# YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
# 裕元工業(集團)有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00551)**

## UNAUDITED INTERIM RESULTS
## FOR THE SIX MONTHS ENDED JUNE 30, 2014

**GROUP FINANCIAL HIGHLIGHTS**

| | For the six months ended June 30, 2014 | 2013 | Percentage increase/ (decrease) |
|---|---|---|---|
| Turnover *(US$'000)* | **3,951,335** | 3,699,323 | 6.81% |
| Recurring operating profit attributable to owners of the Company *(US$'000)* | **218,117** | 190,568 | 14.46% |
| Non-recurring operating (loss) profit attributable to owners of the Company *(US$'000)* | **(116,673)** | 3,878 | N/A |
| Profit attributable to owners of the Company *(US$'000)* | **101,444** | 194,446 | (47.83%) |
| Basic earnings per share *(US cents)* | **6.15** | 11.79 | (47.84%) |
| Dividend per share – interim dividend *(HK$)* | **0.35** | 0.35 | – |

* *for identification purposes only*

## INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2014 with comparative figures for the corresponding period in 2013 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended June 30, 2014*

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended June 30, 2014*

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At June 30, 2014*

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** – continued

*At June 30, 2014*

| | Note | **At June 30, 2014 (unaudited)** *US$'000* | At December 31, 2013 (audited) *US$'000* |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | *10* | **1,300,278** | 1,232,997 |
| Taxation payable | | **26,245** | 22,653 |
| Derivative financial instruments | | **19,499** | – |
| Consideration payable for acquisition of additional interest in a subsidiary | | **550** | – |
| Bank overdrafts | | **–** | 20,220 |
| Bank borrowings | | **524,436** | 519,299 |
| | | **1,871,008** | 1,795,169 |
| Net current assets | | **1,692,465** | 1,851,737 |
| Total assets less current liabilities | | **5,040,930** | 5,197,537 |
| Non-current liabilities | | | |
| Long-term bank borrowings | | **350,000** | 400,000 |
| Consideration payable for acquisition of business | | **17,461** | 18,016 |
| Consideration payable for acquisition of additional interest in a subsidiary | | **–** | 550 |
| Deferred tax liabilities | | **39,492** | 42,521 |
| | | **406,953** | 461,087 |
| Net assets | | **4,633,977** | 4,736,450 |
| Capital and reserves | | | |
| Share capital | | **53,211** | 53,211 |
| Reserves | | **4,202,601** | 4,285,447 |
| Equity attributable to owners of the Company | | **4,255,812** | 4,338,658 |
| Non-controlling interests | | **378,165** | 397,792 |
| Total equity | | **4,633,977** | 4,736,450 |

## *NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION*

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

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

**Equity-settled share based payment transactions**

*Awarded shares granted to employees*

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES – continued

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

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

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

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

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

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES – continued

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

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

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

The application of the other new Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated interim financial information of the Group.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** – continued

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

During the six months ended June 30, 2014, the Group has recognised the increased contribution expenses of US$90,000,000 as other expenses in its condensed consolidated interim financial information. The directors of the Company are of the opinion that the increased contributions to the Employee Benefit Payments are on top of the current contributions within the prevailing practice. Following the review of the Group's employee benefits policy, the Group recognised such increased contributions in profit or loss in the Group's condensed consolidated interim financial information accordingly.

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

**Employee Benefit Payments Provision**

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

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

## 4. TURNOVER AND SEGMENTAL INFORMATION

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

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

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

## 5. INCOME TAX EXPENSE

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

**5. INCOME TAX EXPENSE** – continued

*notes:*

**(a) Hong Kong**

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

**(b) The 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 income tax rules and regulations in the PRC, except for the followings:

Pursuant to《財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》(Caishui [2001] No. 202), the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific state-encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue") pursuant to《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) issued in 2011. The directors of the Company consider that the relevant subsidiaries are engaged in the state-encouraged industries under the Catalogue and continue to enjoy the preferential tax rate of 15% in the both periods.

**(c) Overseas**

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

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

**6. PROFIT FOR THE PERIOD**

| | For the six months ended June 30, | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***US$'000*** | *US$'000* |
| Profit for the period has been arrived at after charging: | | |
| Total staff cost (including the Employee Benefit Payments Provision of US$90 million) | **1,059,538** | 899,964 |
| Net exchange loss (included in other expenses) | **10,308** | – |
| Release of prepaid lease payments | **2,537** | 2,472 |
| Amortisation of intangible assets (included in selling and distribution expenses) | **3,839** | 4,080 |
| Depreciation of property, plant and equipment | **112,235** | 122,316 |
| Allowance for inventories, net (included in cost of sales) | **21,362** | 4,065 |
| Impairment loss recognised on trade receivables (included in other expenses) | **2,431** | 887 |
| Loss on disposal of property, plant and equipment (included in other expenses) | **2,329** | 3,300 |
| Research and development expenditure (included in other expenses) | **86,477** | 84,824 |
| and after crediting to other income: | | |
| Net exchange gain (included in other income) | **–** | 18,552 |
| Subsidies, rebates and other income from suppliers (included in other income) | **13,798** | 14,523 |

## 7. DIVIDENDS

| | For the six months ended June 30, | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***US$'000*** | *US$'000* |
| Dividends recognised as distribution during the period: | | |
| 2013 final dividend of HK$0.75 per share (2013: 2012 final dividend of HK$0. 25 per share) | **159,391** | 53,118 |

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

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

## 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, | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***US$'000*** | *US$'000* |
| Earnings: | | |
| Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share | **101,444** | 194,446 |

**8. EARNINGS PER SHARE** – continued

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

*note:*

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

The computation of diluted earnings per share for the six months ended June 30, 2014 and 2013 do not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise prices of those options were higher than the average market price of Pou Sheng's shares in the respective periods.

**9. TRADE AND OTHER RECEIVABLES**

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

Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of US$1,062,804,000 (December 31, 2013: US$1,011,046,000) and an aged analysis based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

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

## 10. TRADE AND OTHER PAYABLES

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

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

## 11. CONTINGENCIES

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

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

## RESULTS

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

## RECURRING OPERATING PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

## OPERATIONS

### General Overview

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

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

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

**Total Turnover by Product Category**

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

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

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

| **Total Turnover by Product Category** | **For the six months ended June 30,** | | | | |
|---|---|---|---|---|---|
| | **2014** | | 2013 | | |
| *(all figures rounded to millions)* | ***US$ millions*** | *%* | *US$ millions* | *%* | *% change* |
| Athletic Shoes | **1,921.1** | **48.6** | 1,901.1 | 51.4 | 1.1 |
| Casual/Outdoor Shoes | **703.9** | **17.8** | 616.3 | 16.7 | 14.2 |
| Sports Sandals | **49.8** | **1.3** | 47.1 | 1.3 | 5.9 |
| Retail Sales – Shoes, Apparel & Leasing | **963.2** | **24.4** | 856.9 | 23.1 | 12.4 |
| Soles, Components & Others | **313.3** | **7.9** | 277.9 | 7.5 | 12.7 |
| Total Turnover | **3,951.3** | **100.0** | 3,699.3 | 100.0 | 6.8 |

**Production Review**

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

**Cost Review**

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

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

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

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

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

### Product Development

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

## FINANCIAL REVIEW

### Liquidity

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

During the period, the Group obtained new bank borrowings of approximately US$733 million (2013: US$1,457 million). The proceeds of the new bank borrowings were used to repay bank borrowings and to finance the daily operation of the Group. Among these bank borrowings, the variable-rate borrowings bear interest at a premium over London Interbank Offered Rate, Hong Kong Interbank Offered Rate and prevailing lending rate quoted by the People's Bank of China.

## Capital Expenditure

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

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

## Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates. The details of which can be referred to note 11 of the notes to the condensed consolidated interim financial information.

## Significant Investments Held and Performance

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

## Interim Dividends

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

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

## Foreign Exchange Exposure

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

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

### Goodwill and Intangible Assets

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

### Employees

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

## PROSPECTS

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

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## CORPORATE GOVERNANCE

During the six months ended June 30, 2014, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended June 30, 2014.

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim financial information.

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

## INTERIM DIVIDEND

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

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, September 23, 2014 to Thursday, September 25, 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Monday, September 22, 2014.

## 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 announcement, the directors of the Company are:*

*Executive Directors:*

*Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Kuo Tai Yu, Mr. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve, Mr. Lee Shao Wu, Mr. Tsai Ming-Lun, Ming and Mr. George Hong-Chih Liu.*

*Independent Non-executive Directors:*

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

By Order of the Board
**Lu Chin Chu**
*Chairman*

Hong Kong, August 13, 2014

*Website: www.yueyuen.com*