YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

FINAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2020

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2020

	2020	2019	**Percentage decrease**
Revenue *(US$'000)*	**8,444,935**	10,105,387	**(16.43%)**
Recurring (loss) profit attributable to owners of the Company *(US$'000)*	**(68,356)**	282,292	**N/A**
Non-recurring (loss) profit attributable to owners of the Company *(US$'000)*	**(22,435)**	18,254	**N/A**
(Loss) profit attributable to owners of the Company *(US$'000)*	**(90,791)**	300,546	**N/A**
Basic (loss) earnings per share *(US cents)*	**(5.64)**	18.64	**N/A**
Dividend per share			
Interim dividend *(HK$)*	**–**	0.40	**(100.00%)**
Final dividend (proposed) *(HK$)*	**–**	0.70	**(100.00%)**

* *For identification purpose only*

RESULTS

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2020 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2020

	Notes	**2020** *US$'000*	2019 *US$'000*
Revenue	*3*	**8,444,935**	10,105,387
Cost of sales		**(6,613,920)**	(7,592,334)
Gross profit		**1,831,015**	2,513,053
Other income		**122,364**	127,313
Selling and distribution expenses		**(1,079,169)**	(1,222,129)
Administrative expenses		**(546,668)**	(682,665)
Other expenses		**(338,258)**	(264,902)
Finance costs		**(68,078)**	(92,122)
Share of results of associates		**27,205**	26,999
Share of results of joint ventures		**21,551**	24,996
Other gains and losses	*4*	**(21,361)**	17,895
(Loss) profit before taxation		**(51,399)**	448,438
Income tax expense	*5*	**(20,962)**	(95,438)
(Loss) profit for the year	*6*	**(72,361)**	353,000
Attributable to:			
Owners of the Company		**(90,791)**	300,546
Non-controlling interests		**18,430**	52,454
		(72,361)	353,000
		US cents	*US cents*
(Loss) earnings per share	*8*		
– Basic		**(5.64)**	18.64
– Diluted		**(5.64)**	18.60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

	2020	2019
	US$'000	*US$'000*
(Loss) profit for the year	**(72,361)**	353,000
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	**(1,424)**	12,139
Share of other comprehensive expense of associates	**(1,721)**	(2,795)
Remeasurement of defined benefit obligations, net of tax	**(13,221)**	(7,740)
Revaluation gain on transfer of properties to investment properties, net of tax	**2,270**	1,559
	(14,096)	3,163
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**78,585**	(14,686)
Share of other comprehensive income (expense) of associates and joint ventures	**19,316**	(134)
Reserve released upon disposal of subsidiaries	**–**	(380)
Reserve released upon deemed disposal of associates	**–**	(40)
Reserve released upon deregistration of a subsidiary	**(53)**	–
Reserve released upon disposal of an associate	**(270)**	–
Reserve released upon partial disposal of a joint venture	**(4,246)**	–
	93,332	(15,240)
Other comprehensive income (expense) for the year	**79,236**	(12,077)
Total comprehensive income for the year	**6,875**	340,923
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(43,155)**	294,593
Non-controlling interests	**50,030**	46,330
	6,875	340,923

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2020

	Note	2020 US$'000	2019 US$'000
Non-current assets			
Investment properties		**125,382**	113,222
Property, plant and equipment		**2,212,365**	2,362,234
Right-of-use assets		**665,439**	580,161
Deposits paid for acquisition of property, plant and equipment		**101,423**	105,235
Intangible assets		**27,738**	40,683
Goodwill		**265,292**	261,558
Interests in associates		**418,370**	413,966
Interests in joint ventures		**281,879**	248,886
Equity instruments at fair value through other comprehensive income		**30,496**	31,889
Financial assets at fair value through profit or loss		**31,200**	36,811
Rental deposits		**28,297**	25,622
Deferred tax assets		**94,070**	67,969
Deferred consideration receivable		**5,018**	8,500
		4,286,969	4,296,736
Current assets			
Inventories		**1,584,934**	1,822,845
Trade and other receivables	*9*	**1,597,108**	1,603,843
Other financial assets at amortized cost		**–**	6,036
Financial assets at fair value through profit or loss		**120,763**	19,141
Taxation recoverable		**13,968**	12,771
Restricted bank deposits		**–**	1,150
Bank balances and cash		**896,977**	982,079
		4,213,750	4,447,865
Assets classified as held for sale		**22,151**	44,790
		4,235,901	4,492,655

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At December 31, 2020

	Note	2020 US$'000	2019 US$'000
Current liabilities			
Trade and other payables	10	**1,446,616**	1,461,995
Contract liabilities		**95,238**	64,005
Financial liabilities at fair value through profit or loss		**1,085**	–
Taxation payable		**58,303**	69,344
Bank and other borrowings		**574,638**	733,283
Lease liabilities		**161,989**	130,368
		2,337,869	2,458,995
Net current assets		**1,898,032**	2,033,660
Total assets less current liabilities		**6,185,001**	6,330,396
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**25,099**	10,287
Bank and other borrowings		**1,293,303**	1,356,596
Deferred tax liabilities		**39,271**	40,465
Lease liabilities		**330,994**	272,364
Retirement benefit obligations		**122,192**	117,593
		1,810,859	1,797,305
Net assets		**4,374,142**	4,533,091
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**3,843,814**	4,046,666
Equity attributable to owners of the Company		**3,895,854**	4,098,706
Non-controlling interests		**478,288**	434,385
Total equity		**4,374,142**	4,533,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT YEAR

During the current year, the Group faced a number of headwinds caused by the COVID-19 pandemic ("COVID-19"). In the first few months of the year, the Group temporarily shut down and adjusted capacity in some of its factories to comply with lock-downs and other social distancing measures imposed by local governments in response to COVID-19. The unprecedented situation hindered the operating efficiency of the Group's manufacturing business and temporarily disrupted its supply chain. In response to these sudden changes in customer demand, the Group incurred severance costs of approximately US$107 million (included in other expenses) arising from capacity optimization, including from the strategic closure of its manufacturing facilities in Hubei, China, as well as from temporary adjustments made to its manufacturing capacity in Southeast Asia in response to low order visibility and uncertainty.

For Retailing Business (as defined in Note 3), the Group's revenue in the first quarter of 2020 was heavily impacted by various control measures implemented by the People's Republic of China ("PRC") government to contain the spread of COVID-19, which resulted in the temporary closure of retail stores between Lunar New Year and mid-March 2020.

At the same time, the Group adopted a more prudent approach to its planned capital expenditure projects to safeguard its cash flow, while imposing strict cost control measures and closely monitoring working capital efficiencies to mitigate the impact of COVID-19 during the year under review.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, 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 mandatorily effective for the annual periods beginning on or after January 1, 2020 for the preparation of the 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

Application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 Amendments to Reference to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance, focuses specifically on the revenue analysis by principal categories of the Group's business. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear and apparel products ("Retailing Business") which includes provision of large scale commercial spaces to retailers and distributors. Accordingly, only entity-wide disclosures are presented.

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

	2020	2019
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**4,735,704**	6,000,574
Retailing Business	**3,709,231**	4,104,813
	8,444,935	10,105,387

Revenue from major products

The following is an analysis of the Group's revenue from its major products recognized in a point in time:

	2020	2019
	US$'000	*US$'000*
Athletic shoes	**3,752,297**	4,541,560
Casual/outdoor shoes and sports sandals	**620,596**	1,016,323
Soles, components and others	**362,811**	442,691
Retail sales – shoes, apparel and commissions from concessionaire sales and others	**3,709,231**	3,932,965
Apparel wholesale	**–**	171,848
	8,444,935	10,105,387

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the PRC. The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	2020	2019
	US$'000	*US$'000*
US	**1,404,679**	2,022,102
Europe	**1,247,882**	1,712,288
PRC	**4,593,087**	4,797,963
Other countries in Asia	**850,297**	1,035,235
Others	**348,990**	537,799
	8,444,935	10,105,387

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia, Myanmar, Cambodia and Republic of China ("Taiwan"). Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2020	2019
	US$'000	*US$'000*
PRC	**1,381,527**	1,372,309
Vietnam	**825,216**	902,062
Indonesia	**655,979**	649,869
Myanmar	**106,113**	111,289
Cambodia	**55,762**	57,237
Taiwan	**78,682**	79,729
Others	**57,365**	54,662
	3,160,644	3,227,157

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, deferred tax assets, deferred consideration receivable and financial instruments.

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2020	2019
	US$'000	*US$'000*
Customer A	**1,576,520**	1,929,398
Customer B	**1,464,338**	1,719,523

4. OTHER GAINS AND LOSSES

	2020	2019
	US$'000	*US$'000*
Fair value changes on financial instruments at fair value through profit or loss	**(30,394)**	8,435
Fair value changes on investment properties	**6,773**	925
Gain on disposal of subsidiaries	**–**	18,644
Gain (loss) on deregistration of subsidiaries	**53**	(9)
Gain on disposal of an associate	**2,087**	–
Gain on partial disposal of a joint venture	**15,665**	–
Write-off of goodwill	**–**	(97)
Impairment loss on interest in an associate	**(14,000)**	(8,605)
Impairment loss on interest in a joint venture	**–**	(1,470)
Impairment loss on goodwill	**(1,618)**	–
Reversal of impairment loss on amount due from a joint venture	**73**	92
Loss on deemed disposal of associates	**–**	(20)
	(21,361)	17,895

5. INCOME TAX EXPENSE

	2020	2019
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT") *(note ii)*		
– current year	**34,075**	54,072
– (over)underprovision in prior years	**(1,856)**	516
Overseas taxation *(note iii)*		
– current year	**15,682**	50,446
– (over)underprovision in prior years	**(2,503)**	363
	45,398	105,397
Deferred tax		
– current year	**(37,232)**	(9,959)
– attributable to a change in tax rate	**12,796**	–
	20,962	95,438

5. INCOME TAX EXPENSE (CONTINUED)

notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for both years.

(ii) PRC

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

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 the PRC 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 for the financial year, 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 which are located in the specified provinces of Western Regions of the PRC engaged in the business activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries were eligible for the preferential tax rate of 15% until the relevant business activities were no longer included in the New Catalogue.

Pursuant to EIT Law of PRC and the Detailed Implementation Rules, distribution of the profits earned by the subsidiaries in the PRC since January 1, 2008 to holding companies is subject to the PRC withholding tax at the applicable tax rates of 10%.

(iii) Overseas

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two to four years' exemption from income taxes followed by four to nine years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year. The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% for both years.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax during both years. In accordance with the Decree Law No. 15/2018 - Repeal of the Legal Regime of the Offshore Services, these subsidiaries of the Company established in Macau will no longer be exempted from filing the Macao Complementary Tax return after December 31, 2020 and will be subject to tax rate at 12% for the year ending December 31, 2021 onwards.

Taxation arising in other jurisdictions including Taiwan and US is calculated at the rates prevailing in the respective jurisdictions, which were 20% and 21% respectively for both years. For Indonesia, the tax rate has been changed from 25% to 22% for the year ended December 31, 2020 and will further be changed to 20% from the year ending December 31, 2022 onwards.

6. (LOSS) PROFIT FOR THE YEAR

	2020	2019
	US$'000	*US$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Employee benefit expense, including directors' emoluments (note iii)		
– basic salaries, bonus, allowances and staff welfare	**1,873,861**	2,138,722
– retirement benefit scheme contributions	**310,532**	262,880
– share-based payments	**416**	5,006
	2,184,809	2,406,608
Auditor's remuneration	**1,399**	1,423
Amortization of intangible assets (included in selling and distribution expenses)	**14,912**	15,320
Depreciation of property, plant and equipment *(note iii)*	**353,690**	340,414
Depreciation of right-of-use assets	**178,200**	139,369
Loss on disposal of property, plant and equipment (included in other expenses)	**16,078**	17,904
Research and development expenditure (included in other expenses)	**187,146**	208,604
Net changes in allowance for inventories (included in cost of sales) *(note ii)*	**(3,123)**	(11,073)
Impairment loss on trade and other receivables	**1,024**	2,252
Net exchange (gain) loss (included in (other income) other expenses)	**(4,126)**	15,091

notes:

(i) For the years ended December 31, 2020 and 2019, cost of inventories recognized as expenses represents cost of sales as shown in the consolidated income statement.

(ii) Changes in allowance for inventories of US$3,499,000 (2019: US$8,827,000) credited to the consolidated income statement for the year ended December 31, 2020 arose from the finished goods for the retail and distribution of sportswear and footwear products.

(iii) Staff costs and depreciation of property, plant and equipment disclosed above included amounts capitalized in inventories.

7. DIVIDENDS

	2020	2019
	US$'000	*US$'000*
Dividends recognized as distribution during the year:		
2019 Interim dividend of HK$0.40 per share	**–**	82,092
2019 Final dividend of HK$0.70 per share (2019: 2018 Final dividend of HK$1.10 per share)	**145,430**	227,003
	145,430	309,095

The board of directors of the Company (the "Board") has resolved not to declare a final dividend for the year ended December 31, 2020 (2019: HK$0.70 per share).

8. (LOSS) EARNINGS PER SHARE

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

	2020	2019
	US$'000	*US$'000*
(Loss) earnings:		
(Loss) earnings for the purpose of basic (loss) earnings per share, being (loss) profit for the year attributable to owners of the Company	**(90,791)**	300,546
Effect of dilutive potential ordinary shares Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share	**–**	(525)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(90,791)**	300,021

	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,610,199,619**	1,611,983,383
Effect of dilutive potential ordinary shares: – Unvested awarded shares	**N/A**	1,344,404
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,610,199,619**	1,613,327,787

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 of the Company.

The computation of diluted loss per share for the year ended December 31, 2020 does not assume vesting 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 period ranging from 30 days to 90 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade receivables, net of allowance for credit losses, of US$1,120,141,000 (2019: US$1,141,786,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2020	2019
	US$'000	*US$'000*
0 to 30 days	**651,103**	702,705
31 to 90 days	**452,393**	434,629
Over 90 days	**16,645**	4,452
	1,120,141	1,141,786

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of US$597,922,000 (2019: US$499,501,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2020	2019
	US$'000	*US$'000*
0 to 30 days	**462,502**	373,736
31 to 90 days	**113,747**	119,883
Over 90 days	**21,673**	5,882
	597,922	499,501

11. CONTINGENCIES

At the end of the reporting period, the Group had contingent liabilities as follows:

	2020	2019
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**36,267**	36,000
– amount utilized	**12,019**	17,000
(ii) associates		
– amount guaranteed	**13,550**	2,220
– amount utilized	**11,700**	798

In the opinion of the directors, the fair value of the financial guarantees given to the banks by the Group are insignificant at initial recognition. Also, after taking into consideration the probability of default by the joint ventures and associates, the management of the Company is of the opinion that no provision is required to be recognized in the consolidated statement of financial position as at December 31, 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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 2020, the Group faced a number of headwinds caused by the COVID-19 pandemic ("COVID-19"). In the first few months of the year, the Group temporarily shut down and adjusted capacity in some of its factories to comply with lockdowns and other social distancing measures imposed by local governments in response to COVID-19. The unprecedented situation hindered the operating efficiency of the Group's manufacturing business and temporarily disrupted its supply chain. Following this, the Group faced lower shipment levels as its customers delayed accepting shipments and then started to adjust and cancel their order books in response to depressed global consumer sentiment and reduced demand as a result of COVID-19. This resulted in low utilization and productivity at various manufacturing facilities of the Group.

In response to these sudden changes in customer demand, the Group incurred significant one-off charges of approximately US$107 million arising from capacity optimization, including from the strategic closure of its manufacturing facilities in Hubei, China, as well as from temporary adjustments made to its manufacturing capacity in Southeast Asia in response to low order visibility and uncertainty. At the same time, the Group adopted a more prudent approach to its planned capital expenditure projects to safeguard its cash flow, while imposing strict cost control measures and closely monitoring working capital efficiencies to mitigate the impact of COVID-19 during the year under review.

Although the Group's customers continued to demand high flexibility amid the uncertainty, the pace of shipment delays and cancellations started to ease from the third quarter of 2020. This, together with the right-sizing of its capacity, also led to a sequential improvement in utilization and efficiency at the Group's factories during the fourth quarter of 2020.

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"). To combat the impact of COVID-19, Pou Sheng further scaled up its digital fulfilment capacity and the accessibility and content of its omni-channels, while diversifying its B2C channels, including launching and upgrading its WeChat stores during the year, to enhance cross-platform synergies and performance. It also improved operational efficiency by integrating its inventory and increasing sales conversion rate, which further supported sell-through. This helped stabilize Pou Sheng's revenue and profitability after its brick-and-mortar ("B&M") stores in China were forced to temporarily close at the beginning of 2020 due to local COVID-19 lockdowns. For a more detailed explanation on the strategy of the Group's retail business, please refer to the results announcement 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, has been accredited by the Fair Labor Association ("FLA") as a result of the Group's efforts in the areas of labor rights and sustainability. In addition, being a responsible leader in the footwear industry, Yue Yuen is a member of World Federation of Sporting Goods Industry ("WFSGI") and supports the principles of the WFSGI Code of Conduct.

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 2020 Environmental, Social and Governance Report of the Company.

Results of Operations

For the year ended December 31, 2020, the Group recorded revenue of US$8,444.9 million, representing a decrease of 16.4%, compared with the previous year. The fall in revenue was mostly attributed to the impact of COVID-19. The loss attributable to owners of the Company was US$90.8 million, compared to a profit attributable to owners of the Company of US$300.5 million recorded for the previous year. The basic loss per share was 5.64 US cents for the year, compared with the basic earnings per share of 18.64 US cents for the previous year.

Total Revenue by Product Category

In the year ended December 31, 2020, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) decreased by 21.3% to US$4,372.9 million, compared with the previous year, whereas the volume of shoes shipped decreased by 24.2% to 244.4 million pairs. The decrease was mostly due to delayed shipments, as well as adjusted and cancelled order books from customers in response to lower consumer demand resulting from COVID-19, despite seeing a sequential improvement in the fourth quarter compared with previous quarters of the year. The average selling price increased by 3.8% to US$17.89 per pair, as compared with the previous year, which was primarily due to resilient demand for high-end categories in the Group's product portfolio.

The Group's athletic footwear category accounted for 85.8% of footwear manufacturing revenue in the year ended December 31, 2020. Casual/outdoor shoes and sports sandals accounted for 14.2% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 44.4% of total revenue, while casual/outdoor shoes and sports sandals, which accounted for 7.4% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$4,735.7 million in 2020, representing a decrease of 21.1% as compared to the previous year.

In the year ended December 31, 2020, the revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 5.7% to US$3,709.2 million, compared to US$3,933.0 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue decreased by 5.8% to RMB25,611.1 million, compared to RMB27,189.8 million in the previous year. Its revenue in the first quarter of 2020 was heavily impacted by various control measures implemented by the Chinese government to contain the spread of COVID-19, which resulted in the temporary closure of Pou Sheng's B&M stores between Lunar New Year and mid-March 2020. However, this was largely mitigated by the rapid growth of its omni-channel business and a progressive recovery in sales starting from the second quarter of 2020, supported by stabilizing consumer sentiment. As of December 31, 2020, Pou Sheng had 5,240 directly operated retail outlets and 3,835 stores operated by sub-distributors across the Greater China region, representing a net closure of 758 stores as compared with the same period of 2019.

Total Revenue by Product Category

	For the year ended December 31,				
	2020		2019		
	US$ million	**%**	*US$ million*	%	*change %*
Athletic Shoes	**3,752.3**	**44.4**	4,541.6	44.9	(17.4)
Casual/Outdoor Shoes & Sports Sandals	**620.6**	**7.4**	1,016.3	10.1	(38.9)
Soles, Components & Others	**362.8**	**4.3**	442.7	4.4	(18.0)
Apparel Wholesale*	**N/A**	**N/A**	171.8	1.7	N/A
Retail sales**	**3,709.2**	**43.9**	3,933.0	38.9	(5.7)
Total Revenue	**8,444.9**	**100.0**	10,105.4	100.0	(16.4)

* Sales of Texas Clothing Holding Corp. and its subsidiaries (the "TCHC Group"), which was disposed on May 31, 2019

** Including sales of shoes, apparel, commissions from concessionaire sales and others

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

In 2020, the Group's manufacturing business shipped a total of 244.4 million pairs of shoes, a decrease of 24.2% compared to the 322.4 million pairs shipped in the previous year. The average selling price per pair was US$17.89, an increase of 3.8% as compared to US$17.24 in the previous year, which was primarily due to the optimization of the Group's product portfolio.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in 2020, representing 46%, 39% and 11% of total shoe shipments, respectively. The shipment contribution from the Group's production facilities in China continued to decrease as compared with 2019 (13%), in line with the Group's migration strategy.

Cost Review

With respect to the cost of goods sold by the Group's manufacturing business in 2020, total main material costs were US$1,731.7 million (2019: US$2,215.0 million). The direct labor costs and production overheads were US$2,306.5 million (2019: US$2,678.5 million). The total cost of goods sold by the Group's manufacturing business was US$4,038.2 million during the year under review (2019: US$4,893.5 million). For the Group's retail business, Pou Sheng, stock costs were US$2,575.7 million during the year under review (2019: US$2,591.3 million).

In the year ended December 31, 2020, the Group's gross profit declined by 27.1% to US$1,831.0 million. The gross profit margin of the Group's manufacturing business contracted by 3.8 percentage points to 14.7% as compared to the previous year. The decrease in the gross profit margin for the manufacturing business was primarily due to operating deleveraging as a result of reduced capacity utilization and the decrease in revenue. Given the uncertainties and low visibility on customer demand, the Group optimized its production capacity and imposed strict cost control measures during the year under review, paving the way to restore optimal operational efficiency. As a result, the gross profit margin for the manufacturing business saw decent improvement in the second half of 2020, especially in the fourth quarter.

Cost of Goods Sold Analysis – Manufacturing Business

	For the year ended December 31,				
	2020		2019		
	US$ million	***%***	*US$ million*	*%*	*change %*
Main Material Costs	**1,731.7**	**42.9**	2,215.0	45.3	(21.8)
Direct Labor Costs & Production Overheads	**2,306.5**	**57.1**	2,678.5	54.7	(13.9)
Total Cost of Goods Sold	**4,038.2**	**100.0**	4,893.5	100.0	(17.5)

Pou Sheng's gross profit margin declined to 30.6% in the year ended December 31, 2020, compared to 34.1% in the previous year, which was mainly attributed to increased promotional activities, especially in the first half of the year, in order to motivate and revive sales amid the COVID-19 disruptions.

The Group's total selling and distribution expenses for 2020 declined to US$1,079.2 million (2019: US$1,222.1 million), equivalent to approximately 12.8% (2019: 12.1%) of revenue.

Administrative expenses for 2020 amounted to US$546.7 million (2019: US$682.7 million), equivalent to approximately 6.5% (2019: 6.8%) of revenue.

Net other expenses for 2020 surged to US$215.9 million (2019: US$137.6 million), equivalent to approximately 2.6% (2019: 1.4%) of revenue. The increase was mostly attributable to one-off charges of approximately US$107 million 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 volatility and uncertainty faced by the Group's manufacturing business, as well as the dynamic and uncertain environment faced by its retail business.

Recurring Loss/Profit Attributable to Owners of the Company

For the year ended December 31, 2020, the Group recognized a non-recurring loss of US$22.4 million, which included a loss of US$30.4 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$14.0 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 year ended December 31, 2019, the Group recognized a non-recurring profit of US$18.3 million, which included a net gain of US$18.6 million from the disposal of TCHC Group, and a gain of US$8.4 million due to fair value changes on financial instruments at FVTPL. Excluding all items of non-recurring nature, the recurring loss for the year ended December 31, 2020 was US$68.4 million, compared to a recurring profit of US$282.3 million for the previous year.

In addition to the analysis above, one-off charges for factory adjustments, together with the cost related to idle capacity with the Group's manufacturing business, also constituted a significant portion of the loss for the year ended December 31, 2020, with a majority of the expenses associated with the capacity adjustments being recorded in the first nine months of 2020.

Product Development

In 2020, the Group spent US$187.1 million (2019: US$208.6 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 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 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.

Liquidity, Financial Resources, Capital Structure and Others

Cash Flow

The Group recorded net cash generated from operating activities (net of tax) of US$834.2 million during the year under review, compared with that of US$793.6 million in the same period of 2019. Free cash flows amounted to US$578.9 million in year 2020. The solid operating cash flows and free cash flows was attributable to the strong cash flow of Pou Sheng. Net cash flows used in investing activities and financing activities amounted to US$298.2 million and US$640.4 million respectively during the year 2020.

Financial Position and Liquidity

The Group's financial position remained solid. As at December 31, 2020, the Group had cash and cash equivalents of US$897.0 million (December 31, 2019: US$982.1 million) and total bank and other borrowings of US$1,867.9 million (December 31, 2019: US$2,089.9 million). The Group's gearing ratio (total bank and other borrowings to total equity) was 42.7% (December 31, 2019: 46.1%). As at December 31, 2020, the Group had net borrowing of US$971.0 million (December 31, 2019: US$1,107.8 million). As at December 31, 2020, the Group had current assets of US$4,235.9 million (December 31, 2019: US$4,492.7 million) and current liabilities of US$2,337.9 million (December 31, 2019: US$2,459.0 million). The current ratio was 1.8 as at December 31, 2020 (December 31, 2019: 1.8).

Funding and Capital Structure

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 its working capital needs. As of December 31, 2020, around 69.2% of the Group's total bank and other borrowings were with remaining tenor of over one 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

In 2020, the capital expenditure for the Group's manufacturing and retail businesses were US$170.6 million (2019: US$279.3 million) and US$84.7 million (2019: US$115.4 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, as well as investments in innovation centers for product development and process re-engineering, were postponed in 2020 to preserve the Group's balance sheet. Other planned investments for the retail business, particularly for the opening of new stores, upgrading of existing store formats, and expansion of new concept and mega stores to provide a better shopping experience, were also delayed in 2020 due to the impact of COVID-19.

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 making material investments or acquiring capital assets.

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, 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.

Significant Investments and Material Acquisitions/Disposals

There were no significant investments or material acquisitions/disposals made in 2020.

Share of Results of Associates and Joint Ventures

In 2020, the share of results of associates and joint ventures was a combined profit of US$48.8 million, compared to a combined profit of US$52.0 million in the previous year.

Dividends

The Board has resolved not to declare a final dividend for the year ended December 31, 2020 (2019: HK$0.70 per share). The Group is inclined to preserve more cash momentarily until the global economy has recovered further and the Company's profitability has stabilized. It remains committed to upholding a relatively steady dividend level over the long-term.

Employees

As at December 31, 2020, the Group had approximately 298,500 employees employed across all regions in which it operates, a decrease of 14.0% as compared to approximately 347,100 employees employed as at December 31, 2019. 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 applies 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 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 Group expects to see a sequential improvement in its performance in 2021 supported by the recovery of global demand, although volatility may persist as North America and Europe continue to grapple with new strains of COVID-19. With vaccination programs around the world starting to roll out, supported by government stimulus programs, the Group is cautiously optimistic about its recovery momentum while the stability of its order books and improving retail sentiment being the primary drivers.

Efficiency and profit improvement will be the main focus in 2021. The Group will continue to leverage its core strengths, adaptability and competitive edges to overcome short-term disruptions and safeguard its sustainable profitability. It will prioritize value growth, rather than pure volume growth, and will leverage the 'athleisure' trend and seek more premium orders with better product mix. The Group will also prudently and progressively ramp back up its manufacturing capacity in Southeast Asia, with utilization expected to improve in all regions.

With the operating environment improving, the Group will resume its capital expenditure program, which includes investments in automation, capacity migration and optimization, as well as in the expansion and upgrade of experience-driven retail stores in Greater China. This will allow the Group to further meet customer demands for quality, flexibility and experience. The Group will continue to actively monitor the macroeconomic and geopolitical situation.

It 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 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, faster turnaround times and end-to-end capability. 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 and finally, leveraging on our Greater China retail operation for better cross-business synergies. This will ensure that the Group can continue to provide differentiated value-added and one-stop services to customers and strategic partners with whom it has maintained long-term relationships.

The Group remains optimistic about the long-term growth prospects of its retail business, given increasing health awareness among consumers post COVID-19, rising sports participation rates and the growth of 'athleisure' trend in the Greater China region. With the further optimization of its retail networks, Pou Sheng's omni-channel strategy will continue to be supported by its increasingly diverse B2C channels and the integration of sports services content that enrich the consumer experience. It will also continue to benefit from the Chinese government's supportive policies for growing the sports goods market, 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 THE COMPANY'S LISTED SECURITIES

During the year ended December 31, 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended December 31, 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.

RE-ELECTION OF DIRECTORS

In accordance with Bye-law 87 of the Bye-laws of the Company (the "Bye-laws"), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Hu Chia-Ho and Mr. Wong Hak Kun will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company ("2021 AGM").

Further details of the retiring directors proposed to be re-elected at the 2021 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2020 annual report of the Company, to the shareholders of the Company in due course.

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 with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2020.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management and the external auditor, Messrs. Deloitte Touche Tohmatsu, the Group's consolidated financial statements for the year ended December 31, 2020 and the accounting principles and practices adopted and discussed auditing, risk management and internal controls, and financial reporting matters.

SCOPE OF WORK OF THE EXTERNAL AUDITOR

The figures in respect of the Group's consolidated statement of financial position as at December 31, 2020, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2020 as set out in this announcement are in agreement with the amounts as set out in the audited consolidated financial statements of the Group for the year as approved by the Board on March 23, 2021. Since the work performed by the external auditor in this regard did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, the external auditor does not express any assurance on this announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.yueyuen.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

ANNUAL GENERAL MEETING

The 2021 AGM will be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on May 28, 2021 and the notice will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at 2021 AGM

For determining the entitlement of the shareholders of the Company to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Monday, May 24, 2021 to Friday, May 28, 2021, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, May 21, 2021 in order to be eligible to attend and vote at the 2021 AGM.

ACKNOWLEDGMENT

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 last year.

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

Hong Kong, March 23, 2021

As at the date of this announcement, the Board comprises the following members:

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 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