**	(44,080)
Profit for the period	6	**194,816**	169,727
Attributable to:			
Owners of the Company		**165,877**	150,094
Non-controlling interests		**28,939**	19,633
		194,816	169,727
		US cents	US cents
Earnings per share	8		
– Basic		**10.28**	9.14
– Diluted		**10.24**	9.10

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2019

	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Profit for the period	**194,816**	169,727
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	**12,418**	(18,527)
Remeasurement of defined benefit obligations, net of tax	**–**	(1,019)
Share of other comprehensive expense of associates	**(1,332)**	–
Gain on revaluation of properties, transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	**–**	5,878
	11,086	(13,668)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(461)**	(14,434)
Share of other comprehensive income (expense) of associates and joint ventures	**864**	(9,302)
Reserve released upon disposal of associates and a joint venture	**–**	(1,836)
Reserve released upon deemed disposal of an associate	**(40)**	–
Reserve released upon disposal of subsidiaries	**(380)**	–
	(17)	(25,572)
Other comprehensive income (expense) for the period	**11,069**	(39,240)
Total comprehensive income for the period	**205,885**	130,487
Total comprehensive income for the period attributable to:		
Owners of the Company	**177,454**	116,186
Non-controlling interests	**28,431**	14,301
	205,885	130,487

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2019

	NOTES	**At June 30, 2019 (unaudited) US$'000**	At December 31, 2018 (audited) US$'000
Non-current assets			
Investment properties	9	**109,725**	109,725
Property, plant and equipment	9	**2,343,623**	2,351,690
Right-of-use assets	10	**477,649**	–
Deposits paid for acquisition of property, plant and equipment		**99,552**	111,636
Prepaid lease payments		**–**	160,651
Intangible assets		**48,914**	103,775
Goodwill		**262,554**	273,834
Interests in associates		**424,239**	416,525
Interests in joint ventures		**239,453**	248,565
Amount due from a joint venture		**9**	437
Equity instruments at fair value through other comprehensive income		**27,929**	15,685
Financial assets at amortized cost		**1,842**	6,740
Financial assets at fair value through profit or loss		**31,691**	19,988
Rental deposits and prepayments		**22,337**	24,562
Deferred tax assets		**55,020**	61,920
Deferred consideration receivable	16	**10,583**	–
		4,155,120	3,905,733
Current assets			
Inventories		**1,619,652**	1,774,855
Trade and other receivables	11	**1,684,956**	1,741,464
Prepaid lease payments		**–**	4,830
Equity instruments at fair value through other comprehensive income		**4,228**	4,056
Financial assets at amortized cost		**6,045**	1,806
Financial assets at fair value through profit or loss		**20,605**	20,195
Taxation recoverable		**12,377**	11,633
Restricted bank deposits		**2,150**	–
Bank balances and cash		**785,423**	851,420
		4,135,436	4,410,259
Assets classified as held for sale	12	**4,246**	–
		4,139,682	4,410,259

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2019

	NOTES	**At June 30, 2019 (unaudited) US$'000**	At December 31, 2018 (audited) US$'000
Current liabilities			
Trade and other payables	13	**1,210,203**	1,388,514
Contract liabilities		**35,600**	44,592
Lease liabilities	10	**107,214**	–
Financial liabilities at fair value through profit or loss		**6,928**	20,048
Taxation payable		**62,318**	56,970
Bank and other borrowings	14	**783,376**	795,917
		2,205,639	2,306,041
Net current assets		**1,934,043**	2,104,218
Total assets less current liabilities		**6,089,163**	6,009,951
Non-current liabilities			
Lease liabilities	10	**190,308**	–
Financial liabilities at fair value through profit or loss		**10,493**	–
Bank and other borrowings	14	**1,254,076**	1,328,006
Deferred tax liabilities		**29,323**	44,003
Defined benefit obligations		**97,209**	91,906
		1,581,409	1,463,915
Net assets		**4,507,754**	4,546,036
Capital and reserves			
Share capital	15	**52,040**	52,182
Reserves		**4,010,968**	4,075,318
Equity attributable to owners of the Company		**4,063,008**	4,127,500
Non-controlling interests		**444,746**	418,536
Total equity		**4,507,754**	4,546,036

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	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, 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 payments to investment properties	–	–	–	–	–	–	7,838	–	–	–	–	–	7,838	–	7,838
Deferred tax arising from gain on revaluation of properties, plant and equipment and prepaid lease payments 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)
Reserve 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
At January 1, 2019 (audited)	**52,182**	**604,708**	**20,406**	**(16,688)**	**21,793**	**4,551**	**20,245**	**(7,144)**	**349**	**95,347**	**27,486**	**3,304,265**	**4,127,500**	**418,536**	**4,546,036**
Exchange difference arising on the translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**-**	**9**	**(470)**	**(461)**
Fair value gain on equity instruments at fair value through other comprehensive income	**-**	**-**	**12,418**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,418**	**-**	**12,418**
Share of other comprehensive (loss) income of associates and joint ventures	**-**	**-**	**(2,406)**	**-**	**-**	**-**	**1,074**	**-**	**-**	**-**	**902**	**-**	**(430)**	**(38)**	**(468)**
Reserve released upon disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(380)**	**-**	**(380)**	**-**	**(380)**
Reserve released upon deemed disposal of an associate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(40)**	**-**	**(40)**	**-**	**(40)**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**165,877**	**165,877**	**28,939**	**194,816**
Total comprehensive income for the period	**-**	**-**	**10,012**	**-**	**-**	**-**	**1,074**	**-**	**-**	**-**	**491**	**165,877**	**177,454**	**28,431**	**205,885**
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**546**	**-**	**-**	**-**	**546**	**2,385**	**2,931**
Share repurchased and cancelled	**(142)**	**(12,031)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12,173)**	**-**	**(12,173)**
Cancellation of share options of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,911)**	**(3,911)**	**(10,673)**	**(14,584)**
Contribution from a non-controlling interests of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,401**	**13,401**
Acquisition of additional interests in a subsidiary	**-**	**-**	**-**	**-**	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(2)**	**(8)**
Dividends *(Note 7)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(227,003)**	**(227,003)**	**-**	**(227,003)**
Dividends paid to non-controlling interests of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,488)**	**(8,488)**
Transfer to non-distributable reserve fund	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,506**	**-**	**(7,506)**	**-**	**-**	**-**
Exercise of a subsidiary's share options	**-**	**-**	**-**	**-**	**601**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**601**	**1,156**	**1,757**
At June 30, 2019 (unaudited)	**52,040**	**592,677**	**30,418**	**(16,688)**	**22,388**	**4,551**	**21,319**	**(7,144)**	**895**	**102,853**	**27,977**	**3,231,722**	**4,063,008**	**444,746**	**4,507,754**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2019

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 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 Company 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, 2019

	NOTE	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Net cash from operating activities		**298,795**	193,862
Net cash used in investing activities			
Payment for acquisition of property, plant and equipment		**(175,252)**	(274,305)
Placement of structured bank deposits		**(78,007)**	(31,202)
Placement of restricted bank deposits		**(2,150)**	–
Addition of intangible assets		**(1,389)**	(1,422)
Settlement of currency structured and forward contracts		**(1,354)**	–
Payment for right-of-use assets		**(1,260)**	–
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of	16	**97,708**	14,209
Release of structured bank deposits		**78,007**	31,202
Dividends received from joint ventures		**15,050**	15,880
Proceeds from disposal of property, plant and equipment		**8,005**	20,609
Interest received		**6,124**	5,793
Dividends received from associates		**1,740**	11,475
Redemption of financial assets at amortized cost		**600**	609
Proceeds from disposal of right-of-use assets		**59**	–
Dividends received from equity instruments at fair value through other comprehensive income		**28**	88
Addition of prepaid land leases		**–**	(1,033)
Proceeds from disposal of associates		**–**	16,043
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
Proceeds from disposal of investment properties		**–**	2,579
Proceeds from disposal of prepaid land leases		**–**	30
		(52,091)	(173,623)
Net cash used in financing activities			
Repayment of bank and other borrowings		**(1,514,610)**	(1,350,851)
Dividends paid		**(227,003)**	(229,704)
Repayment of lease liabilities, including related interest		**(61,161)**	–
Interest paid		**(40,573)**	(34,581)
Share repurchased		**(12,173)**	(40,125)
Dividends paid to non-controlling interests of subsidiaries		**(8,488)**	(5,085)
Acquisition of additional interests in subsidiaries		**(8)**	(582)
Bank and other borrowings raised		**1,535,932**	1,593,889
Contribution from non-controlling interests of subsidiaries		**13,401**	1,142
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options		**1,757**	430
		(312,926)	(65,467)
Net decrease in cash and cash equivalents		**(66,222)**	(45,228)
Effect of foreign exchange rate changes		**225**	10,013
Cash and cash equivalents at beginning of the period		**851,420**	1,036,825
Cash and cash equivalents at end of the period, represented by bank balances and cash		**785,423**	1,001,610

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as 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").

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 amounts 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 applied and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are consistent with those of the Group's annual financial statements for the year ended December 31, 2018.

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, 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these 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 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

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 16 "Leases" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and buildings and retail stores, machinery equipments and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

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 16 "Leases" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

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 16 "Leases" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group applied HKFRS 16 from January 1, 2019. The Group applied the modified retrospective approach and has not restated comparative amounts with the cumulative effect recognized at the date of initial application. Right-of-use assets relating to the Group's operating leases are measured at the amount of lease liabilities on initial application by applying HKFRS 16.C8(b)(ii) transition, adjusted by the amount of any prepaid or accrued lease liabilities.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

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 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of retails stores, warehouses and office buildings in the PRC, Hong Kong and overseas were determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

Other than the reclassification of prepaid lease payments of US$165,481,000 and prepaid rentals of US$19,100,000, the Group recognized lease liabilities of US$309,875,000 and right-of-use assets of US$309,875,000, at January 1, 2019.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant jurisdictions at the date of initial application. The weighted average incremental borrowing rates applied in PRC, Hong Kong and overseas are ranged from 1.6% to 5.0%.

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 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

	US$'000
Operating lease commitments disclosed as at December 31, 2018	378,544
Less: Recognition exemption - short-term leases and leases with lease term ending within 12 months of the date of initial application	(28,576)
Recognition exemption - low value assets	(169)
Others	(2,690)
	347,109
Lease liabilities discounted at relevant incremental borrowing rates and as at January 1, 2019	309,875
Analyzed as	
Current portion	102,032
Non-current portion	207,843
	309,875

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	notes	Right-of-use assets US$'000
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16		309,875
Reclassified from prepaid lease payments	(a)	165,481
Reclassified from prepaid rentals	(b)	19,100
		494,456
By class:		
Leasehold land		165,481
Land and buildings and retail stores		328,565
Machinery equipments		176
Motor vehicles		234
		494,456

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 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

note:

(a) Upfront payments for leasehold lands in the PRC and overseas were classified as prepaid lease payments as at December 31, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to US$4,830,000 and US$160,651,000 respectively were reclassified to right-of-use assets.

(b) Prepaid rent for retail stores and buildings, which the Group leased from third parties under operating lease was classified as prepayments as at December 31, 2018. Upon the application of HKFRS 16, the current and non-current portions of prepaid rent amounting to US$14,276,000 and US$4,824,000 respectively were reclassified to right-of-use assets.

(c) Other than described above, the application of HKFRS 16 in the current period has had no material impact on the Group's financial positions and the disclosures set out in these condensed consolidated financial statements.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

2.2 Critical judgements in applying accounting policies

The directors of the Company made the following judgements upon application of HKFRS 16.

Lease term and discount rate determination

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In determining the discount rate, the Group is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and the effective date of the modification.

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. 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 provision of large scale commercial spaces to retailers and distributors. Accordingly, no segment information is presented.

The revenue from both Manufacturing and Retailing businesses is recognized at a point in time.

The information regarding revenue derived from the principal businesses described above is reported below:

	For the six months ended June 30,	
	2019	2018
	(unaudited)	(unaudited)
	US$'000	US$'000
Revenue		
Manufacturing Business	**2,930,815**	2,825,105
Retailing Business	**2,139,912**	1,944,248
	5,070,727	4,769,353

The breakdown of revenue by product category is disclosed under management discussion and analysis section of the Interim Report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. OTHER GAINS AND LOSSES

	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Gain on disposal of associates	**–**	6,605
Gain on disposal of subsidiaries *(Note 16)*	**19,127**	4,780
Gain on disposal of a joint venture	**–**	1,053
Gain on deemed disposal of associates	**367**	–
Fair value changes on investment properties	**–**	149
Fair value gain (loss) on financial assets at fair value through profit or loss	**1,815**	(212)
Fair value loss on derivative financial instruments	**–**	(22,494)
Impairment loss on interests in associates	**–**	(4,799)
Impairment loss on interest in a joint venture	**(1,470)**	–
Impairment loss on goodwill	**(97)**	–
	19,742	(14,918)

5. INCOME TAX EXPENSE

	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT") *(note i)*		
– current period	**31,608**	28,640
– underprovision in prior periods	**978**	1,228
Overseas taxation *(note ii)*		
– current period	**14,090**	15,686
– underprovision in prior periods	**438**	4,006
	47,114	49,560
Deferred tax credit	**(7,805)**	(5,480)
	39,309	44,080

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (continued)

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.

(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 the United States of America (the "US") is calculated at the rates prevailing in the respective jurisdictions, which were 25%, 20% and 21% respectively for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROFIT FOR THE PERIOD

	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Profit for the period has been arrived at after charging (crediting) :		
Total staff costs *(note)*	**1,206,246**	1,164,343
Net exchange loss (gain) (included in other expenses (other income))	**4,467**	(5,840)
Release of prepaid lease payments	**–**	2,198
Amortization of intangible assets (included in selling and distribution expenses)	**7,819**	9,870
Depreciation of right-of-use assets	**61,734**	–
Depreciation of property, plant and equipment *(note)*	**165,596**	155,441
Rental expenses *(note)*	**171,352**	227,952
Net changes in allowance for inventories (included in cost of sales)	**(12,663)**	(1,074)
Loss on disposal of property, plant and equipment (included in other expenses)	**7,700**	5,300
Loss on disposal of prepaid lease payments (included in other expenses)	**–**	57
Research and development expenditures (included in other expenses)	**101,860**	101,341
Impairment losses recognized on trade and other receivables	**289**	2,497
Finance costs		
Interest expenses for bank borrowings	**38,824**	34,581
Interest expenses for other borrowings	**1,749**	–
Interest expenses for lease liabilities	**6,915**	–
Amortization of upfront fee of bank borrowings	**1,323**	1,356
	48,811	35,937

note: Total staff costs, depreciation of property, plant and equipment and rental expenses disclosed above included amounts capitalized in inventories.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

	For the six months ended June 30, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Dividends recognized as distribution during the period:		
2018 final dividend of HK$1.10 per share (2018: 2017 final dividend of HK$1.10 per share)	**227,003**	229,704

During the current interim period, a final dividend of HK$1.10 per share for the year ended December 31, 2018 was declared (2018: final dividend for the year ended December 31, 2017 of HK$1.10 per share). The final dividend of approximately HK$1,773,411,000 (2018: HK$1,802,731,000), equivalent to US$227,003,000 (2018: US$229,704,000), was paid on June 25, 2019 (2018: June 29, 2018) to the shareholders of the Company.

An interim dividend of HK$0.40 (2018: HK$0.40) per share has been declared for the period ended June 30, 2019. The interim dividend of approximately HK$644,037,000 (2018: HK$652,841,000) will be paid on October 10, 2019.

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, 2019 (unaudited) US$'000	2018 (unaudited) US$'000
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	**165,877**	150,094
Effect of dilutive potential ordinary shares:		
Adjustments to the share of profits of subsidiaries based on dilution of their earnings per share	**(467)**	(602)
Earnings for the purpose of diluted earnings per share	**165,410**	149,492

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE (continued)

	For the six months ended June 30, 2019 (unaudited)	2018 (unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,613,888,312**	1,641,403,862
Effect of dilutive potential ordinary shares: Unvested awarded shares	**1,361,307**	1,041,345
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,615,249,619**	1,642,445,207

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

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

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$15,705,000 for cash proceeds of US$8,005,000, resulting in a loss on disposal of US$7,700,000 (six months ended June 30, 2018: loss of US$5,300,000).

During the current interim period, the Group acquired property, plant and equipment of US$187,314,000 (six months ended June 30, 2018: US$305,992,000).

10. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

The Group obtains rights to control the use of various leasehold land, land and buildings and retail stores, machinery equipments and motor vehicles for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 5 years on average. Some of the leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the retail stores.

During the current interim period, the Group recognized right-of-use assets amounting to US$68,736,000 and lease liabilities amounting to US$65,891,000 upon lease commencement, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$1,211,392,000 (December 31, 2018: US$1,268,526,000), presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
0 to 30 days	**811,914**	761,237
31 to 90 days	**388,389**	492,301
Over 90 days	**11,089**	14,988
	1,211,392	1,268,526

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ASSETS CLASSIFIED AS HELD FOR SALE

On June 10, 2019, the Group entered into a disposal framework agreement with the joint venture partner of a joint venture, pursuant to which the Group agreed to dispose of its investment in the joint venture for a consideration of approximately US$4,246,000 (equivalent to approximately RMB29,160,000) and recognized impairment loss on the joint venture of US$1,470,000 (equivalent to RMB9,987,000), calculated as the difference between the carrying amount of the joint venture and the anticipated net disposal proceeds. Therefore, the interest of the Group in the joint venture, which was expected to be sold within twelve months, has been classified as an asset held for sale and was presented separately in the condensed consolidated statement of financial position as at June 30, 2019.

13. TRADE AND OTHER PAYABLES

The following is an analysis of trade and bills payables by age, presented based on invoice date:

	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
0 to 30 days	**301,796**	372,591
31 to 90 days	**116,117**	110,468
Over 90 days	**8,030**	3,832
	425,943	486,891

14. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank and other borrowings of approximately US$1,535,932,000 (six months ended June 30, 2018: US$1,593,889,000). 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorized:		
Ordinary shares of HK$0.25 each:		
At January 1, 2018, June 30, 2018, January 1, 2019 and June 30, 2019	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2018	1,648,501,986	412,125
Share repurchased and cancelled	(31,859,000)	(7,965)
At January 1, 2019	1,616,642,986	404,160
Share repurchased and cancelled	(4,459,000)	(1,114)
At June 30, 2019	1,612,183,986	403,046

	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
Shown in the condensed consolidated financial statements	**52,040**	52,182

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. DISPOSAL OF SUBSIDIARIES

For the six months ended June 30, 2019

On May 31, 2019, the Group disposed of its entire interest in Texas Clothing Holding Corp. ("TCHC") and its subsidiaries (the "TCHC Group") to a third party at an aggregate consideration of US$145,999,000. TCHC Group is principally engaged in the design, imports and sales of apparels in the US.

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

	US$'000
Net assets disposed of:	
Property, plant and equipment	**14,049**
Right-of-use assets	**23,615**
Intangible assets	**48,512**
Goodwill	**11,176**
Deferred tax assets	**13,146**
Inventories	**132,885**
Trade and other receivables	**61,403**
Tax recoverable	**3,111**
Bank balances and cash	**8,809**
Trade and other payables	**(42,772)**
Lease liabilities	**(23,828)**
Bank borrowings	**(109,055)**
Taxation payable	**(1,116)**
Deferred tax liabilities	**(12,683)**
	127,252
Gain on disposal of subsidiaries:	
Consideration received and receivable:	
Cash consideration	**116,440**
Deferred cash consideration *(note a)*	**16,000**
Restricted bank deposits *(note b)*	**2,150**
Contingent consideration *(note c)*	**11,409**
	145,999
Release of translation reserve	**380**
Net assets disposed of	**(127,252)**
Gain on disposal	**19,127**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. DISPOSAL OF SUBSIDIARIES (continued)

For the six months ended June 30, 2019 (continued)

	US$'000
Net cash inflow arising on disposal:	
Cash consideration received, net of transaction costs paid	106,517
Less: bank balances and cash disposed of	(8,809)
	97,708

Notes:

(a) The deferred cash consideration will be settled in cash by the purchaser out of which US$15 million will be paid over 3 years after the date of disposal and US$1 million will be paid on the third anniversary of the date of disposal.

(b) The restricted bank deposits for the purpose of covering any expenses, claims or losses incurred by the seller, purchaser and other permitted indemnified parties and will be released on the first anniversary of the date of disposal.

(c) The contingent consideration is measured at fair value based on the forecasted gross sales of certain products of TCHC Group with respect to the period from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows in relation to contingent consideration is discounted at a rate that reflects the credit risk of the counterparties. In addition, in no event shall the contingent consideration paid by the purchaser exceed US$24,150,000.

The subsidiaries disposed of during the six months ended June 30, 2019 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)

16. DISPOSAL OF SUBSIDIARIES (continued)

For the six months ended June 30, 2018

During the six months ended June 30, 2018, the Group disposed of 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)

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

	Fair value as at		
	June 30, 2019 (unaudited) US$'000	December 31, 2018 (audited) US$'000	**Fair value hierarchy**
Financial assets at FVTPL			
Foreign currency derivatives *(note i)*	**7,854**	8,129	Level 2
Interest rate swap *(note ii)*	**449**	678	Level 2
Credit linked notes *(note iii)*	**19,708**	19,310	Level 2
Unlisted overseas funds *(note iii)*	**12,751**	12,066	Level 2
Contingent consideration *(note v)*	**11,534**	–	Level 3
Equity instruments at FVTOCI			
Listed equity securities *(note iv)*	**31,834**	19,416	Level 1
Unlisted equity investments	**323**	325	Level 3
Financial liabilities at FVTPL			
Foreign currency derivatives *(note i)*	**6,928**	20,048	Level 2
Interest rate swap *(note ii)*	**10,493**	–	Level 2

notes:

(i) Foreign currency derivative mainly represents foreign currency forward contracts and currency structured forward contracts. These financial assets and liabilities are measured at fair value with reference to discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(ii) The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(iii) The fair values of credit linked notes and unlisted overseas funds 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.

(v) Contingent consideration represents the receivables from the purchaser in relation to the disposal of TCHC Group. It is measured at fair value based on the forecasted gross sales of certain products of TCHC Group from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows to be settled by the purchaser in relation to the contingent consideration is discounted at a rate that reflects the credit risk of the counterparties.

Significant unobservable inputs included discount rate of 14% and probability-adjusted revenue growth from 2021 to 2023 of 4.54%.

18. CONTINGENCIES AND COMMITMENTS

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

(I) CONTINGENCIES

	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	**43,925**	36,425
– amount utilized	**17,000**	16,104
(ii) associates		
– amount guaranteed	**6,290**	15,855
– amount utilized	**1,485**	6,014

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CONTINGENCIES AND COMMITMENTS (continued)

(II) COMMITMENTS

	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	**79,951**	48,806
– acquisition of property, plant and equipment	**2,538**	2,699
	82,489	51,505

19. SHARE AWARD SCHEMES

(I) SHARE AWARD SCHEME OF THE COMPANY

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2019	2018
As at January 1	**1,386,500**	1,052,500
Granted	**–**	35,000
Lapsed/cancelled	**(40,000)**	(33,000)
As at June 30	**1,346,500**	1,054,500

During the six months ended June 30, 2019, the Group recognized a net expense of US$546,000 (six months ended June 30, 2018: US$780,000) as equity-settled share-based payments in the condensed consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

A total of 2,092,000 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2019 (December 31, 2018: 2,092,000 ordinary shares).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE AWARD SCHEMES (continued)

(II) SHARE AWARD SCHEME OF POU SHENG

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

	Number of awarded shares	
	2019	2018
As at January 1	**43,843,450**	41,079,130
Granted	**13,826,000**	–
Vested	**(3,096,000)**	(4,935,000)
Cancelled	**(2,219,000)**	(2,883,000)
As at June 30	**52,354,450**	33,261,130

The fair value of the share awards as at the date of grant amounted to HK$15,955,000 (equivalent to approximately US$2,035,000).

The closing price of Pou Sheng's shares immediately before the grant of the share awards on March 23, 2019 was HK$1.67 per share.

During the six months ended June 30, 2019, the Group recognized a net expense of US$1,359,000 (six months ended June 30, 2018: US$646,000) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results

For the six months ended June 30, 2019, the Group recorded revenue of US$5,070.7 million, representing an increase of 6.3%, compared with the corresponding period of last year. Profit attributable to owners of the Company grew by 10.5% to US$165.9 million, as compared to US$150.1 million recorded for the corresponding period of last year. Basic earnings per share for the first half of 2019 grew by 12.5% to 10.28 US cents, compared with 9.14 US 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, 2019 declined by 11.8% to US$145.6 million, compared to a recurring profit of US$165.0 million for the corresponding period of last year. For the six months ended June 30, 2019, the Group recognized a non-recurring profit of US$20.3 million, which included a gain of US$19.1 million from the disposal of Texas Clothing Holding Corp. and together with its subsidiaries (the "TCHC Group") and a net gain of US$1.8 million due to fair value changes on financial assets at fair value through profit or loss ("FVTPL"). By contrast, for the six months ended June 30, 2018, the Company recognized a non-recurring loss of US$14.9 million, which included a fair value loss of US$22.5 million on financial assets at FVTPL that was partly offset by a one-off gain arising from the disposal of associates and subsidiaries.

OPERATIONS

General Overview

In the first half of 2019, the Group faced several headwinds, particularly the threatened imposition of tariffs by the United States on footwear manufactured in the PRC, coupled with changing sourcing strategies by various customers on the back of uncertainties associated with the aforementioned global trade friction. This accelerated the pace of our country-of-origin adjustments during the period. The Group also continued to face operational disruptions and challenges resulting from brand customers' demands for more flexible procurement approaches and changing consumer preferences. This resulted in more volatile monthly sales orders, uneven capacity utilization, and lower production efficiency, alongside the increased complexity and versatility of product portfolios during the period.

To address these challenges and sustain our long-term position, we have continued to ramp-up the implementation of automated production and enhance our operating efficiency through process re-engineering to provide differentiated value-added and one-stop OEM/ODM services to customers with whom we have maintained long-term relationships. We also furthered our efforts to foster environmental sustainability, eyeing at the long-term growth viability of our business.

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region. To best achieve omni-channel integration between brick-and-mortar 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, integrating inventories and resources between its omni-channels. The Group is also investing in digitization in the face of ever-changing consumer dynamics. For a more detailed explanation of the Group's retail business, please refer to the interim report of Pou Sheng International (Holdings) Limited ("Pou Sheng" and together with its subsidiaries, the "Pou Sheng Group"), a listed subsidiary of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

General Overview (continued)

In the first half of 2019, the Group made further progress in adapting its manufacturing business to the fast-moving market environment, particularly in response to increasing demand for greater versatility, flexibility and shorter lead time. It focused more on enhancing its lean manufacturing and efficiency, adapting to flexible set-up and frequent line change-overs, automating its equipment and machinery, and improving its technological innovation, process re-engineering and automation to improve efficiency.

The Group remains committed to sustainability, ethical conduct and corporate values. When making important business decisions, we consider the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business 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. Our parent company, Pou Chen Group, is also accredited by the Fair Labor Association (FLA) as a result of the Group's efforts in the areas of labor rights and sustainability.

As a people-oriented business, the Group is 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 of its practices on environmental, social and governance, please refer to the 2018 Environmental, Social and Governance Report of the Company.

Total Revenue by Product Category

In the six months ended June 30, 2019, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) increased by 5.0% to US$2,690.9 million, compared with the corresponding period of last year, whereas the volume of shoes increased by 2.7% to 163.2 million pairs and the average selling price per pair increased by 2.2% to US$16.49 per pair, as compared with the corresponding period of last year.

The Group's athletic footwear category outperformed all other categories as a result of the global athleisure trend, accounting for 78.1% of footwear manufacturing revenue in the first half of 2019. Casual/outdoor shoes accounted for 19.7% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 41.4% of total revenue in the first half of 2019, followed by casual/outdoor shoes, which accounted for 10.5% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) during the first half of 2019 was US$2,930.8 million, representing an increase of 3.7% as compared to the corresponding period of last year.

The Group's distribution sales ("Distribution Business") are derived primarily from Pou Sheng, which operates retail operations for international sporting goods brands in the Greater China region. It also includes sales from TCHC Group, the Group's apparel wholesale subsidiary in North America, which was disposed of on May 31, 2019. Revenue attributable to the Group's Distribution Business was US$2,139.9 million in the six months ended June 30, 2019, an increase of 10.1% as compared with the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

Total Revenue by Product Category (continued)

In the six months ended June 30, 2019, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 12.3% to US$1,968.1 million, compared to US$1,752.8 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first half of 2019 increased by 19.4% to RMB13,371.6 million, compared to RMB11,202.0 million in the corresponding period of last year. As of June 30, 2019, Pou Sheng had 5,895 directly operated retail outlets and 3,756 stores operated by sub-distributors in the PRC.

Total Revenue by Product Category	**For the six months ended June 30,**				
	2019		2018		change
	US$ million	**%**	US$ million	%	%
Athletic Shoes	**2,101.5**	**41.4**	1,996.7	41.9	5.2
Casual/Outdoor Shoes	**530.3**	**10.5**	522.3	11.0	1.5
Sports Sandals	**59.1**	**1.2**	44.6	0.9	32.5
Soles, Components & Others	**239.9**	**4.7**	261.5	5.5	(8.3)
Apparel Wholesale (TCHC Group)	**171.8**	**3.4**	191.5	4.0	(10.3)
Retail Sales – Shoes, Apparel & Leasing	**1,968.1**	**38.8**	1,752.8	36.7	12.3
Total Revenue	**5,070.7**	**100.0**	4,769.4	100.0	6.3

Orders from international brands are received by sales departments that manage each customer and normally take about ten to twelve weeks to fill. More and more orders requested a shorter lead-time of between 30-45 days in line with the fast fashion trend.

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.

Production Review

During the first half of 2019, the Group's manufacturing business shipped a total of 163.2 million pairs of shoes, an increase of 2.7% compared to the 158.9 million pairs shipped in the corresponding period of last year. The average selling price per pair was US$16.49, increased by 2.2% compared to US$16.14 in the corresponding period of last year.

In terms of production allocation, Vietnam, Indonesia and the PRC continued to be the Group's main production locations by volume in the first half of 2019, representing 45%, 38% and 13% of total shipments, respectively, during the period.

Cost Review

With respect to the cost of goods sold by the Group's manufacturing business in the first half of 2019, total main material costs were US$1,085.0 million (first half of 2018: US$1,021.2 million). The direct labor costs and production overheads were US$1,316.9 million (first half of 2018: US$1,273.9 million). The total cost of goods sold by the Group's manufacturing business was US$2,401.9 million for the first half of 2019 (first half of 2018: US$2,295.1 million). For the Group's Distribution Business, stock costs were US$1,396.2 million in the first half of 2019 (first half of 2018: US$1,283.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

Cost Review (continued)

In the six months ended June 30, 2019, the Group's gross profit increased by 6.8% to US$1,272.6 million. This increase was mostly attributed to the strong growth momentum for sportswear sales globally, with Pou Sheng also contributing to the higher revenue growth thanks to the healthy sporting goods market in China.

The gross profit margin of the Group's manufacturing business contracted by 0.7 percentage points to 18.1% as compared to the corresponding period of last year. The decrease in the gross profit margin for the manufacturing business was primarily due to a combination of increased product complexity resulting from the current 'retro fashion' trend and shifting production facilities among countries. It also resulted from challenges arising from the Group's investments in manufacturing optimization for its sustainable growth (including higher levels of automation and the debut of SAP ERP implementation), which resulted in temporary low efficiencies at some of its production facilities.

Given the uncertainties in the global trade environment, particularly the United States government's plans to implement a 15% tariff on US$300 billion of exports from the PRC that includes footwear, the Group has and will continue to further adjust production allocation by country in response to the changing sourcing strategies of some brand customers. These measures will require some time and resources to reach optimal operational efficiency.

The gross profit margin for the Group excluding Pou Sheng (i.e. the manufacturing business and TCHC Group) in the six months ended June 30, 2019 was 19.1%.

Pou Sheng's gross profit margin expanded to 34.5% in the six months ended June 30, 2019, compared to 33.5% in the same period of last year, attributed to the improvement in sell-through and discounts.

The Group's total selling and distribution expenses for the first half of 2019 amounted to US$622.9 million (first half of 2018: US$582.6 million), equivalent to approximately 12.3% (first half of 2018: 12.2%) of revenue, remaining stable.

Administrative expenses for the first half of 2019 amounted to US$337.2 million (first half of 2018: US$309.1 million), equivalent to approximately 6.6% (first half of 2018: 6.5%) of revenue.

With cost pressures remaining significant for manufacturing business, the management will continuously look for ways to improve its efficiency and productivity.

Product Development

During the first half of 2019, the Group spent US$101.9 million (first half of 2018: US$101.3 million) on product development, including investments in sampling, technological and digitalized development and creation, as well as in production efficiency enhancements. For each of the major branded customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmental-friendly materials into the design, development and manufacture of its products.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's financial position remained solid. As at June 30, 2019, the Group had cash and cash equivalents of US$785.4 million (December 31, 2018: US$851.4 million) and total bank and other borrowings of US$2,037.5 million (December 31, 2018: US$2,123.9 million). The Group's gearing ratio (total borrowings to total equity) was 45.2% (December 31, 2018: 46.7%). As of June 30, 2019, the Group had net borrowings of US$1,252.0 million (December 31, 2018: net borrowings of US$1,272.5 million). As at 30 June, 2019, the Group had current assets of US$4,139.7 million (31 December, 2018: US$4,410.3 million) and current liabilities of US$2,205.6 million (31 December, 2018: US$2,306.0 million). The current ratio was 1.9 as at 30 June, 2019 (31 December, 2018: 1.9).

The Group has relied to a certain extent on debt financing for its funding requirements. In the choice of debt versus equity financing, and thus affecting the capital structure, the Group will consider the impact on its weighted average cost of capital and the leverage ratio etc., with the aim of lowering the weighted average cost of capital while at the same time maintaining gearing at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the loans maturity profile, most of the Group's bank loans for manufacturing business were long term committed facilities to partly meet the funding need for the Group's capital expenditures and long term investments. Short term revolving loans facilities were also utilized from time to time for daily working capital purposes, especially for the Group's retailing business. As of 30 June 2019, around 62% of the Group's total bank borrowings were with remaining tenor of over 1 year.

Almost all of the bank borrowings of the Group relating to manufacturing business are in USD. The majority of cash surplus in relation to the Group's manufacturing business is held in USD while some cash in local currencies (e.g. VND, IDR, RMB) are kept in various countries where production facilities are located for daily operation purposes. For the Group's retailing business, Pou Sheng Group's bank borrowings and cash balances are mostly in RMB, which are in line with Pou Sheng's own functional currency.

The majority of the Group's bank borrowings were on floating rate basis. A small portion of the Group's interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

During the first half of 2019, the capital expenditure for the Group's manufacturing and distribution segments were US$133.6 million (first half of 2018: US$237.9 million) and US$42.9 million (first half of 2018: US$37.4 million) respectively. Capital expenditure during the first half of 2019 included automation investments, capacity migration, upgrades and the maintenance of production facilities 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 internal and external resources of the Group. For the Distribution Business, in particular Pou Sheng, resources were invested in the expansion, upgrade and maintenance of retail stores.

Apart from investments for operation purposes which may be made in the Group's ordinary and usual course of business, the Group presently does not have any plan for any material investments or capital assets.

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 18 to the condensed consolidated financial statements in the 2019 interim report of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Significant Investments and Material Acquisitions/Disposals

During the first half 2019, the share of results from associates and joint ventures was a combined profit of US$18.4 million, compared to a combined profit of US$20.0 million in the corresponding period of last year.

During the current interim period, the Group has disposed of its entire interests in TCHC Group. The disposal is a part of the Company's efforts to remain focused on its core business. The Group recognized a gain, net of transaction expenses, of approximately US$19.1 million from the disposal in the first six months ended June 30, 2019.

Details of the disposals of subsidiaries in the period are set out in note 16 to the condensed consolidated financial statements in the 2019 interim report of the Company.

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 small portion of RMB and IDR 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 outside the PRC, both revenues and expenses are denominated in local currencies.

Employees

As at June 30, 2019, the Group had approximately 343,000 employees employed across all regions, a decrease of 0.6% as compared to 345,000 employees employed as at June 30, 2018. 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 boosting their morale.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Employees (continued)

The social compliance program of the Group's parent, Pou Chen Group has been accredited by the Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers' rights around the world, making the Group the first and 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 changes to international trade policies, changing consumer demands such as shorter lead time, increased seasonality, and increasing product complexity. The Group also expects its operating efficiency to be impacted in the short-term as it seeks to demonstrate one of its core competencies – flexibility – by addressing the changing sourcing strategies of its branded customers, including adjustments to country of origin and dual sourcing.

The US government's plans to implement a 15% tariff on US$300 billion of exports from the PRC, which will include footwear, could further accelerate the pace of capacity migration from the PRC to Southeast Asia. Continued uncertainty about both countries' future trade policies may also impact consumer sentiment. There are also signs of slowing economic growth, particularly in some parts of the PRC's economy, although as of June 30, 2019, retail confidence and consumption were still robust. In the US, the downside risks to economic growth are increasing and may impact the retail sector. The Group is actively monitoring the macroeconomic and geopolitical situation.

The Group will continue to migrate its manufacturing capacity from the PRC to Southeast Asia, while being mindful of the labor supply situation in countries where we operate, especially in Vietnam.

The Group will continue to leverage on its core strengths and competitive edges to overcome these short-term challenges and safeguard its sustainable and steady growth. This includes investing in and implementing ERP data management systems such as SAP to improve the efficiency of the Group's business processes. The Group is also becoming more selective about the quality of its customers and orders, which may impact volume growth. The Group will continue to enhance its product development and innovation capabilities and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, creating long-term synergies for its businesses.

For the retail 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 strategy will also continue to benefit from PRC government policies. It will continue to invest in upgrading its store formats, opening new concept mega stores and integrating digital and physical channels and inventories to reinforce the consumer experience and stimulate higher-margin sales, while also addressing dynamic consumer shopping habits.

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 (2018: HK$0.40 per share) for the six months ended June 30, 2019 to shareholders whose names appear on the register of members of the Company on Monday, September 16, 2019. The interim dividend will be paid on Thursday, October 10, 2019.

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 16, 2019 to Wednesday, September 18, 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, September 13, 2019.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2019, 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	73,000 *(Note 2)*	0.00%
Hu Chia-Ho	Beneficial owner	118,000 *(Note 2)*	0.01%
Liu George Hong-Chih	Beneficial owner	118,000 *(Note 2)*	0.01%
Hu Dien Chien	Beneficial owner	129,000 *(Note 3)*	0.01%

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	0.36%
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%

(c) Interests in the ordinary shares and underlying shares of NT$10.00 each of Pou Chen Corporation ("PCC"), 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 PCC *(Note 5)*
Lu Chin Chu	Beneficial owner	2,120,470	0.07%
Lu Chin Chu	Interests of children under 18 and/or spouse	73,300	0.00%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	0.14%
Chan Lu Min	Beneficial owner	366,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	0.01%
Tsai Ming-Lun, Ming	Beneficial owner	30,000	0.00%

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

Notes:

1. The total issued share capital of the Company as at June 30, 2019 is 1,612,183,986 shares.

2. Each of Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 40,000 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 and September 28, 2018.

3. Mr. Hu Dien Chien is interested in 75,000 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 and September 28, 2018.

4. The total issued share capital of Pou Sheng as at June 30, 2019 is 5,356,472,615 shares.

5. The total issued share capital of PCC as at June 30, 2019 is 2,946,787,213 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, 2019.

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 26, 2019, the share option scheme adopted by the Company on February 27, 2009 (the "2009 Share Option Scheme") was expired. No share option has been granted under the 2009 Share Option Scheme prior to the expiration of the scheme.

On May 31, 2019, the Company adopted a new 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 May 31, 2019 to May 30, 2029, 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 161,449,998 shares, representing approximately 10.01% of the issued shares of the Company.

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 to each grantee under the Yue Yuen Share Option Scheme (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue for the time being. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which 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 or outstanding) to such person in the twelve-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue on the date of such grant and having 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 shall be determined by the Board, but in any event must 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 and September 28, 2018 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).

SHARE INCENTIVE SCHEMES (continued)

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

Details of the movements of the awards during the period ended June 30, 2019 are as follows:

			Number of awarded shares					
	Date of grant	Vesting date	Outstanding as at January 1, 2019		Granted during the period	Lapsed/ cancelled during the period	Vested during the period	Outstanding as at June 30, 2019
Directors of the Company								
Tsai Ming-Lun, Ming	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Hu Chia-Ho	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Liu George Hong-Chih	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Hu Dien Chien	01.06.2018	29.05.2020	35,000		–	–	–	35,000
	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Sub-total			195,000		–	–	–	195,000
Employees of the Group and/ or Associated Entities								
	03.10.2016	02.10.2018	16,500	*(Note 1)*	–	–	–	16,500
	02.10.2018	31.05.2021	1,140,000		–	(40,000)	–	1,100,000
	21.11.2018	06.11.2019	15,000		–	–	–	15,000
	21.11.2018	06.11.2020	20,000		–	–	–	20,000
Sub-total			1,191,500		–	(40,000)	–	1,151,500
Total			1,386,500		–	(40,000)	–	1,346,500

Note:

1. These 16,500 shares are pending for vest because the employee to whom these shares were awarded on October 3, 2016 is on unpaid leave of absence. If the employee does not return to work before the expiry of 24 months from October 2, 2018, being the original vesting date, such share award shall automatically lapse forthwith and these 16,500 shares shall become returned shares.

During the six months ended June 30, 2019, the Group recognized a net expense of US$546,000 (six months ended June 30, 2018: US$780,000) 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. On May 31, 2019, the Group disposed its entire interest in TCHC Group and TCHC ceased to be a 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 Amended TCHC Stock Option Plan was terminated and all outstanding options (including both vested and unvested options) under the Amended TCHC Stock Option Plan were cancelled as of the disposal of the TCHC Group on May 31, 2019.

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 May 31, 2019, no shares were available for issue under the Amended TCHC Stock Option Plan.

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 from January 1, 2019 to May 31, 2019 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, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
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)

				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, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
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)

	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, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
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)	–

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, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
Tad Parnell	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2015 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2016 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2017 to 25.01.2023	9,191	–	–	(9,191)	–
	25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2015 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2016 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2017 to 25.01.2023	2,154	–	–	(2,154)	–
	25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	–	–	(2,279)	–
			25.01.2015 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2016 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2017 to 25.01.2023	2,280	–	–	(2,280)	–
Sub-total				54,493 *(Note 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)

				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, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
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 held options exercisable into approximately 10.59% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

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 held options exercisable into approximately 1.65% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

4. The options would have become vested and fully exercisable upon the occurrence of a liquidity event, and would have expired 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 would have expired ten years after the date of grant on March 5, 2024, but for termination of the Amended TCHC Stock Option Plan on May 31, 2019.

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 held options exercisable into approximately 3.02% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

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 held options exercisable into approximately 1.51% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

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 held options exercisable into approximately 1.18% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

Saved as disclosed above, no stock options had been granted, exercised, lapsed or cancelled under the Amended TCHC Stock Option Plan during the period from January 1, 2019 to May 31, 2019.

SHARE INCENTIVE SCHEMES (continued)

(d) Share Option Scheme of Pou Sheng

Pou Sheng recognises 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.

Eligible participants of the Pou Sheng Share Option Scheme include directors and full time employees of the Pou Sheng Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Pou Sheng Group who the board of director of Pou Sheng (the "Pou Sheng Board") considers, in its sole discretion, have contributed or will contribute to the development and growth of the Pou Sheng Group.

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 Pou Sheng's issued shares as at the date on which dealings in Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares, representing approximately 6.63% of the total number of Pou Sheng's issued shares as at the date of this report). 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 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 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 Pou Sheng's shares on the date of grant; (ii) the average closing price of Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of Pou Sheng's share. For grantee who is an employee or director of 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 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 share option 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.

SHARE INCENTIVE SCHEMES (continued)

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

As at June 30, 2019, an aggregate of 30,750,000 Pou Sheng's shares have been issued and an aggregate of 12,038,190 Pou Sheng's shares may be issued upon full exercise of all share options granted under the Pou Sheng Share Option Scheme. Out of an aggregate of 12,038,190 Pou Sheng's shares which may be issuable under vested and unvested options, 2,707,640 Pou Sheng's shares of which, representing approximately 0.05% of the total number of Pou Sheng's issued shares, are immediately issuable and 9,330,550 Pou Sheng's shares are issuable upon vesting and full exercise of share options. As at the date of this report, the total number of Pou Sheng's shares available for issue under the Pou Sheng Share Option Scheme is 2,707,640, representing approximately 0.05% of the Pou Sheng's issued shares.

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

				Number of underlying shares comprised in Pou Sheng's share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2019
Employees/Consultants of Pou Sheng								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012–19.01.2019	1,011,500	–	(1,011,500)	–	–
		20.01.2011-19.01.2013	20.01.2013–19.01.2019	1,307,500	–	(1,307,500)	–	–
		20.01.2011-19.01.2014	20.01.2014–19.01.2019	1,887,500	–	(1,887,500)	–	–
		20.01.2011-19.01.2015	20.01.2015–19.01.2019	2,104,500	–	(2,104,500)	–	–
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				17,974,190	–	(6,311,000)	–	11,663,190
Former Employees of Pou Sheng								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012–19.01.2019	5,600,000	–	(3,455,000)	(2,145,000)	–
		20.01.2011-19.01.2013	20.01.2013–19.01.2019	2,795,000	–	(1,075,000)	(1,720,000)	–
		20.01.2011-19.01.2014	20.01.2014–19.01.2019	912,500	–	(325,000)	(587,500)	–
		20.01.2011-19.01.2015	20.01.2015–19.01.2019	587,500	–	–	(587,500)	–
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013–06.03.2020	375,000	–	–	–	375,000
Sub-total				10,270,000	–	(4,855,000)	(5,040,000)	375,000
Total				28,244,190	–	(11,166,000)	(5,040,000)	12,038,190

The weighted average closing price of Pou Sheng's shares immediately before the dates on which Pou Sheng's share options were exercised during the period is HK$1.50 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.

SHARE INCENTIVE SCHEMES (continued)

(e) Share Award Scheme of Pou Sheng

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

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 awarded shares during the period are set out below:

			Number of awarded shares				
	Date of grant	Vesting period	Outstanding as at January 1, 2019	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2019
Director of Pou Sheng							
Lee, Shao-Wu	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
	11.08.2018	11.08.2018-10.09.2019	200,000	–	–	–	200,000
	11.08.2018	11.08.2018-10.09.2020	300,000	–	–	–	300,000
	11.08.2018	11.08.2018-10.03.2021	500,000	–	–	–	500,000
	23.03.2019	23.03.2019-22.09.2020	–	200,000	–	–	200,000
	23.03.2019	23.03.2019-22.09.2021	–	300,000	–	–	300,000
	23.03.2019	23.03.2019-22.03.2022	–	500,000	–	–	500,000
Sub-total			1,700,000	1,000,000	(300,000)	–	2,400,000

SHARE INCENTIVE SCHEMES (continued)

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

		Number of awarded shares				
Date of grant	Vesting period	Outstanding as at January 1, 2019	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2019
Employees of Pou Sheng						
24.03.2016	24.03.2016-23.03.2019	2,876,000	–	(2,796,000)	(80,000)	–
13.08.2016	13.08.2016-12.08.2019	4,950,000	–	–	(150,000)	4,800,000
12.11.2016	12.11.2016-30.08.2019	600,000	–	–	–	600,000
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	4,154,000	–	–	(123,000)	4,031,000
03.07.2017	03.07.2017-02.07.2020	300,000	–	–	–	300,000
14.11.2017	14.11.2017-11.12.2019	300,000	–	–	–	300,000
14.11.2017	14.11.2017-13.11.2020	3,200,000	–	–	–	3,200,000
11.08.2018	11.08.2018-30.06.2019	140,000	–	–	–	140,000
11.08.2018	11.08.2018-10.09.2019	3,678,800	–	–	(341,200)	3,337,600
11.08.2018	11.08.2018-30.06.2020	210,000	–	–	–	210,000
11.08.2018	11.08.2018-10.09.2020	5,518,200	–	–	(511,800)	5,006,400
11.08.2018	11.08.2018-31.12.2020	350,000	–	–	–	350,000
11.08.2018	11.08.2018-10.03.2021	9,197,000	–	–	(853,000)	8,344,000
23.03.2019	23.03.2019-22.09.2020	–	2,453,200	–	(32,000)	2,421,200
23.03.2019	23.03.2019-30.09.2020	–	112,000	–	–	112,000
23.03.2019	23.03.2019-22.09.2021	–	3,679,800	–	(48,000)	3,631,800
23.03.2019	23.03.2019-30.09.2021	–	168,000	–	–	168,000
23.03.2019	23.03.2019-22.03.2022	–	6,133,000	–	(80,000)	6,053,000
23.03.2019	23.03.2019-31.03.2022	–	280,000	–	–	280,000
Sub-total		42,143,450	12,826,000	(2,796,000)	(2,219,000)	49,954,450
Total		43,843,450	13,826,000	(3,096,000)	(2,219,000)	52,354,450

The closing price of Pou Sheng's shares immediately before the grant of Pou Sheng's awarded shares on March 23, 2019 is HK$1.67 per share.

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, 2019, 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	51.11%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.95%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.16%
Silchester International Investors LLP		80,882,500	5.01%
		Short Position	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.78%

* The total issued share capital of the Company as at June 30, 2019 is 1,612,183,986 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, 2019.

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 2018 annual report on March 22, 2019 are set out below:

Mr. Hu Dien Chien was appointed as an executive director of Eagle Nice (International) Holdings Limited, a company listed on the main board of the Stock Exchange with effect from May 1, 2019.

Mr. Huang Ming Fu resigned as the chairman of the nomination committee and the member of the audit committee and the remuneration committee of the Company with effect from May 24, 2019 and retired as an independent non-executive director of the Company on May 31, 2019.

Mr. Ho Lai Hong was appointed as an independent non-executive director of the Company, the chairman of the nomination committee and the member of the audit committee and the remuneration committee of the Company with effect from May 24, 2019.

Mr. Hsieh Yung Hsiang ceased to be an independent director of Wistron Information Technology & Services Corporation, a company listed on Taipei Exchange (formerly known as the Gre Tai Securities Market) in Taiwan, on June 24, 2019.

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

During the six months ended June 30, 2019, the Company repurchased a total of 4,459,000 shares of the Company on the Stock Exchange at a total consideration of HK$95,131,050.00 (equivalent to approximately US$12,173,000).

Details of the repurchase of shares of the Company during the six months ended June 30, 2019 are set out as follows and in note 15 to the condensed consolidated financial statements.

Date of repurchase	No. of shares repurchased	Highest price paid HK$	Lowest price paid HK$	Total paid HK$
May 15, 2019	180,000	21.80	21.65	3,907,450.00
May 16, 2019	180,000	21.80	21.80	3,924,000.00
May 17, 2019	263,000	21.35	21.15	5,584,950.00
May 27, 2019	360,000	21.75	21.50	7,782,975.00
May 29, 2019	360,000	22.00	21.70	7,843,725.00
May 30, 2019	400,000	22.00	21.65	8,713,950.00
May 31, 2019	400,000	21.90	21.70	8,714,850.00
June 3, 2019	216,000	22.00	21.70	4,715,475.00
June 5, 2019	400,000	20.80	20.40	8,260,875.00
June 11, 2019	650,000	21.15	20.85	13,639,400.00
June 12, 2019	400,000	21.05	20.75	8,378,500.00
June 17, 2019	650,000	21.30	20.90	13,664,900.00
Total:	**4,459,000**			**95,131,050.00**

The aforesaid repurchased shares of the Company were cancelled on June 28, 2019. 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, 2019.

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, 2019 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, 2019, 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 2018 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, 2019.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the six month period ended June 30, 2019.

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. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

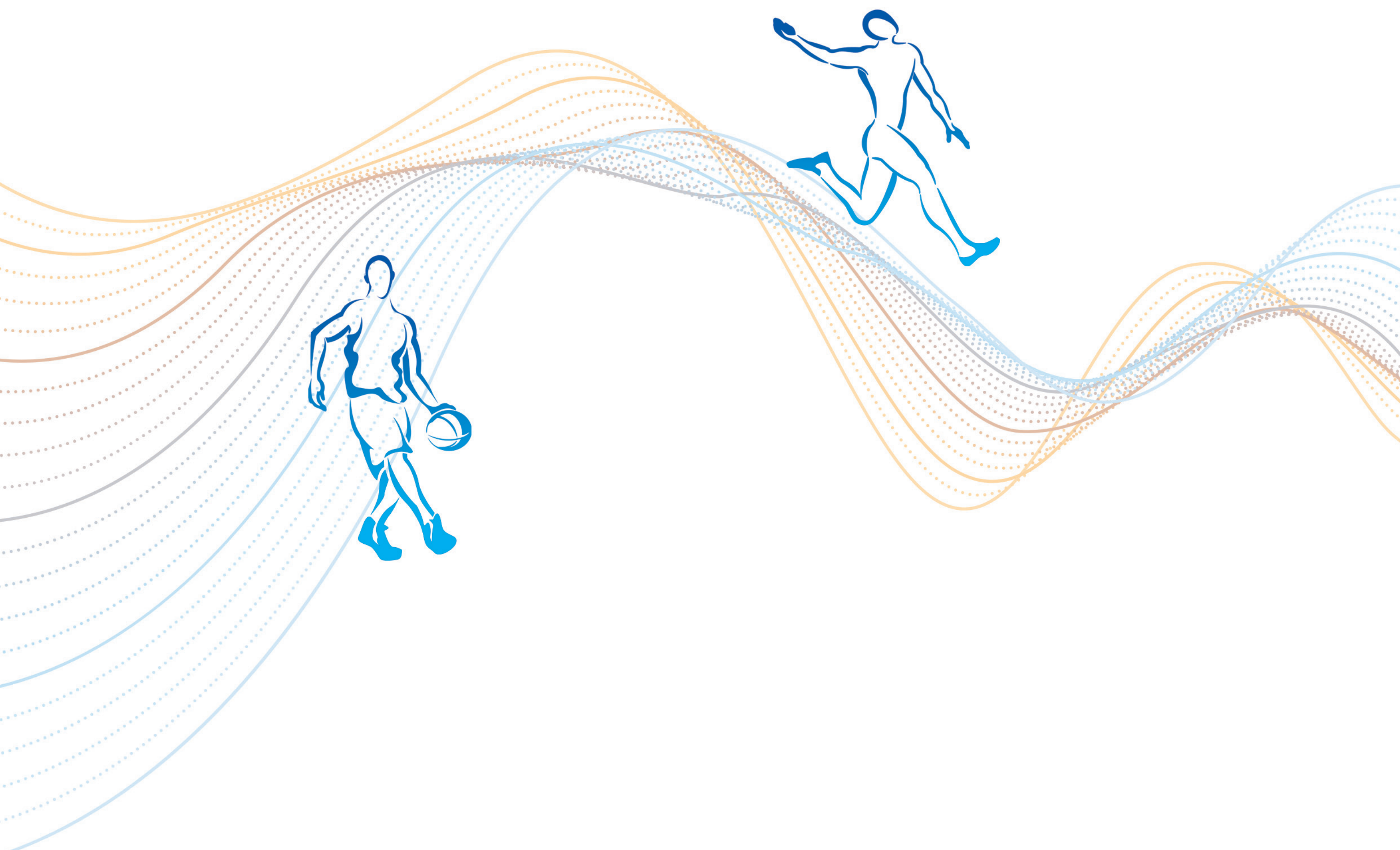
By Order of the Board
Yue Yuen Industrial (Holdings) Limited
Lu Chin Chu
Chairman

Hong Kong, August 13, 2019

Website: www.yueyuen.com

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

www.yueyuen.com



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