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, 2020 AND SUPPLEMENTARY INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2020	2019	Percentage decrease
Revenue *(US$'000)*	**4,085,633**	5,070,727	**(19.43%)**
Recurring (loss) profit attributable to owners of the Company *(US$'000)*	**(123,624)**	145,579	**N/A**
Non-recurring (loss) profit attributable to owners of the Company *(US$'000)*	**(13,134)**	20,298	**N/A**
(Loss) profit attributable to owners of the Company *(US$'000)*	**(136,758)**	165,877	**N/A**
(Loss) basic earnings per share *(US cents)*	**(8.49)**	10.28	**N/A**
Dividend per share			
– interim dividend *(HK$)*	**–**	0.40	**(100.00%)**

* *For identification purpose only*

INTERIM RESULTS

The directors (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, 2020 with comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2020

		For the six months ended June 30,	
		2020	2019
		(unaudited)	(unaudited)
	NOTES	***US$'000***	*US$'000*
Revenue	*3*	**4,085,633**	5,070,727
Cost of sales		**(3,252,552)**	(3,798,090)
Gross profit		**833,081**	1,272,637
Other income		**46,839**	60,874
Selling and distribution expenses		**(480,227)**	(622,946)
Administrative expenses		**(303,040)**	(337,194)
Other expenses		**(191,137)**	(128,626)
Finance costs		**(37,866)**	(48,811)
Share of results of associates		**4,139**	9,772
Share of results of joint ventures		**4,217**	8,677
Other gains and losses	*4*	**(13,134)**	19,742
(Loss) profit before taxation		**(137,128)**	234,125
Income tax credit (expense)	*5*	**381**	(39,309)
(Loss) profit for the period	*6*	**(136,747)**	194,816
Attributable to:			
Owners of the Company		**(136,758)**	165,877
Non-controlling interests		**11**	28,939
		(136,747)	194,816
		US cents	*US cents*
(Loss) earnings per share	*8*		
– Basic		**(8.49)**	10.28
– Diluted		**(8.49)**	10.24

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2020

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	*US$'000*
(Loss) profit for the period	**(136,747)**	194,816
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	**(6,103)**	12,418
Remeasurement of defined benefit obligations, net of tax	**(5,015)**	–
Share of other comprehensive expense of associates	**(2,171)**	(1,332)
	(13,289)	11,086
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(16,002)**	(461)
Share of other comprehensive (expense) income of associates and joint ventures	**(3,005)**	864
Reserve released upon disposal of an associate	**(270)**	–
Reserve released upon partial disposal of a joint venture	**(4,246)**	–
Reserve released upon deemed disposal of an associate	**–**	(40)
Reserve released upon disposal of subsidiaries	**–**	(380)
	(23,523)	(17)
Other comprehensive (expense) income for the period	**(36,812)**	11,069
Total comprehensive (expense) income for the period	**(173,559)**	205,885
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(167,034)**	177,454
Non-controlling interests	**(6,525)**	28,431
	(173,559)	205,885

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2020

	NOTE	**At June 30, 2020 (unaudited)** ***US$'000***	At December 31, 2019 (audited) *US$'000*
Non-current assets			
Investment properties		**113,013**	113,222
Property, plant and equipment		**2,300,725**	2,362,234
Right-of-use assets		**532,440**	580,161
Deposits paid for acquisition of property, plant and equipment		**106,604**	105,235
Intangible assets		**32,792**	40,683
Goodwill		**260,440**	261,558
Interests in associates		**406,712**	413,966
Interests in joint ventures		**266,126**	248,886
Equity instruments at fair value through other comprehensive income		**25,792**	31,889
Financial assets at fair value through profit or loss		**38,742**	36,811
Rental deposits		**26,101**	25,622
Deferred tax assets		**84,937**	67,969
Deferred consideration receivable		**9,839**	8,500
		4,204,263	4,296,736
Current assets			
Inventories		**1,359,159**	1,822,845
Trade and other receivables	*9*	**1,596,670**	1,603,843
Other financial assets at amortized cost		**1,808**	6,036
Financial assets at fair value through profit or loss		**13,005**	19,141
Taxation recoverable		**14,666**	12,771
Restricted bank deposits		**–**	1,150
Bank balances and cash		**1,107,385**	982,079
		4,092,693	4,447,865
Assets classified as held for sale		**23,135**	44,790
		4,115,828	4,492,655

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2020

	NOTE	At June 30, 2020 (unaudited) US$'000	At December 31, 2019 (audited) US$'000
Current liabilities			
Trade and other payables	*10*	**1,155,983**	1,461,995
Contract liabilities		**29,333**	64,005
Financial liabilities at fair value through profit or loss		**292**	–
Taxation payable		**50,882**	69,344
Bank and other borrowings		**973,655**	733,283
Lease liabilities		**132,255**	130,368
		2,342,400	2,458,995
Net current assets		**1,773,428**	2,033,660
Total assets less current liabilities		**5,977,691**	6,330,396
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**29,874**	10,287
Bank and other borrowings		**1,349,595**	1,356,596
Deferred tax liabilities		**38,880**	40,465
Lease liabilities		**232,286**	272,364
Retirement benefit obligations		**112,834**	117,593
		1,763,469	1,797,305
Net assets		**4,214,222**	4,533,091
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**3,719,575**	4,046,666
Equity attributable to owners of the Company		**3,771,615**	4,098,706
Non-controlling interests		**442,607**	434,385
Total equity		**4,214,222**	4,533,091

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 Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

During the current interim period, the Group faced headwinds caused by the COVID-19 pandemic. This started with temporary factory shutdowns in the People's Republic of China (the "PRC") and Southeast Asian countries due to lockdowns and other social distancing measures imposed by local governments upon the outbreak of the pandemic. The unprecedented situation hindered the operating efficiencies of the Group's manufacturing business and also led to temporary supply chain disruptions. In reaction to the challenging operating environment, the Group further adjusted its capacity allocations to strengthen its flexibility to cater to changing customer demand and closed its manufacturing facilities in Hubei, the PRC during the interim period. The Group also temporarily adjusted its manufacturing capacity in Southeast Asia in response to ongoing uncertainty and low visibility on customer demand. This led to an increase in expenses including severance costs of approximately US$84 million (included in other expenses) due to closure of manufacturing facilities and factory adjustments.

For Retailing Business (as defined in Note 3), the Group temporarily suspended the operations of majority of its retail stores in the PRC in the first quarter of 2020 in an effort to contain the spread of the COVID-19 pandemic, leading to reduction in revenue and gross profit.

In addition, the Group adopted a more prudent approach when evaluating capital expenditure projects during the interim period to safeguard its cash flow, while imposing cost control measures, to mitigate the impact of COVID-19 pandemic.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of 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, 2020 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2019.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to HKFRSs

In the current interim period, the Group has applied, the Amendments to References to the Conceptual Framework in HKFRS Standards and, the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending December 31, 2020.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear and apparel products ("Retailing Business") which includes provision of large scale commercial spaces to retailers and distributors. Accordingly, no segment information is presented.

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

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

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

	For the six months ended June 30, 2020 (unaudited) *US$'000*	2019 (unaudited) *US$'000*
Revenue		
Manufacturing Business	**2,418,465**	2,930,815
Retailing Business	**1,667,168**	2,139,912
	4,085,633	5,070,727

4. OTHER GAINS AND LOSSES

	For the six months ended June 30, 2020 (unaudited) *US$'000*	2019 (unaudited) *US$'000*
Fair value (loss) gain on financial instruments at fair value through profit or loss	**(21,886)**	1,815
Gain on disposal of an associate	**2,087**	–
Gain on disposal of subsidiaries	**–**	19,127
Gain on partial disposal of a joint venture	**15,665**	–
Gain on deemed disposal of an associate	**–**	367
Impairment loss on interest in an associate	**(9,000)**	–
Impairment loss on interest in a joint venture	**–**	(1,470)
Impairment loss on goodwill	**–**	(97)
	(13,134)	19,742

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAX (CREDIT) EXPENSE

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax		
– current period	**12,055**	31,608
– (over)underprovision in prior periods	**(1,580)**	978
Overseas taxation		
– current period	**8,268**	14,090
– (over)underprovision in prior periods	**(2,502)**	438
	16,241	47,114
Deferred tax credit	**(16,622)**	(7,805)
	(381)	39,309

6. (LOSS) PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	*US$'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,167,005**	1,206,246
Net exchange (gain) loss (included in (other income) other expenses)	**(1,107)**	4,467
Amortization of intangible assets (included in selling and distribution expenses)	**7,310**	7,819
Depreciation of right-of-use assets	**84,034**	61,734
Depreciation of property, plant and equipment *(note)*	**175,006**	165,596
Loss on disposal of property, plant and equipment (included in other expenses)	**5,139**	7,700

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

7. DIVIDENDS

	For the six months ended June 30, 2020 (unaudited) *US$'000*	2019 (unaudited) *US$'000*
Dividends recognized as distribution during the period:		
2019 final dividend of HK$0.70 per share (2019: 2018 final dividend of HK$1.10 per share)	**145,430**	227,003

The final dividend of approximately HK$1,127,141,000 (2019: HK$1,773,411,000), equivalent to US$145,430,000 (2019: US$227,003,000), was paid on June 24, 2020 (2019: June 25, 2019) to the shareholders of the Company.

The Board has resolved not to declare an interim dividend payment for the six months ended June 30, 2020 (2019: HK$0.40 per share). An interim dividend of approximately HK$644,037,000, equivalent to US$82,092,000, for the six months ended June 30, 2019 was paid on October 10, 2019.

8. (LOSS) EARNINGS PER SHARE

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

	For the six months ended June 30, 2020 (unaudited) *US$'000*	2019 (unaudited) *US$'000*
(Loss) earnings:		
(Loss) earnings for the purpose of basic (loss) earnings per share, being (loss) profit for the period attributable to owners of the Company	**(136,758)**	165,877
Effect of dilutive potential ordinary shares:		
Adjustments to the share of profits of subsidiaries based on dilution of their earnings per share	**–**	(467)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(136,758)**	165,410

8. (LOSS) EARNINGS PER SHARE (CONTINUED)

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,610,173,140**	1,613,888,312
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	**N/A**	1,361,307
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,610,173,140**	1,615,249,619

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.

The computation of diluted loss per share for the six months ended June 30, 2020 does not assume the vest of the Company's outstanding unvested awarded shares since their assumed vest would result in a decrease in loss per share.

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$1,111,814,000 (December 31, 2019: US$1,141,786,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2020	At December 31, 2019
	(unaudited)	(audited)
	US$'000	*US$'000*
0 to 30 days	**554,926**	702,705
31 to 90 days	**507,372**	434,629
Over 90 days	**49,516**	4,452
	1,111,814	1,141,786

10. TRADE AND OTHER PAYABLES

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

	At June 30, 2020 (unaudited) *US$'000*	At December 31, 2019 (audited) *US$'000*
0 to 30 days	**248,346**	373,736
31 to 90 days	**86,626**	119,883
Over 90 days	**13,625**	5,882
	348,597	499,501

11. CONTINGENCIES

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

	At June 30, 2020 (unaudited) *US$'000*	At December 31, 2019 (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	**36,000**	36,000
– amount utilized	**13,500**	17,000
(ii) associates		
– amount guaranteed	**11,670**	2,220
– amount utilized	**3,898**	798

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Results

For the six months ended June 30, 2020, the Group recorded revenue of US$4,085.6 million, representing a decrease of 19.4%, compared with the corresponding period of last year. The loss attributable to owners of the Company was US$136.8 million, compared to a profit attributable to owners of the Company of US$165.9 million recorded for the corresponding period of last year. The basic loss per share for the first half of 2020 was 8.49 US cents, compared to the basic earnings per share of 10.28 US cents for the corresponding period of last year.

Recurring Loss/Profit Attributable to Owners of the Company

For the six months ended June 30, 2020, the Group recognized a non-recurring loss of US$13.1 million, which included a loss of US$21.9 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), as well as an impairment loss of US$9.0 million on the interest in an associate. These losses were partly offset by a one-off gain of US$15.7 million on the partial disposal of an interest in a joint venture. By contrast, for the six months ended June 30, 2019, the Group recognized a non-recurring profit of US$20.3 million, which included a net gain of US$19.1 million from the disposal of Texas Clothing Holding Corp. and together with its subsidiaries (the "TCHC Group"), and a gain of US$1.8 million due to fair value changes on financial instruments at FVTPL. Excluding all items of non-recurring nature, the recurring loss for the six months ended June 30, 2020 was US$123.6 million, compared to a recurring profit of US$145.6 million for the corresponding period of last year.

In addition to the analysis above, one-off charges on factory adjustments, together with the cost related to idle capacity in the manufacturing segment, also constituted a significant portion of the loss for the period under review.

Operations

General Overview

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality.

In the first half of 2020, the Group faced headwinds caused by the COVID-19 pandemic. This started with temporary factory shutdowns in China and Southeast Asian countries due to lockdowns and other social distancing measures imposed by local governments upon the outbreak of the pandemic. The unprecedented situation hindered the operating efficiencies of the Group's manufacturing segment and also led to temporary supply chain disruptions. Following this were delayed shipments, reduced and cancelled order books from customers in response to lower consumer demand resulting from the COVID-19 pandemic.

In reaction to the challenging operating environment, the Group further adjusted its capacity allocations to strengthen its flexibility to cater to changing customer demand and closed its manufacturing facilities in Hubei, China during the first half of 2020. It also temporarily adjusted its manufacturing capacity in Southeast Asia in response to ongoing uncertainty and low visibility on customer demand. This led to a surge in one-off charges arising from such adjustments. In addition, the Group adopted a more prudent approach when evaluating capital expenditure projects during the first half of 2020 to safeguard its cash flow, while imposing cost control measures, to mitigate the impact of the COVID-19 pandemic.

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary, Pou Sheng International (Holdings) Limited ("Pou Sheng"). As part of its ongoing omni-channel strategy, Pou Sheng is continuing to enable synergies between its brick-and-mortar ("B&M") stores and its fast-growing omni-channels, such as scaling up its digital fulfilment capacity, as well as the accessibility and content of its omni-channels, including the launch of its first WeChat stores in February, 2020 to combat the impact of the COVID-19 pandemic. It is also strengthening distribution to its offline and online channels and integrating inventories and resources through its Product Sharing Platform. For a more detailed explanation on the strategy of the Group's retail business, please refer to the interim report of Pou Sheng.

The Group remains committed to sustainability, ethical conduct and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines on employee relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity. Yue Yuen's 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 2019 Environmental, Social and Governance Report of the Company.

Total Revenue by Product Category

In the six months ended June 30, 2020, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) decreased by 16.7% to US$2,240.8 million, compared with the corresponding period of last year. The volume of shoes shipped decreased by 20.4% to 129.9 million pairs. The decrease was mostly due to lower operating efficiency amid delayed shipments, and reduced and cancelled order books from customers in response to lower consumer demand resulting from the COVID-19 pandemic. The average selling price increased by 4.6% to US$17.25 per pair, as compared with the same period of last year, which was primarily due to changes in the Group's product portfolio.

The Group's athletic footwear category accounted for 90.1% of footwear manufacturing revenue in the first half of 2020. Casual/outdoor shoes accounted for 8.0% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 49.4% of total revenue in the first half of 2020, followed by casual/outdoor shoes, which accounted for 4.4% of total revenue.

Revenue attributed to the Group's manufacturing business (including footwear, as well as soles, components and others) was US$2,418.5 million during the period, representing a decrease of 17.5% as compared to the corresponding period of last year.

In the six months ended June 30, 2020, the revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 15.3% to US$1,667.1 million, compared to US$1,968.1 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first half of 2020 decreased by 12.2% to RMB11,740.2 million, compared to RMB13,371.6 million in the corresponding period of last year. As of June 30, 2020, Pou Sheng had 5,597 directly operated retail outlets and 3,839 stores operated by sub-distributors across the Greater China region.

Total Revenue by Product Category	**For the six months ended June 30,**				
	2020		2019		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic Shoes	**2,018.2**	**49.4**	2,101.5	41.4	(4.0)
Casual/Outdoor Shoes	**178.5**	**4.4**	530.3	10.5	(66.3)
Sports Sandals	**44.1**	**1.1**	59.1	1.2	(25.4)
Soles, Components & Others	**177.7**	**4.3**	239.9	4.7	(25.9)
Apparel Wholesale (TCHC Group)*	**N/A**	**N/A**	171.8	3.4	N/A
Retail Sales – Shoes, Apparel and Commissions from Concessionaire Sales	**1,667.1**	**40.8**	1,968.1	38.8	(15.3)
Total Revenue	**4,085.6**	**100.0**	5,070.7	100.0	(19.4)

* *TCHC Group was disposed on May 31, 2019*

Orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. More and more customer orders have requested a shorter lead-time 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 2020, the Group's manufacturing business shipped a total of 129.9 million pairs of shoes, a decrease of 20.4% compared to the 163.2 million pairs produced in the corresponding period of last year. The average selling price per pair was US$17.25, an increase of 4.6% as compared to US$16.49 in the corresponding period of last year.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in the first half of 2020, representing 43%, 42% and 11% of total shoe 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 2020, total main material costs were US$869.4 million (first half of 2019: US$1,085.0 million). The direct labor costs and production overheads were US$1,215.8 million (first half of 2019: US$1,316.9 million). The total cost of goods sold by the Group's manufacturing business was US$2,085.2 million for the first half of 2020 (first half of 2019: US$2,401.9 million). For the Group's retail business, Pou Sheng, stock costs were US$1,167.3 million in the first half of 2020 (first half of 2019: US$1,288.7 million).

In the six months ended June 30, 2020, the Group's gross profit declined by 34.5% to US$833.1 million. The gross profit margin of the Group's manufacturing business contracted by 4.3 percentage points to 13.8% as compared to the corresponding period of last year. The decrease in the gross profit margin for the manufacturing business was primarily due to operating deleveraging as a result of the reduced capacity utilization and decrease in revenue.

Cost of Goods Sold Analysis – Manufacturing Business	**For the six months ended June 30,**				
	2020		2019		*change*
	US$ million	*%*	*US$ million*	*%*	*%*
Main Material Costs	**869.4**	**41.7**	1,085.0	45.2	(19.9)
Direct Labor Costs & Production Overheads	**1,215.8**	**58.3**	1,316.9	54.8	(7.7)
Total Cost of Goods Sold	**2,085.2**	**100.0**	2,401.9	100.0	(13.2)

Given the uncertainties surrounding the future development of the COVID-19 pandemic, the Group has and will continue to further fine-tune its production capacity and impose strict cost control measures, to pave the way to restore optimal operational efficiency.

Pou Sheng's gross profit margin declined to 30.0% in the six months ended June 30, 2020, compared to 34.5% in the same period of last year, which was mainly attributed to increased promotional activities in order to motivate and revive consumer demands following the re-opening of the Group's B&M stores in China after COVID-19 lockdowns.

The Group's total selling and distribution expenses for the first half of 2020 declined to US$480.2 million (first half of 2019: US$622.9 million), equivalent to approximately 11.8% (first half of 2019: 12.3%) of revenue.

Administrative expenses for the first half of 2020 amounted to US$303.0 million (first half of 2019: US$337.2 million), equivalent to approximately 7.4% (first half of 2019: 6.6%) of revenue.

Other expenses for the first half of 2020 surged to US$191.1 million (first half of 2019: US$128.6 million), equivalent to approximately 4.7% (first half of 2019: 2.5%) of revenue. The increase was mostly attributable to one-off charges arising from factory adjustments on the manufacturing side.

The management will continue to look at ways to improve its efficiency and productivity to counter the significant cost pressures faced by the Group's manufacturing business, as well as the dynamic and uncertain environment faced by its retail business.

Product Development

During the first half of 2020, the Group spent US$95.4 million (first half of 2019: US$101.9 million) on product development, including investments in sampling, technological and digitalized development, as well as production efficiency enhancements. For each of the major branded customers that have an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this 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, Financial Resources and Capital Structure

The Group's financial position remained solid. As at June 30, 2020, the Group had cash and cash equivalents of US$1,107.4 million (December 31, 2019: US$982.1 million) and total bank and other borrowings of US$2,323.3 million (December 31, 2019: US$2,089.9 million). The Group's gearing ratio (total bank and other borrowings to total equity) was 55.1% (December 31, 2019: 46.1%). As at June 30, 2020, the Group had net borrowing of US$1,215.9 million (December 31, 2019: US$1,107.8 million). As at June 30, 2020, the Group had current assets of US$4,115.8 million (December 31, 2019: US$4,492.7 million) and current liabilities of US$2,342.4 million (December 31, 2019: US$2,459.0 million). The current ratio was 1.8 as at June 30, 2020 (December 31, 2019: 1.8).

The Group has relied to a certain extent on debt financing for its funding requirements. With regard to the choice of debt versus equity financing, which would thus affect its capital structure, the Group will consider the impact on its weighted average cost of capital and its leverage ratio, etc., with an aim of lowering the weighted average cost of capital while maintaining its gearing ratio at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the maturity profile of loans, most of the bank loans for the Group's manufacturing business were long-term committed facilities that partly meet the funding needs of its capital expenditures and long-term investments. Short-term revolving loans facilities were also utilized regularly for daily working capital purposes, especially for the Group's retail business. At present, the Group maintains an abundant level of bank facilities to meet working capital needs. As of June 30, 2020, around 58.1% of the Group's total bank and other borrowings were with remaining tenor of over 1 year.

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

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

Capital Expenditure

During the first half of 2020, the capital expenditure for the Group's manufacturing and retail segments were US$107.8 million (first half of 2019: US$133.6 million) and US$23.2 million (first half of 2019: US$42.9 million) respectively. The Group has adopted a disciplined approach to its capital expenditure for its manufacturing business. Some capital expenditure projects, including investments in automation and capacity upgrades, as well as investments in innovation centers for product development and process re-engineering, were postponed in the first half of 2020 to preserve the Group's balance sheet. Other planned investments for the retail business, particularly for the opening of new stores, upgrading existing store formats, and expanding new concept and mega stores to provide a better shopping experience, were also delayed in the first half of 2020 due to the impact of COVID-19 pandemic.

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

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in note 18 to the condensed consolidated financial statements in the 2020 interim report of the Company.

Significant Investments and Material Acquisitions/Disposals

There were no significant investments or material acquisitions/disposals during the first half of 2020.

Share of Results of Associates and Joint Ventures

During the first half 2020, the share of results from associates and joint ventures was a combined profit of US$8.4 million, compared to a combined profit of US$18.4 million in the corresponding period of last year.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2020 (2019: HK$0.40 per share).

The Group aims to stabilize its operating cash flow to sustain its business operations and preserve a suitable level of cash holdings against the backdrop of the challenging business environment this year. While it is inclined to preserve cash in the short-term in view of the impact of the COVID-19 pandemic, the Group remains committed to upholding a relatively steady dividend level over the long-term.

Foreign Exchange Exposure

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

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

Employees

As at June 30, 2020, the Group had approximately 319,000 employees employed across all regions in which it operates, a decrease of 7.0% as compared to 343,000 employees employed as at June 30, 2019. The decrease was mostly attributed to the capacity adjustment amid the unprecedented pandemic. 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 provides 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 enabling the Group's employees and management to enhance their skills and achieve expertise, as well as to boost 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 improve its transparency in remediating labor violations at its production sites and establish multiple grievance channels.

Prospects

The impact of COVID-19 on the Group's manufacturing business will diminish, but will not disappear in the coming quarters. Global demand is likely to remain subdued and may be further impacted by the recurring waves of COVID-19 infections that force some economies back into lockdowns. There is still great uncertainty around how the COVID-19 pandemic may continue to impact the orders and sales visibility for the Group's manufacturing segment, which will inevitably impact the Group's performance throughout the remainder of 2020. It may take some time for the Group's production to return to normal levels.

There are some signs of retail spending recovering in some markets alongside the reopening of economies and stimulus programs initiated by governments around the globe. However, it is uncertain if this recovery will be sustained and evenly spread to markets in Europe and North America, although recovery may be supported by the resumption of sports leagues such as the NBA and Premier League.

Besides, escalating tensions between the United States and China, as well as the uncertain outcome of the U.S. Presidential election may add more uncertainties. The Group is actively monitoring the macroeconomic and geopolitical situation.

In view of the short-term challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose strict cost control measures and focus on its cash flow management. The Group will continue to adopt a prudent approach to capital expenditure projects while embarking on the further fine-tuning of its production capacity during the rest of the year.

Once the disruptions caused by COVID-19 have dissipated, the Group will resume its capital expenditure program to diversify capacity allocations between different countries and further accelerate the pace of capacity migration to cost-competitive regions. This will allow the Group to better meet customer demands for flexibility and specific country-of-origin requirements in response to continued U.S. trade tariffs. The Group will also continue to leverage on its core strengths, adaptability and competitive edges to overcome short-term challenges and safeguard its sustainable profitability. This includes investing in and implementing ERP data management systems, such as SAP, in Indonesia and other locations to improve the efficiency of the Group's business processes.

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, and to create long-term synergies for its businesses in the future. Over the longer-term, it will continue to proactively adapt its production capacity to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility and faster turnaround time. This includes enabling more flexible set-ups and frequent line change-overs through process re-engineering, increased automation levels, and SAP ERP system implementation to optimize its ongoing smart manufacturing strategy.

Aside from the current short-term challenges, the Group remains optimistic about the long-term growth prospects of its retail business given the increasing health awareness, higher sports participation rates and the growth of the ‘athleisure’ trend in the Greater China region. Pou Sheng’s omni-channel strategy, including leveraging more sports services content, will continue to benefit from the Chinese government’s supportive policies, as well as the more mature online shopping habits of Chinese consumers.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2020, 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, 2020, 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 the Directors. Having made specific enquiries with 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, 2020.

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, 2020 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.yueyuen.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2020 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.

SUPPLEMENTARY INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

Reference is made to the annual report of the Company for the year ended December 31, 2019 (the "2019 Annual Report"). The information disclosed below is supplemental to, and should be read in conjunction with the 2019 Annual Report. Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the 2019 Annual Report.

In addition to the information provided in the 2019 Annual Report, the Board would like to provide further information and breakdown in relation to the other income of the Group for the year ended December 31, 2019 (together with comparative figures for 2018):

	For the year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Interest income	**8,805**	10,273
Dividend income from equity instruments at fair value through other comprehensive income	**869**	1,018
Net exchange gain	**–**	5,739
Total operating lease income	**17,749**	15,681
Other income from suppliers	**43,135**	39,238
Management service income	**23,198**	15,818
Government subsidy	**10,135**	8,165
Royalty income	**1,253**	2,853
Sales of obsolete inventories	**3,354**	4,242
Others	**18,815**	17,829
	127,313	120,856

The supplementary information provided in this announcement does not affect other information contained in the 2019 Annual Report and, save as disclosed above, the contents of the 2019 Annual Report remain unchanged.

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

Hong Kong, August 13, 2020

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. Hu Chia-Ho, Mr. Liu George Hong-Chih, Mr. Hu Dien Chien and Mr. Yu Huan-Chang.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen.

Website: www.yueyuen.com