裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號：551

2020 INTERIM REPORT 中期報告

裕元工業(集團)有限公司*
Yue Yuen Industrial (Holdings) Limited
(Incorporated in Bermuda with limited liability)
Stock Code: 00551

2020 Interim Report

CONTENTS

* *For identification purpose only*

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty [5] *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Tsai Ming-Lun, Ming *(resigned on April 1, 2020)*
Hu Chia-Ho
Liu George Hong-Chih
Hu Dien Chien
Yu Huan-Chang *(appointed on April 27, 2020)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Hak Kun [1, 2, 3, 4]
Ho Lai Hong [1, 3, 5, 6]
Yen Mun-Gie *(also known as Teresa Yen)* [1, 3, 5]
Chen Chia-Shen *(appointed on January 10, 2020)* [1, 3]
Hsieh Yung Hsiang (also known as Alfred Hsieh)
(retired on March 25, 2020)

Notes:

1. *Member of audit committee*
2. *Chairman of audit committee*
3. *Member of remuneration committee*
4. *Chairman of remuneration committee*
5. *Member of nomination committee*
6. *Chairman of nomination committee*

COMPANY SECRETARY

Chau Chi Ming, Dickens

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

22nd Floor, C-Bons International Center
108 Wai Yip Street
Kwun Tong, Kowloon, Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

- Bank of America Merrill Lynch
- Bank of Communications
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- CTBC Bank
- Citibank, N.A.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- J.P. Morgan
- Mizuho Bank Ltd.
- MUFG Bank Ltd.
- OCBC Bank
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank
- The Hongkong and Shanghai Banking Corporation Limited
- UBS AG
- United Overseas Bank Ltd.

SOLICITORS

Reed Smith Richards Butler

WEBSITE

www.yueyuen.com

STOCK CODE: 00551

FINANCIAL HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業(集團)有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 29, which comprise the condensed consolidated statement of financial position as of June 30, 2020 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 13, 2020

INTERIM RESULTS

The directors of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2020 with comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2020

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2020

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2020

	NOTES	**At June 30, 2020 (unaudited) US$'000**	At December 31, 2019 (audited) US$'000
Non-current assets			
Investment properties	9	**113,013**	113,222
Property, plant and equipment	9	**2,300,725**	2,362,234
Right-of-use assets	10	**532,440**	580,161
Deposits paid for acquisition of property, plant and equipment		**106,604**	105,235
Intangible assets		**32,792**	40,683
Goodwill		**260,440**	261,558
Interests in associates		**406,712**	413,966
Interests in joint ventures		**266,126**	248,886
Equity instruments at fair value through other comprehensive income		**25,792**	31,889
Financial assets at fair value through profit or loss		**38,742**	36,811
Rental deposits		**26,101**	25,622
Deferred tax assets		**84,937**	67,969
Deferred consideration receivable		**9,839**	8,500
		4,204,263	4,296,736
Current assets			
Inventories		**1,359,159**	1,822,845
Trade and other receivables	11	**1,596,670**	1,603,843
Other financial assets at amortized cost		**1,808**	6,036
Financial assets at fair value through profit or loss		**13,005**	19,141
Taxation recoverable		**14,666**	12,771
Restricted bank deposits		**–**	1,150
Bank balances and cash		**1,107,385**	982,079
		4,092,693	4,447,865
Assets classified as held for sale	12	**23,135**	44,790
		4,115,828	4,492,655

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2020

	NOTES	**At June 30, 2020 (unaudited) US$'000**	At December 31, 2019 (audited) US$'000
Current liabilities			
Trade and other payables	13	**1,155,983**	1,461,995
Contract liabilities		**29,333**	64,005
Financial liabilities at fair value through profit or loss		**292**	–
Taxation payable		**50,882**	69,344
Bank and other borrowings	14	**973,655**	733,283
Lease liabilities		**132,255**	130,368
		2,342,400	2,458,995
Net current assets		**1,773,428**	2,033,660
Total assets less current liabilities		**5,977,691**	6,330,396
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**29,874**	10,287
Bank and other borrowings	14	**1,349,595**	1,356,596
Deferred tax liabilities		**38,880**	40,465
Lease liabilities		**232,286**	272,364
Retirement benefit obligations		**112,834**	117,593
		1,763,469	1,797,305
Net assets		**4,214,222**	4,533,091
Capital and reserves			
Share capital	15	**52,040**	52,040
Reserves		**3,719,575**	4,046,666
Equity attributable to owners of the Company		**3,771,615**	4,098,706
Non-controlling interests		**442,607**	434,385
Total equity		**4,214,222**	4,533,091

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Statutory reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2019 (audited)	52,182	604,708	20,406	(16,688)	21,793	4,551	20,245	(7,144)	349	95,347	27,486	3,304,265	4,127,500	418,536	4,546,036
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	9	–	9	(470)	(461)
Fair value gain on equity instruments at fair value through other comprehensive income	–	–	12,418	–	–	–	–	–	–	–	–	–	12,418	–	12,418
Share of other comprehensive (expense) income of associates and joint ventures	–	–	(2,406)	–	–	–	1,074	–	–	–	902	–	(430)	(38)	(468)
Reserve released upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(380)	–	(380)	–	(380)
Reserve released upon deemed disposal of an associate	–	–	–	–	–	–	–	–	–	–	(40)	–	(40)	–	(40)
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	165,877	165,877	28,939	194,816
Total comprehensive income for the period	–	–	10,012	–	–	–	1,074	–	–	–	491	165,877	177,454	28,431	205,885
Recognition of equity-settled share-based payments, net of amount lapsed relating to share options and share awards not yet vested	–	–	–	–	–	–	–	–	546	–	–	–	546	2,385	2,931
Share repurchased and cancelled	(142)	(12,031)	–	–	–	–	–	–	–	–	–	–	(12,173)	–	(12,173)
Cancellation of share options of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(3,911)	(3,911)	(10,673)	(14,584)
Contribution from a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	13,401	13,401
Acquisition of additional interests in a subsidiary	–	–	–	–	(6)	–	–	–	–	–	–	–	(6)	(2)	(8)
Dividends *(Note 7)*	–	–	–	–	–	–	–	–	–	–	–	(227,003)	(227,003)	–	(227,003)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,488)	(8,488)
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	7,506	–	(7,506)	–	–	–
Exercise of a listed subsidiary's share options	–	–	–	–	601	–	–	–	–	–	–	–	601	1,156	1,757
At June 30, 2019 (unaudited)	52,040	592,677	30,418	(16,688)	22,388	4,551	21,319	(7,144)	895	102,853	27,977	3,231,722	4,063,008	444,746	4,507,754
At January 1, 2020 (audited)	**52,040**	**592,677**	**29,750**	**(16,688)**	**21,996**	**4,551**	**21,804**	**(6,910)**	**1,388**	**114,764**	**18,347**	**3,264,987**	**4,098,706**	**434,385**	**4,533,091**
Exchange difference arising on the translation of foreign operations	-	-	-	-	-	-	-	-	-	-	**(9,830)**	-	**(9,830)**	**(6,172)**	**(16,002)**
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	**(6,103)**	-	-	-	-	-	-	-	-	-	**(6,103)**	-	**(6,103)**
Share of other comprehensive expense of associates and joint ventures	-	-	**(2,171)**	-	-	-	-	-	-	-	**(2,580)**	-	**(4,751)**	**(425)**	**(5,176)**
Remeasurement of defined benefit obligations	-	-	-	-	-	-	-	-	-	-	-	**(6,525)**	**(6,525)**	**82**	**(6,443)**
Deferred tax arising from remeasurement of defined benefit obligations	-	-	-	-	-	-	-	-	-	-	-	**1,449**	**1,449**	**(21)**	**1,428**
Reserve released upon disposal of an associate	-	-	-	-	-	-	-	-	-	-	**(270)**	-	**(270)**	-	**(270)**
Reserve released upon partial disposal of a joint venture	-	-	-	-	-	-	-	-	-	-	**(4,246)**	-	**(4,246)**	-	**(4,246)**
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	-	-	**(136,758)**	**(136,758)**	**11**	**(136,747)**
Total comprehensive expense for the period	-	-	**(8,274)**	-	-	-	-	-	-	-	**(16,926)**	**(141,834)**	**(167,034)**	**(6,525)**	**(173,559)**
Recognition of equity-settled share-based payments, net of amount lapsed relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	**413**	-	-	-	**413**	**(789)**	**(376)**
Share awards vested	-	-	-	-	-	-	-	**111**	**(86)**	-	-	**(25)**	-	-	-
Contribution from a non-controlling interest of a subsidiary	-	-	-	-	**(3,541)**	-	-	-	-	-	-	-	**(3,541)**	**16,762**	**13,221**
Acquisition of additional interests in subsidiaries	-	-	-	-	**(11,424)**	-	-	-	-	-	-	-	**(11,424)**	**(1,270)**	**(12,694)**
Dividends *(Note 7)*	-	-	-	-	-	-	-	-	-	-	-	**(145,430)**	**(145,430)**	-	**(145,430)**
Dividend paid to a non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	**(80)**	**(80)**
Transfer to statutory reserve fund	-	-	-	-	-	-	-	-	-	**6,211**	-	**(6,211)**	-	-	-
Exercise of a listed subsidiary's share options	-	-	-	-	**(75)**	-	-	-	-	-	-	-	**(75)**	**124**	**49**
At June 30, 2020 (unaudited)	**52,040**	**592,677**	**21,476**	**(16,688)**	**6,956**	**4,551**	**21,804**	**(6,799)**	**1,715**	**120,975**	**1,421**	**2,971,487**	**3,771,615**	**442,607**	**4,214,222**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2020

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the nominal amount of the shares of subsidiaries acquired pursuant to a corporate reorganization in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(b) The Group accounted for the acquisition of additional interests in subsidiaries and partial disposal of interests in subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received, after re-attribution of relevant reserves, was recognized in "other reserve".

(c) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Company established in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a statutory reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The statutory reserve fund can be used to offset the accumulated losses, if any, or to increase the capital of those subsidiaries.

According to the laws and regulations of Republic of China ("Taiwan"), the subsidiaries of the Company incorporated in Taiwan are required to set aside 10% of their statutory net income each year to statutory reserve fund, until the reserve balance has reached the paid-in share capital amount of those subsidiaries. The statutory reserve fund may be used to offset the accumulated losses of those subsidiaries. If those subsidiaries have no accumulated losses and the reserve has exceeded 25% of those subsidiaries' paid-in share capital, the excess may be transferred to the capital of those subsidiaries or distributed in cash.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	NOTE	For the six months ended June 30, 2020 (unaudited) US$'000	2019 (unaudited) US$'000
Net cash from operating activities		**280,769**	298,795
Net cash used in investing activities			
Payment for acquisition of property, plant and equipment		**(130,965)**	(175,252)
Payment for right-of-use assets		**(2,184)**	(1,260)
Payment of rental deposits		**(875)**	–
Proceeds from disposal of property, plant and equipment		**8,008**	8,005
Dividends received from joint ventures		**11,500**	15,050
Dividends received from associates		**1,173**	1,740
Dividends received from equity instruments at fair value through other comprehensive income		**121**	28
Investments in joint ventures		**(27,406)**	–
Investment in an associate		**(2,275)**	–
Deposits received in respect of/proceeds from disposal of assets classified as held for sale		**1,913**	–
Receipt of deferred consideration receivable		**1,250**	–
Settlement of currency structured and forward contracts and interest rate swaps		**(1,363)**	(1,354)
Purchase of financial assets at fair value through profit or loss		**(1,076)**	–
Redemption of other financial assets at amortized cost		**4,200**	600
Placement of structured bank deposits		**(7,156)**	(78,007)
Release of structured bank deposits		**7,156**	78,007
Release of restricted bank deposits		**1,150**	–
Interest received		**4,208**	6,124
Placement of restricted bank deposits		**–**	(2,150)
Addition of intangible assets		**–**	(1,389)
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of	16	**–**	97,708
Proceeds from disposal of right-of-use assets		**–**	59
		(132,621)	(52,091)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended June 30, 2020

	For the six months ended June 30, 2020 (unaudited) US$'000	2019 (unaudited) US$'000
Net cash used in financing activities		
Repayment of bank and other borrowings	**(1,280,210)**	(1,514,610)
Bank and other borrowings raised	**1,518,300**	1,535,932
Interest paid	**(28,496)**	(40,573)
Repayment of lease liabilities, including related interest	**(81,652)**	(61,161)
Dividends paid	**(145,430)**	(227,003)
Dividends paid to non-controlling interests of subsidiaries	**(80)**	(8,488)
Acquisition of additional interests in subsidiaries	**(12,694)**	(8)
Contribution from non-controlling interests of subsidiaries	**13,221**	13,401
Proceeds from issuance of a listed subsidiary's shares upon exercise of a listed subsidiary's share options	**49**	1,757
Share repurchased	**–**	(12,173)
	(16,992)	(312,926)
Net increase (decrease) in cash and cash equivalents	**131,156**	(66,222)
Effect of foreign exchange rate changes	**(5,850)**	225
Cash and cash equivalents at beginning of the period	**982,079**	851,420
Cash and cash equivalents at end of the period, represented by bank balances and cash	**1,107,385**	785,423

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.

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

Revenue from major products

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

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	US$'000
Athletic shoes	**2,018,235**	2,101,510
Casual/outdoor shoes	**178,464**	530,289
Sports sandals	**44,071**	59,098
Soles, components and others	**177,695**	239,918
Retail sales – shoes, apparel, commissions from concessionaire sales and others	**1,667,168**	1,968,064
Apparel wholesale	**–**	171,848
	4,085,633	5,070,727

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	US$'000
US	**679,269**	1,080,081
Europe	**672,966**	844,137
PRC	**2,098,407**	2,355,641
Other countries in Asia	**452,693**	523,462
Others	**182,298**	267,406
	4,085,633	5,070,727

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	US$'000
Fair value (loss) gain on financial instruments at fair value through profit or loss	**(21,886)**	1,815
Gain on disposal of an associate	**2,087**	–
Gain on disposal of subsidiaries *(Note 16)*	**–**	19,127
Gain on partial disposal of a joint venture *(Note 12)*	**15,665**	–
Gain on deemed disposal of an associate	**–**	367
Impairment loss on interest in an associate	**(9,000)**	–
Impairment loss on interest in a joint venture	**–**	(1,470)
Impairment loss on goodwill	**–**	(97)
	(13,134)	19,742

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX (CREDIT) EXPENSE

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

notes:

(i) 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 laws, implementation rules and notices in the PRC for both periods, except that certain subsidiaries of the Company which were located in the specified provinces of the Western Regions of the PRC and engaged in the business activities under the tax bulletin issued in the PRC. The directors of the Company consider that the relevant subsidiaries were eligible for the preferential tax rate of 15% for the six months ended June 30, 2019.

(ii) 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 a preferential income tax rate, commencing from the first profitable year.

The applicable tax rate for the subsidiaries in Vietnam range from nil to 20% for both periods.

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.

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 periods. For Indonesia, the tax rate has been changed from 25% to 22% in current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. (LOSS) PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	US$'000
(Loss) profit for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,167,005**	1,206,246
Net exchange (gain) loss (included in (other income) other expenses)	**(1,107)**	4,467
Amortization of intangible assets (included in selling and distribution expenses)	**7,310**	7,819
Depreciation of right-of-use assets	**84,034**	61,734
Depreciation of property, plant and equipment *(note)*	**175,006**	165,596
Net changes in allowance for inventories (included in cost of sales)	**(3,487)**	(12,663)
Loss on disposal of property, plant and equipment (included in other expenses)	**5,139**	7,700
Research and development expenditures (included in other expenses)	**95,394**	101,860
Impairment losses recognized on trade and other receivables	**969**	289

Finance costs		
Interest expenses for bank and other borrowings	**27,765**	40,573
Interest expenses for lease liabilities	**8,878**	6,915
Amortization of upfront fee of bank borrowings	**1,223**	1,323
	37,866	48,811

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

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

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

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

8. (LOSS) EARNINGS PER SHARE

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. (LOSS) EARNINGS PER SHARE (continued)

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

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 19(I)).

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

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$13,147,000 for cash proceeds of US$8,008,000, resulting in a loss on disposal of US$5,139,000 (six months ended June 30, 2019: loss of US$7,700,000).

During the current interim period, the Group acquired property, plant and equipment of US$129,418,000 (six months ended June 30, 2019: US$187,314,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. RIGHT-OF-USE ASSETS

During the current interim period, the Group recognized right-of-use assets amounting to US$55,043,000 (six months ended June 30, 2019: US$68,736,000).

During the current interim period, certain retail stores were not available for use in February 2020 as a result of closure of shopping malls. The Group had to temporarily close its retail stores in order to contain the spread of COVID-19. Lessors of the relevant retail stores provided rent concessions to the Group through rent reductions ranging from 50% to 100% over one to three months. The changes in lease payments due to rent concessions constitute lease modifications. During the current interim period, reduction of the Group's lease liabilities of US$12,546,000 and a corresponding adjustment of the same amount to the right-of-use assets were derecognized.

At the end of the current interim period, the Group had contracted for the future lease payments for retail stores amounting to US$2,905,000 (December 31, 2019: nil).

11. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$1,111,814,000 (December 31, 2019: US$1,141,786,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

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

Included in the trade and other receivables, an amount of US$126,428,000 (December 31, 2019: US$1,777,000) are trade and other receivables from a joint venture.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ASSETS CLASSIFIED AS HELD FOR SALE

During the current interim period, the Group had partially disposed of its investment in a joint venture (which has been classified as asset classified as held for sale as at December 31, 2019) for a consideration of approximately US$32,279,000 and recognized a gain on partial disposal of approximately US$15,665,000. The remaining interest in this joint venture is expected to be sold within twelve months and therefore remained as an asset classified as held for sale.

13. TRADE AND OTHER PAYABLES

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

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

14. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained and repaid bank and other borrowings which mainly consisted of short-term revolving loans, of approximately US$1,518,300,000 (six months ended June 30, 2019: US$1,535,932,000) and US$1,280,210,000 (six months ended June 30, 2019: US$1,514,610,000) respectively. The proceeds of new bank borrowings were used to refinance bank borrowings and to finance the daily operation of the Group. Among these bank borrowings, the variable-rate borrowings bear interest at a premium over London Interbank Offered Rate, Hong Kong Interbank Offered Rate, Taipei Interbank Offered Rate or prevailing lending rate quoted by the People's Bank of China, as appropriate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorized:		
Ordinary shares of HK$0.25 each:		
At January 1, 2019, June 30, 2019, January 1, 2020 and June 30, 2020	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2019	1,616,642,986	404,160
Share repurchased and cancelled	(4,459,000)	(1,114)
At January 1, 2020 and June 30, 2020	1,612,183,986	403,046

	At June 30, 2020 (unaudited) US$'000	At December 31, 2019 (audited) US$'000
Shown in the condensed consolidated financial statements	**52,040**	52,040

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. DISPOSAL OF SUBSIDIARIES

For the six months ended June 30, 2019

On May 31, 2019, the Group disposed of its entire interest in Texas Clothing Holding Corp. ("TCHC") and its subsidiaries (the "TCHC Group") to a third party at an aggregate consideration of US$145,999,000. TCHC Group is principally engaged in the design, imports and sales of apparels in US.

The aggregate amounts of assets and liabilities attributable to TCHC Group on the date of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	14,049
Right-of-use assets	23,615
Intangible assets	48,512
Goodwill	11,176
Deferred tax assets	13,146
Inventories	132,885
Trade and other receivables	61,403
Tax recoverable	3,111
Bank balances and cash	8,809
Trade and other payables	(42,772)
Lease liabilities	(23,828)
Bank borrowings	(109,055)
Taxation payable	(1,116)
Deferred tax liabilities	(12,683)
	127,252
Gain on disposal of subsidiaries:	
Consideration received and receivable:	
Cash consideration	116,440
Deferred cash consideration *(note a)*	16,000
Restricted bank deposits *(note b)*	2,150
Contingent consideration *(note c)*	11,409
	145,999
Release of translation reserve	380
Net assets disposed of	(127,252)
Gain on disposal	19,127

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. DISPOSAL OF SUBSIDIARIES (continued)

For the six months ended June 30, 2019 (continued)

	US$'000
Net cash inflow arising on disposal:	
Cash consideration received, net of transaction costs paid	106,517
Less: bank balances and cash disposed of	(8,809)
	97,708

Notes:

(a) The deferred cash consideration will be settled in cash by the purchaser out of which US$15 million will be paid over 3 years after the date of disposal and US$1 million will be paid on the third anniversary of the date of disposal.

(b) The restricted bank deposits for the purpose of covering any expenses, claims or losses incurred by the seller, purchaser and other permitted indemnified parties and will be released on the first anniversary of the date of disposal.

(c) The contingent consideration is measured at fair value based on the forecasted gross sales of certain products of TCHC Group with respect to the period from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows in relation to contingent consideration is discounted at a rate that reflects the credit risk of the counterparties. In addition, in no event shall the contingent consideration paid by the purchaser exceed US$24,150,000.

The subsidiaries disposed of during the six months ended June 30, 2019 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Set out below is the information about how the fair values of the Group's financial assets and liabilities that are measured at fair value are determined, including the valuation techniques and inputs used:

	Fair value as at		
	June 30, 2020 (unaudited) US$'000	December 31, 2019 (audited) US$'000	**Fair value hierarchy**
Financial assets at FVTPL			
Credit linked notes *(note iii)*	**19,956**	19,956	Level 2
Foreign currency derivatives *(note i)*	**3,776**	5,651	Level 2
Interest rate swap *(note ii)*	**–**	379	Level 2
Unlisted overseas funds *(note iii)*	**14,866**	17,651	Level 2
Contingent consideration *(note v)*	**13,149**	12,315	Level 3
Equity instruments at FVTOCI			
Listed equity securities *(note iv)*	**25,452**	31,555	Level 1
Financial liabilities at FVTPL			
Foreign currency derivatives *(note i)*	**84**	–	Level 2
Interest rate swap *(note ii)*	**30,082**	10,287	Level 2

notes:

(i) Foreign currency derivative mainly represents foreign currency forward contracts and currency structured forward contracts. These financial assets and liabilities are measured at fair value with reference to discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(ii) The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

notes: (continued)

(iii) The fair values of credit linked notes and unlisted overseas funds are determined with reference to prices provided by the respective issuing financial institutions.

(iv) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted market bid prices in active market.

(v) Contingent consideration represents the receivables from the purchaser in relation to the disposal of TCHC Group. It is measured at fair value based on the forecasted gross sales of certain products of TCHC Group from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows to be settled by the purchaser in relation to the contingent consideration is discounted at a rate that reflects the credit risk of the counterparties.

18. CONTINGENCIES AND COMMITMENTS

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

(I) CONTINGENCIES

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CONTINGENCIES AND COMMITMENTS (continued)

(II) COMMITMENTS

	At June 30, 2020 (unaudited) US$'000	At December 31, 2019 (audited) US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	**48,033**	80,516
– acquisition of property, plant and equipment	**1,770**	5,882
	49,803	86,398

19. SHARE AWARD SCHEMES

(I) SHARE AWARD SCHEME OF THE COMPANY

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2020	2019
As at January 1	**1,311,500**	1,386,500
Vested	**(35,000)**	–
Lapsed	**(120,000)**	(40,000)
As at June 30	**1,156,500**	1,346,500

A total of 1,982,000 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2020 (December 31, 2019: 2,017,000 ordinary shares).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE AWARD SCHEMES (continued)

(II) SHARE AWARD SCHEME OF POU SHENG

Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company, has its share award scheme (the "Pou Sheng Share Award Scheme") adopted pursuant to a board resolution passed by Pou Sheng's directors on May 9, 2014 and amended on November 11, 2016. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2020	2019
As at January 1	**42,743,170**	43,843,450
Granted	**1,500,000**	13,826,000
Vested	**(4,305,000)**	(3,096,000)
Lapsed	**(9,775,370)**	(2,219,000)
As at June 30	**30,162,800**	52,354,450

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results

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

Recurring Loss/Profit Attributable to Owners of the Company

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

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

OPERATIONS

General Overview

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

General Overview (continued)

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

The Group remains committed to sustainability, ethical conduct and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines on employee relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity. Yue Yuen's parent company, Pou Chen Group, is also accredited by the Fair Labor Association (FLA) as a result of the Group's efforts in the areas of labor rights and sustainability.

As a people-oriented business, the Group is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social and governance, please refer to the 2019 Environmental, Social and Governance Report of the Company.

Total Revenue by Product Category

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

Total Revenue by Product Category (continued)

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

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

* TCHC Group was disposed on May 31, 2019

Orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. More and more customer orders have requested a shorter lead-time between 30-45 days, in line with the fast fashion trend.

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

Production Review

During the first half of 2020, the Group's manufacturing business shipped a total of 129.9 million pairs of shoes, a decrease of 20.4% compared to the 163.2 million pairs produced in the corresponding period of last year. The average selling price per pair was US$17.25, an increase of 4.6% as compared to US$16.49 in the corresponding period of last year.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in the first half of 2020, representing 43%, 42% and 11% of total shoe shipments, respectively, during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

Cost Review

With respect to the cost of goods sold by the Group's manufacturing business in the first half of 2020, total main material costs were US$869.4 million (first half of 2019: US$1,085.0 million). The direct labor costs and production overheads were US$1,215.8 million (first half of 2019: US$1,316.9 million). The total cost of goods sold by the Group's manufacturing business was US$2,085.2 million for the first half of 2020 (first half of 2019: US$2,401.9 million). For the Group's retail business, Pou Sheng, stock costs were US$1,167.3 million in the first half of 2020 (first half of 2019: US$1,288.7 million).

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OPERATIONS (continued)

Product Development

During the first half of 2020, the Group spent US$95.4 million (first half of 2019: US$101.9 million) on product development, including investments in sampling, technological and digitalized development, as well as production efficiency enhancements. For each of the major branded customers that have an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmental-friendly materials into the design, development and manufacture of its products.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Capital Expenditure

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

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

Contingent Liabilities

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

Significant Investments and Material Acquisitions/Disposals

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

Share of Results of Associates and Joint Ventures

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

Foreign Exchange Exposure

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

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

Employees

As at June 30, 2020, the Group had approximately 319,000 employees employed across all regions in which it operates, a decrease of 7.0% as compared to 343,000 employees employed as at June 30, 2019. The decrease was mostly attributed to the capacity adjustment amid the unprecedented pandemic. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Employees (continued)

The Group believes that employees are important assets, and has planned a holistic approach to the recruitment, employment, training and retention of employees.

The Group employs a competitive remuneration scheme and provides comprehensive employee benefits, in line with the relevant laws and regulations applicable to each of its operating locations. It sets aside a certain percentage of profits, according to the annual performance of the Group, as year-end bonuses to reward employees' contributions and work enthusiasm, allowing them to share in its operating results. It also provides insurance plans that are tailor-made to each operating location to reduce the medical expense burden of employees, as well as pension fund contributions in compliance with the laws and regulations of the local jurisdictions in which the Group operates.

The Group regularly provides internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training and corporate core values training, with the objective of enabling the Group's employees and management to enhance their skills and achieve expertise, as well as to boost their morale.

The social compliance program of the Group's parent, Pou Chen Group has been accredited by the Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers' rights around the world, making the Group the first and only FLA-accredited footwear supplier globally. The accreditation recognized the Group's commitment to globally implement workplace standards; implement a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; invest in a social compliance program, training, and remediation; and improve its transparency in remediating labor violations at its production sites and establish multiple grievance channels.

PROSPECTS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

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

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

The Group will continue to enhance its product development and innovation capabilities and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, and to create long-term synergies for its businesses in the future. Over the longer-term, it will continue to proactively adjust its production capacity to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility and faster turnaround time. This includes enabling more flexible set-ups and frequent line change-overs through process re-engineering, increased automation levels, and SAP ERP system implementation to optimize its ongoing smart manufacturing strategy.

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

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

OTHER INFORMATION

INTERIM DIVIDEND

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

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2020, the interests or short positions of the Company's directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests in the ordinary shares and underlying shares of HK$0.25 each of the Company

Name of director	Capacity	Number of shares/ underlying shares held *(Long position)*	Percentage of the issued share capital of the Company *(Note 1)*
Lu Chin Chu	Beneficial owner	45,000	0.00%
Lin Cheng-Tien	Beneficial owner	45,000	0.00%
Hu Chia-Ho	Beneficial owner	118,000 *(Note 2)*	0.01%
Liu George Hong-Chih	Beneficial owner	118,000 *(Note 2)*	0.01%
Hu Dien Chien	Beneficial owner	189,000 *(Note 2)*	0.01%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

(b) Interests in the ordinary shares and underlying shares of HK$0.01 each of Pou Sheng, an associated corporation of the Company within the meaning of Part XV of the SFO

Name of director	Capacity	Number of shares/ underlying shares held *(Long position)*	Percentage of the issued share capital of Pou Sheng *(Note 3)*
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.36%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

(c) Interests in the ordinary shares and underlying shares of NT$10.00 each of Pou Chen Corporation ("PCC"), an associated corporation of the Company within the meaning of Part XV of the SFO

Name of director	Capacity	Number of shares/ underlying shares held *(Long position)*	Percentage of the issued share capital of PCC *(Note 4)*
Lu Chin Chu	Beneficial owner	2,120,470	0.07%
Lu Chin Chu	Interests of children under 18 and/or spouse	73,300	0.00%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	0.14%
Chan Lu Min	Beneficial owner	366,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	0.01%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (continued)

Notes:

1. The total issued share capital of the Company as at June 30, 2020 is 1,612,183,986 shares.

2. Each of Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien is interested in 40,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018.

3. The total issued share capital of Pou Sheng as at June 30, 2020 is 5,356,847,615 shares.

4. The total issued share capital of PCC as at June 30, 2020 is 2,946,787,213 shares.

Other than the interests disclosed above, none of the directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2020.

SHARE INCENTIVE SCHEMES

(a) Share Option Scheme of the Company

The Company recognizes the importance of attracting talents and retaining employees and the contributions by other eligible participants by providing them with incentives and rewards through granting share-based incentives so as to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On May 31, 2019, the Company adopted a new share option scheme (the "Yue Yuen Share Option Scheme") under which the Board may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from May 31, 2019 to May 30, 2029, after which no further options may be offered or granted.

As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 shares, representing approximately 10.01% of the issued shares of the Company.

Without prior approval from the shareholders of the Company, the maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Yue Yuen Share Option Scheme (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue for the time being. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the twelve-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue on the date of such grant and having an aggregate value in excess of HK$5 million (equivalent to approximately US$0.6 million), must be approved in advance by the shareholders of the Company.

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.

The exercise price shall be determined by the Board, but in any event must not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted under the Yue Yuen Share Option Scheme since its adoption.

SHARE INCENTIVE SCHEMES (continued)

(b) Share Award Scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group (and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder ("Associated Entity")) and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded shares as it may determine appropriate provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the Board, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund will be made by the Company.

Eligible participant(s) selected by the Board for participation in the Yue Yuen Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Yue Yuen Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

SHARE INCENTIVE SCHEMES (continued)

(b) Share Award Scheme of the Company (continued)

Details of the movements of the awards during the period ended June 30, 2020 are as follows:

			Number of awarded shares					
	Date of grant	Vesting date	Outstanding as at January 1, 2020		Granted during the period	Lapsed/ cancelled during the period	Vested during the period	Outstanding as at June 30, 2020
Directors of the Company								
Tsai Ming-Lun, Ming *(Note 1)*	02.10.2018	31.05.2021	40,000		–	(40,000)	–	–
Hu Chia-Ho	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Liu George Hong-Chih	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Hu Dien Chien	01.06.2018	01.06.2020	35,000		–	–	(35,000)	–
	02.10.2018	31.05.2021	40,000		–	–	–	40,000
Sub-total			195,000		–	(40,000)	(35,000)	120,000
Employees of the Group and/ or Associated Entities								
	03.10.2016	02.10.2018	16,500	*(Note 2)*	–	–	–	16,500
	02.10.2018	31.05.2021	1,080,000		–	(80,000)	–	1,000,000
	21.11.2018	06.11.2020	20,000		–	–	–	20,000
Sub-total			1,116,500		–	(80,000)	–	1,036,500
Total			1,311,500		–	(120,000)	(35,000)	1,156,500

Notes:

1. Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.

2. These 16,500 shares are pending for vest because the employee to whom these shares were awarded on October 3, 2016 had taken unpaid leave of absence on the vesting date. The employee returned to work on September 1, 2019 and the vesting period of these 16,500 shares has been extended to August 31, 2020, as approved by the Board.

SHARE INCENTIVE SCHEMES (continued)

(c) Share Option Scheme of Pou Sheng

Pou Sheng recognizes the importance of offering incentives and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. Pou Sheng believes that this will align their interests with that of Pou Sheng.

The share option scheme of Pou Sheng was adopted by the shareholders of Pou Sheng on May 14, 2008 (the "Pou Sheng Share Option Scheme"), certain terms of which were amended on March 7, 2012, and was valid and effective for a period of ten years from the date of adoption. The Pou Sheng Share Option Scheme expired at the end of the day on May 13, 2018, after which no further share options should be offered or granted. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods.

Eligible participants of the Pou Sheng Share Option Scheme include directors and full time employees of the Pou Sheng Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Pou Sheng Group who the board of director of Pou Sheng (the "Pou Sheng Board") considers, in its sole discretion, have contributed or will contribute to the development and growth of the Pou Sheng Group.

Pursuant to the terms of the Pou Sheng Share Option Scheme, the total number of shares which may be issued upon exercise of all share options to be granted should not exceed 10% of the total number of Pou Sheng's issued shares as at the date on which dealings in Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares, representing approximately 6.63% of the total number of Pou Sheng's issued shares as at the date of this report). Unless approved by the shareholders of Pou Sheng and the Company, the maximum number of Pou Sheng's shares issued and to be issued upon exercise of the share options granted to each grantee under the Pou Sheng Share Option Scheme in any 12-month period should not exceed 1% of Pou Sheng's shares in issue for the time being.

All the share options granted under the Pou Sheng Share Option Scheme should be exercised at any time during a period to be determined and notified by the Pou Sheng Board at the time of making an offer and should not be exercised later than 10 years after the date of grant. The minimum period for which a share option must be held before it can be exercised should be determined by the Pou Sheng Board. The exercise price of any share option should be determined by the Pou Sheng Board but in any event should not be less than the higher of (i) the closing price of Pou Sheng's shares on the date of grant; (ii) the average closing price of Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of Pou Sheng's share. For grantee who is an employee or director of the Pou Sheng Group, he/she has to remain as an employee or director of the Pou Sheng Group until the share options being vested on him/her.

For Pou Sheng's share options in respect of 11,663,190 shares granted on November 14, 2016, upon the terms of the operation and share incentive agreement governing the grant, the total amount payable on acceptance of the share options was US$303,950.77 and the payment must be made within 5 days from the date on which the offer letters were delivered to the relevant grantees. Save for the aforesaid, under the rules of the Pou Sheng Share Option Scheme, the amount payable on acceptance of share option is HK$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.

SHARE INCENTIVE SCHEMES (continued)

(c) Share Option Scheme of Pou Sheng (continued)

As at June 30, 2020, an aggregate of 31,125,000 Pou Sheng's shares have been issued and an aggregate of 2,332,640 Pou Sheng's shares may be issued upon exercise of share options granted under the Pou Sheng Share Option Scheme. As at the date of this report, the total number of Pou Sheng's shares available for issue under the Pou Sheng Share Option Scheme is 2,332,640, representing approximately 0.04% of Pou Sheng's issued shares.

Pursuant to the Pou Sheng Share Option Scheme, movements in Pou Sheng's share options during the period are set out below:

				Number of underlying shares comprised in Pou Sheng's share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2020	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2020
Employees of Pou Sheng								
14.11.2016	2.494	14.11.2016-31.08.2018	01.09.2018–01.09.2020	1,166,320	–	–	–	1,166,320
		14.11.2016-31.08.2019	01.09.2019–01.09.2021	1,166,320	–	–	–	1,166,320
		14.11.2016-31.08.2020	01.09.2020–01.09.2022	2,332,640	–	–	(2,332,640)	–
		14.11.2016-31.08.2021	01.09.2021–01.09.2023	5,831,590	–	–	(5,831,590)	–
Sub-total				10,496,870	–	–	(8,164,230)	2,332,640
Former Employees of Pou Sheng								
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013–06.03.2020	375,000	–	(375,000)	–	–
Sub-total				375,000	–	(375,000)	–	–
Total				10,871,870	–	(375,000)	(8,164,230)	2,332,640

The weighted average closing price of Pou Sheng's shares immediately before March 5, 2020, the date on which Pou Sheng's share options were exercised is HK$2.00 per share.

Save as disclosed above, no share options had been granted, exercised, lapsed or cancelled under the Pou Sheng Share Option Scheme during the period.

SHARE INCENTIVE SCHEMES (continued)

(d) Share Award Scheme of Pou Sheng

The Pou Sheng share award scheme was adopted on May 9, 2014 and duly amended on November 11, 2016 (the "Pou Sheng Share Award Scheme") for recognizing the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng Group, providing incentives to retain them for continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme is valid and effective for a term of 10 years commencing on May 9, 2014. No further share awards should be granted upon termination or expiry of the term of the Pou Sheng Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Pou Sheng Board and approved by the Pou Sheng Board. All the share awards granted under the Pou Sheng Share Award Scheme should be vested in accordance with the conditions (such as employment status, individual performance and common key performance indicators) as determined by the Pou Sheng Board.

The total number of Pou Sheng's shares to be awarded under the Pou Sheng Share Award Scheme should not exceed 4% of Pou Sheng's issued shares as at the date of grant. The maximum number of Pou Sheng's shares (including vested and non-vested shares) which may be awarded to a selected participant should not exceed 1% of Pou Sheng's issued shares from time to time.

Eligible participant(s) selected by the Pou Sheng Board for participation in the Pou Sheng Share Award Scheme shall have no right to any dividend held under the trust before vesting which shall form part of the residual cash or any of the returned Pou Sheng's shares. The trustee of the Pou Sheng Share Award Scheme shall not exercise the voting rights in respect of any Pou Sheng's shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip dividend).

SHARE INCENTIVE SCHEMES (continued)

(d) Share Award Scheme of Pou Sheng (continued)

Pursuant to the Pou Sheng Share Award Scheme, movements in Pou Sheng's awarded shares during the period are set out below:

			Number of awarded shares				
	Date of grant	Vesting period	Outstanding as at January 1, 2020	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2020
Director of Pou Sheng							
Lee, Shao-Wu	25.03.2017	25.03.2017-24.03.2020	400,000	–	(400,000)	–	–
	11.08.2018	11.08.2018-10.09.2020	300,000	–	–	–	300,000
	11.08.2018	11.08.2018-10.03.2021	500,000	–	–	–	500,000
	23.03.2019	23.03.2019-22.09.2020	200,000	–	–	–	200,000
	23.03.2019	23.03.2019-22.09.2021	300,000	–	–	–	300,000
	23.03.2019	23.03.2019-22.03.2022	500,000	–	–	–	500,000
	31.03.2020	31.03.2020-30.03.2021	–	500,000	–	–	500,000
	31.03.2020	31.03.2020-30.03.2022	–	500,000	–	–	500,000
	31.03.2020	31.03.2020-30.03.2023	–	500,000	–	–	500,000
Sub-total			2,200,000	1,500,000	(400,000)	–	3,300,000

SHARE INCENTIVE SCHEMES (continued)

(d) Share Award Scheme of Pou Sheng (continued)

			Number of awarded shares				
	Date of grant	Vesting period	Outstanding as at January 1, 2020	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2020
Employees of Pou Sheng							
	14.11.2016	14.11.2016-31.08.2020	1,667,360	–	–	(1,667,360)	–
	14.11.2016	14.11.2016-31.08.2021	4,168,410	–	–	(4,168,410)	–
	25.03.2017	25.03.2017-24.03.2020	4,031,000	–	(3,905,000)	(126,000)	–
	03.07.2017	03.07.2017-02.07.2020	300,000	–	–	(300,000)	–
	14.11.2017	14.11.2017-13.11.2020	3,200,000	–	–	(1,000,000)	2,200,000
	11.08.2018	11.08.2018-30.06.2020	210,000	–	–	(210,000)	–
	11.08.2018	11.08.2018-10.09.2020	4,976,400	–	–	(126,600)	4,849,800
	11.08.2018	11.08.2018-31.12.2020	350,000	–	–	(350,000)	–
	11.08.2018	11.08.2018-10.03.2021	8,294,000	–	–	(211,000)	8,083,000
	23.03.2019	23.03.2019-22.09.2020	2,407,200	–	–	(191,200)	2,216,000
	23.03.2019	23.03.2019-30.09.2020	112,000	–	–	(112,000)	–
	23.03.2019	23.03.2019-22.09.2021	3,610,800	–	–	(286,800)	3,324,000
	23.03.2019	23.03.2019-30.09.2021	168,000	–	–	(168,000)	–
	23.03.2019	23.03.2019-22.03.2022	6,018,000	–	–	(478,000)	5,540,000
	23.03.2019	23.03.2019-31.03.2022	280,000	–	–	(280,000)	–
	15.11.2019	15.11.2019-14.12.2020	750,000	–	–	(100,000)	650,000
Sub-total			40,543,170	–	(3,905,000)	(9,775,370)	26,862,800
Total			42,743,170	1,500,000	(4,305,000)	(9,775,370)	30,162,800

The weighted average closing price of Pou Sheng's shares immediately before the grant of Pou Sheng's awarded shares on March 31, 2020 is HK$1.45 per share.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the "Share Incentive Schemes" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at June 30, 2020, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, other than the interests disclosed in "Directors' and Chief Executives' Interests in Securities", the following shareholders had notified the Company of their relevant interests in the ordinary shares and underlying shares of HK$0.25 each of the Company, which represent 5% or more of the issued share capital of the Company:

Name of shareholder	*Notes*	**Number of ordinary shares held**	**Percentage of the issued share capital of the Company***
		Long position	
Pou Chen Corporation ("PCC")	(a)	824,143,835	51.11%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.95%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.16%
Silchester International Investors LLP	(c)	97,081,000	6.02%
		Short Position	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.78%

* The total issued share capital of the Company as at June 30, 2020 is 1,612,183,986 shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (continued)

Notes:

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty and Mr. Chan Lu Min, who are directors of the Company, are also directors of PCC and Wealthplus. Mr. Tsai Ming-Lun, Ming resigned as a director of the Company, PCC and Wealthplus on April 1, 2020. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.

(b) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through its various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International indirectly through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company.

(c) Silchester International Investors LLP is interested in these 97,081,000 ordinary shares in its capacity as investment manager.

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at June 30, 2020.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since the date of the Company's 2019 annual report on March 30, 2020 are set out below:

Mr. Yu Huan-Chang was appointed as an executive director of the Company with effect from April 27, 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF ACCOUNTS

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

The external auditor has reviewed the condensed consolidated financial statements for the six months ended June 30, 2020 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices by focusing on transparency, accountability and responsibility to the Company's shareholders. During the six months ended June 30, 2020, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The general framework of the Company's corporate governance practices is set out in the corporate governance report in the Company's 2019 annual report, which is available on the Company's website.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 six months ended June 30, 2020.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the six month period ended June 30, 2020.

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.

DIRECTORS

As at the date of this report, the directors of the Company are:

Executive Directors:

Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih, Mr. Hu Dien Chien and Mr. Yu Huan-Chang.

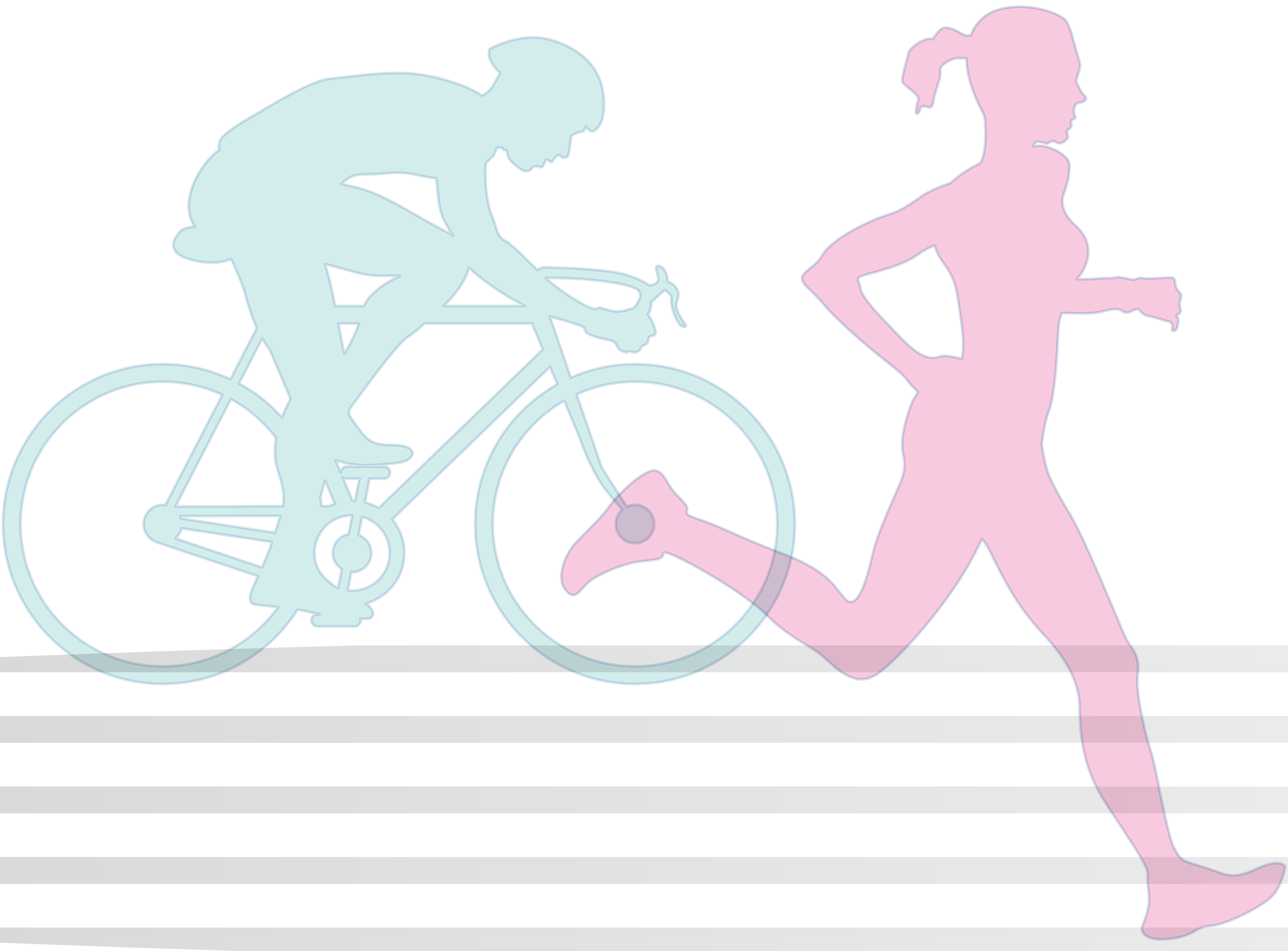
Independent Non-executive Directors:

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

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

Hong Kong, August 13, 2020

Website: www.yueyuen.com



裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

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