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, 2017

GROUP FINANCIAL HIGHLIGHTS

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

* *For identification purposes only*

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2017 with comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2017

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended June 30, 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – *continued*
At June 30, 2017

	Note	**At June 30, 2017 (unaudited)** ***US$'000***	At December 31, 2016 (audited) *US$'000*
Current liabilities			
Trade and other payables	*10*	**1,243,542**	1,378,482
Taxation payable		**43,333**	29,828
Derivative financial instruments		**183**	9,785
Consideration payable for acquisition of business		**–**	8,689
Bank borrowings		**412,574**	240,070
		1,699,632	1,666,854
Liabilities associated with assets classified as held for sale		**–**	33,109
		1,699,632	1,699,963
Net current assets		**2,370,924**	2,263,057
Total assets less current liabilities		**6,104,216**	5,911,811
Non-current liabilities			
Long-term bank borrowings		**795,000**	720,000
Deferred tax liabilities		**50,608**	35,129
Defined benefit obligations		**67,861**	62,686
		913,469	817,815
Net assets		**5,190,747**	5,093,996
Capital and reserves			
Share capital		**53,211**	53,211
Reserves		**4,763,039**	4,688,255
Equity attributable to owners of the Company		**4,816,250**	4,741,466
Non-controlling interests		**374,497**	352,530
Total equity		**5,190,747**	5,093,996

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 of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated 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, 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016.

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle

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

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

4. OTHER GAINS AND LOSSES

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

5. INCOME TAX EXPENSE

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

notes:

(i) Hong Kong

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

5. INCOME TAX EXPENSE – *continued*

notes: – continued

(ii) PRC

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

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

(iii) Vietnam

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

The applicable tax rate for the subsidiaries in Vietnam range from nil to 20% during the period (June 30, 2016: range from 5% to 22%).

(iv) Overseas

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

Taxation arising in other jurisdictions including Indonesia and Republic of China ("Taiwan") is calculated at the rates prevailing in the respective jurisdictions, which were 25% (June 30, 2016: 25%) and 17% (June 30, 2016: 17%) respectively.

6. PROFIT FOR THE PERIOD

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

7. DIVIDENDS

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Dividends recognized as distribution during the period:		
2016 final dividend of HK$1.00 per share (2016: 2015 final dividend of HK$0.80 per share)	**211,400**	169,735

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

7. DIVIDENDS – *continued*

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

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

8. EARNINGS PER SHARE

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

	For the six months ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	**258,525**	248,711
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	**(252)**	(282)
Earnings for the purpose of diluted earnings per share	**258,273**	248,429

	2017	2016
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,645,835,486**	1,646,249,695
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	**1,054,351**	721,489
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,646,889,837**	1,646,971,184

note:

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme.

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$1,195,752,000 (December 31, 2016: US$1,181,098,000) and an aged analysis based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

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

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$397,435,000 (December 31, 2016: US$444,907,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

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

11. CONTINGENCIES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

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

Recurring Profit Attributable to Owners of the Company

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

OPERATIONS

General Overview

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

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

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

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

Total Revenue by Product Category

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

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

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

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

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

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

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

Production Review

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

Cost Review

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

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

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

Product Development

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

Capital Expenditure

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

In sum, the Group's capital expenditure amounted to US$258.6 million (2016: US$193.9 million) for the period. The capital expenditure during the first half of 2017 included store opening at Pou Sheng, capacity expansion and production facilitates maintenance in Vietnam and Indonesia, as well as R&D for the Group's product development and process re-engineering, which was funded primarily by internal resources.

Contingent Liabilities

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

Significant Investments Held and Performance

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

Interim Dividends

An interim dividend of HK$0.40 per share (2016: HK$0.40 per share) has been declared to shareholders whose names appear on the register of members of the Company on Tuesday, September 19, 2017. The interim dividend shall be paid on Tuesday, October 10, 2017.

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

Special Dividends

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

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

Foreign Exchange Exposure

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

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

Goodwill and Intangible Assets

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

Employees

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

PROSPECTS

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended June 30, 2017, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Mode Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. Having made specific enquiries of all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code for the six months ended June 30, 2017.

REVIEW OF ACCOUNTS

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

The external auditor has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2017 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, September 19, 2017 to Thursday, September 21, 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend and the special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration of not later than 4:30 p.m. on Monday, September 18, 2017.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.yueyuen.com) and of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2017 will be dispatched to shareholders and published on the aforesaid websites in due course.

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.

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

Hong Kong, August 11, 2017

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

Independent Non-executive Directors:

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

Website: www.yueyuen.com