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, 2019

GROUP FINANCIAL HIGHLIGHTS

	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	**–**

* *For identification purpose 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, 2019 with comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2019

		For the six months ended June 30,	
		2019	2018
		(unaudited)	(unaudited)
	NOTES	***US$'000***	*US$'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

	NOTE	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
Non-current assets			
Investment properties		**109,725**	109,725
Property, plant and equipment		**2,343,623**	2,351,690
Right-of-use assets		**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		**10,583**	–
		4,155,120	3,905,733
Current assets			
Inventories		**1,619,652**	1,774,855
Trade and other receivables	*9*	**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		**4,246**	–
		4,139,682	4,410,259

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION –
continued

At June 30, 2019

	NOTE	At June 30, 2019 (unaudited) US$'000	At December 31, 2018 (audited) US$'000
Current liabilities			
Trade and other payables	10	**1,210,203**	1,388,514
Contract liabilities		**35,600**	44,592
Lease liabilities		**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		**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		**190,308**	–
Financial liabilities at fair value through profit or loss		**10,493**	–
Bank and other borrowings		**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		**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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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.

In the current interim period, the Group has applied, for the first time, certain 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.

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES

HKFRS 16 "Leases"

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

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.

At January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. 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). The 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; whereas the lease liability is initially measured at the present value of the lease payments that are unpaid at that date, and subsequently adjusted for the interest and lease payments, as well as the impact of lease modification, amongst others.

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES – *continued*

HKFRS 16 "Leases" – *continued*

On transition, 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.

At June 30, 2019, the lease liabilities and right-of-use assets amounted to US$297,522,000 and US$477,649,000, respectively, while depreciation associated with the right-of-use assets and finance costs associated with lease liabilities amounting US$61,734,000 and US$6,915,000, respectively, were recognized during the current interim period.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker (the "CODM"), 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 the operating and leasing 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

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2019	2018
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Gain on disposal of associates	**–**	6,605
Gain on disposal of subsidiaries	**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	2018
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
People's Republic of China		
Enterprise Income Tax		
– current period	**31,608**	28,640
– underprovision in prior periods	**978**	1,228
Overseas taxation		
– 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

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2019	2018
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period has been arrived at after charging (crediting):		
Total staff costs	**1,206,246**	1,164,343
Net exchange loss (gain) (included in other expenses (other income))	**4,467**	(5,840)
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	**165,596**	155,441
Release of prepaid lease payments	**–**	2,198

7. DIVIDENDS

	For the six months ended June 30,	
	2019	2018
	(unaudited)	(unaudited)
	US$'000	*US$'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 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	2018
	(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	**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

	For the six months ended June 30,	
	2019	2018
	(unaudited)	(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.

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.

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

10. 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

11. CONTINGENCIES

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

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"), a listed subsidiary of the Company.

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.

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 produced a total of 163.2 million pairs of shoes, an increase of 2.7% compared to the 158.9 million pairs produced 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).

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 10% tariff on US$300 billion of exports from the PRC that could target 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.

Financial Review

Liquidity and Financial Resources

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 bank borrowings to total equity) was 45.2% (December 31, 2018: 46.7%). As of June 30, 2019, the Group had net bank borrowings of US$1,252.0 million (December 31, 2018: net bank borrowings of US$1,272.5 million).

The Group used derivative contracts, such as forward contracts and swaps, for currency and interest rate hedging purposes.

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 primarily by internal resources of the Group. For the Distribution Business, in particular Pou Sheng, resources were invested in the expansion, upgrade and maintenance of retail stores.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in note 18 to the condensed consolidated financial statements in the 2019 interim report of the Company.

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.

Interim Dividend

An interim dividend of HK$0.40 per share (2018: HK$0.40 per share) has been declared to shareholders whose names appear on the register of members of the Company on Monday September 16, 2019. The interim dividend shall 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 the normal dividend payment over time remains intact.

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.

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 10% 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.

PURCHASE, SALE OR REDEMPTION OF 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 of Hong Kong Limited (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:

Date of repurchase	No. of shares repurchased	Highest price paid	Lowest price paid	Total paid
		HK$	*HK$*	*HK$*
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 of the Company 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.

CORPORATE GOVERNANCE

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.

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") 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.

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, 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.

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.

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 (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2019 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 13, 2019

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. 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).

Website: www.yueyuen.com