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, 2021

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2021	2020	**Percentage increase/ (decrease)**
Revenue *(US$'000)*	**4,807,087**	4,085,633	17.66%
Recurring profit (loss) attributable to owners of the Company *(US$'000)*	**173,468**	(123,624)	N/A
Non-recurring loss attributable to owners of the Company *(US$'000)*	**(3,213)**	(13,134)	(75.54%)
Profit (loss) attributable to owners of the Company *(US$'000)*	**170,255**	(136,758)	N/A
Basic earnings (loss) per share *(US cents)*	**10.57**	(8.49)	N/A

* *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, 2021 with comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2021

		For the six months ended June 30,	
		2021	2020
		(unaudited)	(unaudited)
	NOTES	***US$'000***	*US$'000*
Revenue	*3*	**4,807,087**	4,085,633
Cost of sales		**(3,568,673)**	(3,252,552)
Gross profit		**1,238,414**	833,081
Other income		**64,670**	46,839
Selling and distribution expenses		**(615,090)**	(480,227)
Administrative expenses		**(308,503)**	(303,040)
Other expenses		**(110,891)**	(191,137)
Finance costs		**(27,312)**	(37,866)
Share of results of associates		**17,142**	4,139
Share of results of joint ventures		**17,434**	4,217
Other gains and losses	*4*	**(3,807)**	(13,134)
Profit (loss) before taxation		**272,057**	(137,128)
Income tax (expense) credit	*5*	**(61,440)**	381
Profit (loss) for the period	*6*	**210,617**	(136,747)
Attributable to:			
Owners of the Company		**170,255**	(136,758)
Non-controlling interests		**40,362**	11
		210,617	(136,747)
		US cents	*US cents*
Earnings (loss) per share	*8*		
– Basic		**10.57**	(8.49)
– Diluted		**10.56**	(8.49)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2021

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit (loss) for the period	**210,617**	(136,747)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	**10,136**	(6,103)
Remeasurement of defined benefit obligations, net of tax	**–**	(5,015)
Share of other comprehensive income (expense) of an associate	**7,554**	(2,171)
	17,690	(13,289)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**6,695**	(16,002)
Share of other comprehensive expense of associates and joint ventures	**(721)**	(3,005)
Reserve released upon disposal of an associate	**(868)**	(270)
Reserve released upon partial disposal of a joint venture	**–**	(4,246)
	5,106	(23,523)
Other comprehensive income (expense) for the period	**22,796**	(36,812)
Total comprehensive income (expense) for the period	**233,413**	(173,559)
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**190,149**	(167,034)
Non-controlling interests	**43,264**	(6,525)
	233,413	(173,559)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2021

	NOTE	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Non-current assets			
Investment properties		**125,458**	125,382
Property, plant and equipment		**2,113,809**	2,212,365
Right-of-use assets		**662,903**	665,439
Deposits paid for acquisition of property, plant and equipment		**118,528**	101,423
Intangible assets		**18,442**	27,738
Goodwill		**265,710**	265,292
Interests in associates		**425,203**	418,370
Interests in joint ventures		**286,367**	281,879
Equity instruments at fair value through other comprehensive income		**35,342**	30,496
Financial assets at fair value through profit or loss		**35,380**	31,200
Rental deposits		**27,726**	28,297
Deferred tax assets		**89,258**	94,070
Deferred consideration receivable		**–**	5,018
		4,204,126	4,286,969
Current assets			
Inventories		**1,623,307**	1,584,934
Trade and other receivables	*9*	**1,687,167**	1,597,108
Other financial asset at amortized cost		**9,272**	–
Financial assets at fair value through profit or loss		**139,732**	120,763
Equity instruments at fair value through other comprehensive income		**4,769**	–
Taxation recoverable		**14,250**	13,968
Bank balances and cash		**926,855**	896,977
		4,405,352	4,213,750
Assets classified as held for sale		**16,942**	22,151
		4,422,294	4,235,901

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2021

	NOTE	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Current liabilities			
Trade and other payables	*10*	**1,316,165**	1,446,616
Contract liabilities		**63,599**	95,238
Financial liabilities at fair value through profit or loss		**48**	1,085
Taxation payable		**58,261**	58,303
Bank borrowings		**627,280**	574,638
Lease liabilities		**150,877**	161,989
		2,216,230	2,337,869
Net current assets		**2,206,064**	1,898,032
Total assets less current liabilities		**6,410,190**	6,185,001
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**18,749**	25,099
Bank borrowings		**1,280,135**	1,293,303
Deferred tax liabilities		**38,175**	39,271
Lease liabilities		**342,755**	330,994
Retirement benefit obligations		**127,278**	122,192
		1,807,092	1,810,859
Net assets		**4,603,098**	4,374,142
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**4,032,353**	3,843,814
Equity attributable to owners of the Company		**4,084,393**	3,895,854
Non-controlling interests		**518,705**	478,288
Total equity		**4,603,098**	4,374,142

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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.

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.

The accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2021 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2020.

Application of amendments to Hong Kong Financial Reporting Standards ("HKFRS")

In the current interim period, the Group has applied 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, 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Except as described below, the application of 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 on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Transition and summary of effects

As at January 1, 2021, the Group has credit linked notes, bank borrowings and interest rate swaps, the interest of which are indexed to benchmark rates that may be subject to interest rate benchmark reform. The carrying amount of credit linked notes and bank borrowings were US$20,306,000 and US$1,376,653,000, respectively. The notional amount of the interest rate swaps were US$800,000,000.

The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**2,786,584**	2,418,465
Retailing Business	**2,020,503**	1,667,168
	4,807,087	4,085,633

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Fair value gain (loss) on financial instruments at fair value through profit or loss	**9,774**	(21,886)
Gain on disposal of an associate	**2,000**	2,087
Gain on partial disposal of a joint venture	**–**	15,665
Impairment loss on interest in an associate	**(14,011)**	(9,000)
Impairment loss on intangible assets	**(1,570)**	–
	(3,807)	(13,134)

5. INCOME TAX EXPENSE (CREDIT)

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
The People's Republic of China Enterprise Income Tax		
– current period	**34,088**	12,055
– overprovision in prior periods	**(2,318)**	(1,580)
Overseas taxation		
– current period	**24,886**	8,268
– under(over)provision in prior periods	**1,152**	(2,502)
	57,808	16,241
Deferred tax expense (credit)	**3,632**	(16,622)
	61,440	(381)

6. PROFIT (LOSS) FOR THE PERIOD

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit (loss) for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,117,413**	1,167,005
Net exchange gain (included in other income)	**(3,137)**	(1,107)
Amortization of intangible assets (included in selling and distribution expenses)	**7,808**	7,310
Depreciation of right-of-use assets	**99,801**	84,034
Depreciation of property, plant and equipment *(note)*	**174,907**	175,006
Loss on disposal of property, plant and equipment (included in other expenses)	**3,733**	5,139

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,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Dividends recognized as distribution during the period:		
2019 final dividend of HK$0.70 per share	**–**	145,430

No final dividend for the year ended December 31, 2020 was declared. The 2019 final dividend of approximately HK$1,127,141,000, equivalent to approximately US$145,430,000, was paid on June 24, 2020 to the shareholders of the Company.

The board of directors of the Company (the "Board") has resolved not to declare an interim dividend payment for the six months ended June 30, 2021 (2020: Nil).

8. EARNINGS (LOSS) PER SHARE

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

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Earnings (loss):		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share, being profit (loss) for the period attributable to owners of the Company	**170,255**	(136,758)

8. EARNINGS (LOSS) PER SHARE (CONTINUED)

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,610,509,196**	1,610,173,140
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	**1,551,298**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,612,060,494**	1,610,173,140

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 did not assume vesting of the Company's outstanding unvested awarded shares since their assumed vesting would result in a decrease in loss per share.

The computation of diluted earnings (loss) per share for both periods does not assume the exercise of share options of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, because the exercise price of those options was higher than the average market price of Pou Sheng's shares for both periods.

9. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$1,121,406,000 (December 31, 2020: US$1,120,141,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2021	At December 31, 2020
	(unaudited)	(audited)
	US$'000	*US$'000*
0 to 30 days	**679,395**	651,103
31 to 90 days	**411,088**	452,393
Over 90 days	**30,923**	16,645
	1,121,406	1,120,141

10. TRADE AND OTHER PAYABLES

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

	At June 30, 2021 (unaudited) *US$'000*	At December 31, 2020 (audited) *US$'000*
0 to 30 days	**454,535**	462,502
31 to 90 days	**107,898**	113,747
Over 90 days	**19,562**	21,673
	581,995	597,922

11. CONTINGENCIES

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

	At June 30, 2021 (unaudited) *US$'000*	At December 31, 2020 (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	**36,269**	36,267
– amount utilized	**10,779**	12,019
(ii) associates		
– amount guaranteed	**15,140**	13,550
– amount utilized	**10,499**	11,700

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. 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").

In the first half of 2021, the global market for sportswear rebounded further as economies around the world started to emerge from the downturn caused by the Novel Coronavirus ("COVID-19") pandemic. As a result, despite seeing some volatility in the operating environment, the performance of the Group's manufacturing business improved considerably as global demand for its products recovered. The rising order book, along with a higher and more balanced utilization rate facilitated an improvement in production efficiency during the period under review, supporting its return to profitability.

Pou Sheng, on the other hand, saw a rather bumpy recovery in the first half of 2021. It started the year with a strong bounce back in revenue as well as impressive margins, particularly in the first quarter of 2021, as consumption in the Greater China region continued to surpass pre-COVID-19 levels. However, market dynamics that emerged from late March weighed on its sales momentum in the second quarter of 2021. Nevertheless, Pou Sheng kept leveraging on the continued integration of its omni-channels – connecting online public and private traffic domains with its refined and more efficient brick-and-mortar distribution network in China – which enabled it to deepen its engagement with consumers and to navigate through the dynamic demand being seen in the marketplace. For a more detailed explanation of the strategy of the Group's retail business, please refer to the results announcement of Pou Sheng.

Despite the volatile business environment during the period under review, the Group remained 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 for 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 the 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. It also places all employees' health, safety and welfare at top priority in a time of multifaceted disruption. 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 six months ended June 30, 2021, the Group recorded revenue of US$4,807.1 million, representing an increase of 17.7%, compared with the corresponding period of last year. The increase in revenue was attributable to the decent recovery from the low base a year ago, when the COVID-19 outbreak negatively impacted the business in 2020. The profit attributable to owners of the Company was US$170.3 million, compared to the loss attributable to owners of the Company of US$136.8 million recorded for the corresponding period of last year. The basic earnings per share for the first half of 2021 was 10.57 US cents, compared to the basic loss per share of 8.49 US cents for the corresponding period of last year.

Total Revenue by Category

For the six months ended June 30, 2021, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 11.8% to US$2,505.5 million, compared with the corresponding period of last year. The Group benefited strongly from demand recovery with the volume of shoes shipped during the period increasing by 5.0% to 136.4 million pairs, alongside the continued refinement and optimization of its capacity and product mix. The average selling price increased by 6.5% to US$18.37 per pair, as compared with the corresponding period of last year, led largely by growing demand for high-end categories in the Group's product portfolio and its continued efforts to upgrade its mix with a focus on more high-value orders.

The Group's athletic/outdoor shoes category accounted for 83.1% of footwear manufacturing revenue in the first half of 2021. Casual shoes and sports sandals accounted for 16.9% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 43.3% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.8% 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$2,786.6 million in the first half of 2021, representing an increase of 15.2% as compared to the corresponding period of last year.

While all categories experienced consumer-led recovery during the period, the increase in overall manufacturing revenue was supported by the exceptional growth of the Group's casual shoes and sports sandals category, as well as soles, components & others category, which grew 33.4% and 58.2% respectively year-on-year.

In the six months ended June 30, 2021, revenue attributed to Pou Sheng, the Group's retail subsidiary, increased by 21.2% to US$2,020.5 million, compared to US$1,667.1 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue in the first half of 2021 increased by 11.4% to RMB13,073.9 million, compared to RMB11,740.2 million in the corresponding period of last year. The increase in revenue was mainly attributed to strong consumer recovery in China in the first quarter, despite the impact of market dynamics in the second quarter of 2021. As of June 30, 2021, Pou Sheng had 4,968 directly operated retail outlets and 3,860 sub-distributors stores across the Greater China region, representing a net closure of 247 stores as compared with the year end of 2020 – a result of continued refinement of its store portfolios.

Total Revenue by Category	**For the six months ended June 30,**				
	2021		2020		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes*	**2,081.4**	**43.3**	1,922.9	47.1	8.2
Casual Shoes & Sports Sandals*	**424.1**	**8.8**	317.9	7.8	33.4
Soles, Components & Others	**281.1**	**5.9**	177.7	4.3	58.2
Pou Sheng**	**2,020.5**	**42.0**	1,667.1	40.8	21.2
Total Revenue	**4,807.1**	**100.0**	4,085.6	100.0	17.7

* *The comparative figures were regrouped in accordance with the Group's new category classification*

** *Sales of the Group's retail subsidiary in China, including shoes, apparel, commissions from concessionaire sales and others*

Manufacturing orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. Reducing lead-times in response to the fast fashion trend remains at the core of many customers' long-term success, with an increasing number of orders requesting a shorter lead-times of between 30-45 days. Nevertheless, some customers' short-term priority is on product availability and on-time delivery.

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 2021, the Group's manufacturing business shipped a total of 136.4 million pairs of shoes, an increase of 5.0% compared to the 129.9 million pairs shipped in the corresponding period of last year, at a record high level production utilization rate of around 89%. The average selling price per pair was US$18.37, an increase of 6.5% as compared to US$17.25 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 2021, representing 45%, 41% and 10% of total shoe shipments, respectively.

Cost Review

With respect to the cost of goods sold by the Group's manufacturing business in the first half of 2021, total main material costs were US$1,022.8 million (first half of 2020: US$869.4 million). The direct labor costs and production overheads were US$1,255.2 million (first half of 2020: US$1,215.8 million). The total cost of goods sold by the Group's manufacturing business was US$2,278.0 million for the first half of 2021 (first half of 2020: US$2,085.2 million). For the Group's retail business, Pou Sheng, stock costs were US$1,290.7 million in the first half of 2021 (first half of 2020: US$1,167.3 million).

In the six months ended June 30, 2021, the Group's gross profit increased by 48.7% to US$1,238.4 million. The gross profit of the manufacturing business increased by 52.7% to US$508.6 million, whilst the gross profit margin expanded by 4.5 percentage points to 18.3%, as compared to the corresponding period of last year, alongside positive operating leverage. Its cost structure was well streamlined primarily due to a higher order fill rate and a more balanced capacity utilization, all of which attributed to increased operational efficiency.

Cost of Goods Sold Analysis – Manufacturing Business

	For the six months ended June 30,				
	2021		2020		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Main Material Costs	**1,022.8**	**44.9**	869.4	41.7	17.6
Direct Labor Costs & Production Overheads	**1,255.2**	**55.1**	1,215.8	58.3	3.2
Total Cost of Goods Sold	**2,278.0**	**100.0**	2,085.2	100.0	9.2

Pou Sheng's gross profit margin increased by 6.1 percentage points to 36.1% in the first half of 2021, as compared to the corresponding period of last year, which was mainly attributed to its effective promotion strategy, disciplined discount control and enhanced sales mix, along with increasing sales. Gross profit margins for the overall Group, manufacturing business and Pou Sheng all registered sequential improvements during the second quarter of 2021, as compared to the first quarter of 2021.

The Group's total selling and distribution expenses for the first half of 2021 amounted to US$615.1 million (first half of 2020: US$480.2 million), equivalent to approximately 12.8% (first half of 2020: 11.8%) of revenue.

Administrative expenses for the first half of 2021 amounted to US$308.5 million (first half of 2020: US$303.0 million), equivalent to approximately 6.4% (first half of 2020: 7.4%) of revenue.

Net other expenses for the first half of 2021 decreased by 68.0% to US$46.2 million (first half of 2020: US$144.3 million), equivalent to approximately 1.0% (first half of 2020: 3.5%) of revenue. The sharp decrease was mostly due to a high base in the corresponding period of last year, the majority of which were one-off charges totaling US$84 million arising from factory adjustments on the manufacturing side.

Recurring Profit/Loss Attributable to Owners of the Company

For the six months ended June 30, 2021, the Group recognized a non-recurring loss attributable to owners of the Company of US$3.2 million, which included a gain of US$9.8 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), which was offset by an impairment loss of US$14.0 million on interest in an associate. In the same period of 2020, the Group recognized a non-recurring loss attributable to owners of the Company of US$13.1 million, which included a loss of US$21.9 million due to fair value changes on financial instruments at FVTPL, as well as an impairment loss of US$9.0 million on the interest in an associate, that was partly offset by a one-off gain of US$15.7 million on the partial disposal of an interest in a joint venture. Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the six months ended June 30, 2021 was US$173.5 million, compared to a recurring loss attributable to owners of the Company of US$123.6 million for the corresponding period of last year.

Product Development

During the first half of 2021, the Group spent US$95.3 million (first half of 2020: US$95.4 million) on product development, including investments in sampling, technological and digitalization 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 sustainable 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$226.0 million during the first half of 2021 (first half of 2020: US$280.8 million). Free cash flow amounted to US$112.1 million during the first half of 2021, which was mainly contributed by Pou Sheng. Net cash flow used in investing and financing activities amounted to US$109.5 million and US$88.5 million respectively during the first half of 2021.

Financial Position and Liquidity

The Group's financial position remained solid. As at June 30, 2021, the Group had cash and cash equivalents of US$926.9 million (December 31, 2020: US$897.0 million) and total bank borrowings of US$1,907.4 million (December 31, 2020: US$1,867.9 million). The Group's gearing ratio (total bank borrowings to total equity) was 41.4% (December 31, 2020: 42.7%). As at June 30, 2021, the Group had net borrowing of US$980.6 million (December 31, 2020: US$971.0 million). As at June 30, 2021, the Group had current assets of US$4,422.3 million (December 31, 2020: US$4,235.9 million) and current liabilities of US$2,216.2 million (December 31, 2020: US$2,337.9 million). The current ratio was 2.0 as at June 30, 2021 (December 31, 2020: 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 June 30, 2021, around 67.1% of the Group's total bank 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 Group's cash holdings in relation to its manufacturing business are held in USD and also 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 borrowings and cash balances are held mostly in RMB, which is its functional currency.

The vast majority of the Group's bank 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 2021, the capital expenditure for the Group's manufacturing and retail businesses were US$79.4 million (first half of 2020: US$107.8 million) and US$34.5 million (first half of 2020: US$23.2 million) respectively, as it proceeded with its capital expenditure program in strategic areas in a rather prudent manner. As for investments in its retail business, the Group resumed the opening and upgrade of experience-driven retail stores to provide a better shopping experience, and the further optimization of both of its online and retail networks to capture growth opportunities in Greater China.

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 plans for making material investments or acquiring capital assets.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the detail of which can be seen in Note 17 to the condensed consolidated financial statements in the 2021 interim report of the Company.

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 during the first half of 2021.

Share of Results of Associates and Joint Ventures

During the first half of 2021, the share of results of associates and joint ventures was a combined profit of US$34.6 million, compared to a combined profit of US$8.4 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, 2021 (2020: Nil). The Group is inclined to preserve more cash momentarily amidst the dynamic business environment until the global pandemic is under control and the Company's profitability has stabilized. It remains committed to upholding a relatively steady dividend level over the long-term.

Employees

As at June 30, 2021, the Group had approximately 303,800 employees employed across all regions in which it operates, a decrease of 4.7% as compared to approximately 318,800 employees employed as at June 30, 2020. 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 is cautiously optimistic about its continued recovery momentum, particularly for the demand for its manufacturing business, with many global vaccination campaigns proceeding well. This will further support the recovery of global demand for the Group's footwear products.

The Group recognizes, however, the heightened operating risks on the manufacturing side, posed by the resurgence of COVID-19 in certain Southeast Asian countries where its production sites are located, which has disrupted its operational efficiency thus far into the third quarter of 2021. The Group will continue to look at ways to maintain the highest level of flexibility to sustain its efficiency and productivity, and leverage its core strengths, adaptability and competitive edges to overcome any short-term disruptions and safeguard its growth recovery and sustainable profitability.

It will continue to prioritize value growth, rather than pure volume growth, and will leverage the 'athleisure' trend and seek more premium orders with a better product mix. It will continue to dynamically allocate and expand its manufacturing capacity where needed in the coming quarters while balancing increasing demand and its order pipeline, as well as labor supply, which will hinge on the extent of the COVID-19 outbreak in Southeast Asia.

With the Group having just rolled out the third wave of SAP ERP implementation within its manufacturing business as an integral part of its digital transformation strategy, it will continue to explore ways to digitalize its processes to achieve manufacturing excellence. Over the longer-term, it will continue to proactively adapt its production capacity and capability to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility, faster turnaround times, on-time delivery 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 ERP system implementation to optimize its ongoing smart manufacturing strategy and finally, leveraging on its 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.

In respect of its retail business, Pou Sheng, the Group is cautiously optimistic about its long-term growth prospects with its digital transformation and cross-channel integrations being supported by its optimized channel structure, diversified B2C channels, and seamless interactions with consumers that utilise sports services content that enriches consumer experience. While its short-term performance will be inevitably impacted by current market dynamics and uncertainties, it expects its path to recovery to continue in a neutrally-optimistic manner. It will also closely monitor the market dynamics in mainland China while working closely with its brand partners for sustainable growth.

Going forward, the Group remains confident that the above strategies will enable it to continue providing its brand partners with end-to-end solutions, anchoring quality growth, 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, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Share Award Scheme of the Company, pursuant to the terms of the trust deed of the Share Award Scheme of the Company, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 1,526,000 shares in the Company at a total consideration of approximately HK$29,011,000 (equivalent to approximately US$3,737,000).

CORPORATE GOVERNANCE

During the six months ended June 30, 2021, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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, 2021.

REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT

The Audit Committee has reviewed with management 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.

In addition, our auditor, Messrs. Deloitte Touche Tohmatsu, has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2021 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 and an unmodified review report is issued.

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 (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2021 will be dispatched to shareholders and published on the aforesaid websites in due course.

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

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

Hong Kong, August 12, 2021

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 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