INTERIM REPORT 2021 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
於百慕達註冊成立之有限公司

Stock Code 股份代號：551

裕元工業(集團)有限公司*

Yue Yuen Industrial (Holdings) Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 00551

2021 Interim Report

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* *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
Hu Chia-Ho
Liu George Hong-Chih
Yu Huan-Chang

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 [1, 3]

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.
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank
- 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, 2021	2020	Percentage increase/ (decrease)
Revenue *(US$'000)*	**4,807,087**	4,085,633	**17.66%**
Recurring profit (loss) attributable to owners of the Company *(US$'000)*	**173,468**	(123,624)	**N/A**
Non-recurring loss attributable to owners of the Company *(US$'000)*	**(3,213)**	(13,134)	**(75.54%)**
Profit (loss) attributable to owners of the Company *(US$'000)*	**170,255**	(136,758)	**N/A**
Basic earnings (loss) per share *(US cents)*	**10.57**	(8.49)	**N/A**

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 26, which comprise the condensed consolidated statement of financial position as of June 30, 2021 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 12, 2021

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2021

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2021

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2021

	NOTES	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Non-current assets			
Investment properties		**125,458**	125,382
Property, plant and equipment	9	**2,113,809**	2,212,365
Right-of-use assets	10	**662,903**	665,439
Deposits paid for acquisition of property, plant and equipment		**118,528**	101,423
Intangible assets		**18,442**	27,738
Goodwill		**265,710**	265,292
Interests in associates		**425,203**	418,370
Interests in joint ventures		**286,367**	281,879
Equity instruments at fair value through other comprehensive income		**35,342**	30,496
Financial assets at fair value through profit or loss		**35,380**	31,200
Rental deposits		**27,726**	28,297
Deferred tax assets		**89,258**	94,070
Deferred consideration receivable		**–**	5,018
		4,204,126	4,286,969
Current assets			
Inventories		**1,623,307**	1,584,934
Trade and other receivables	11	**1,687,167**	1,597,108
Other financial asset at amortized cost		**9,272**	–
Financial assets at fair value through profit or loss		**139,732**	120,763
Equity instruments at fair value through other comprehensive income		**4,769**	–
Taxation recoverable		**14,250**	13,968
Bank balances and cash		**926,855**	896,977
		4,405,352	4,213,750
Assets classified as held for sale	12	**16,942**	22,151
		4,422,294	4,235,901

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2021

	NOTES	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Current liabilities			
Trade and other payables	13	**1,316,165**	1,446,616
Contract liabilities		**63,599**	95,238
Financial liabilities at fair value through profit or loss		**48**	1,085
Taxation payable		**58,261**	58,303
Bank borrowings	14	**627,280**	574,638
Lease liabilities		**150,877**	161,989
		2,216,230	2,337,869
Net current assets		**2,206,064**	1,898,032
Total assets less current liabilities		**6,410,190**	6,185,001
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**18,749**	25,099
Bank borrowings	14	**1,280,135**	1,293,303
Deferred tax liabilities		**38,175**	39,271
Lease liabilities		**342,755**	330,994
Retirement benefit obligations		**127,278**	122,192
		1,807,092	1,810,859
Net assets		**4,603,098**	4,374,142
Capital and reserves			
Share capital	15	**52,040**	52,040
Reserves		**4,032,353**	3,843,814
Equity attributable to owners of the Company		**4,084,393**	3,895,854
Non-controlling interests		**518,705**	478,288
Total equity		**4,603,098**	4,374,142

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

	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, 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 declared 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
At January 1, 2021 (audited)	52,040	592,677	25,680	(16,688)	6,956	4,551	24,954	(6,631)	1,869	130,163	79,979	3,000,304	3,895,854	478,288	4,374,142
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	3,941	–	3,941	2,754	6,695
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	–	–	10,141	–	–	–	–	–	–	–	–	–	10,141	(5)	10,136
Share of other comprehensive income (expense) of associates and joint ventures	–	–	7,554	–	–	–	–	–	–	–	(874)	–	6,680	153	6,833
Reserve released upon disposal of an associate	–	–	–	–	–	–	–	–	–	–	(868)	–	(868)	–	(868)
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	170,255	170,255	40,362	210,617
Total comprehensive income for the period	–	–	17,695	–	–	–	–	–	–	–	2,199	170,255	190,149	43,264	233,413
Purchase of shares under share award scheme	–	–	–	–	–	–	–	(3,737)	–	–	–	–	(3,737)	–	(3,737)
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	–	–	–	–	–	–	–	–	2,725	–	–	–	2,725	402	3,127
Share awards vested	–	–	–	–	–	–	–	6,684	(4,402)	–	–	(2,282)	–	–	–
Contribution from a non-controlling interest of a subsidiary	–	–	–	–	(598)	–	–	–	–	–	–	–	(598)	1,139	541
Dividends declared to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(4,388)	(4,388)
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	5,390	–	(5,390)	–	–	–
Transfer upon disposal of an equity instrument at fair value through other comprehensive income	–	–	(88)	–	–	–	–	–	–	–	–	88	–	–	–
At June 30, 2021 (unaudited)	**52,040**	**592,677**	**43,287**	**(16,688)**	**6,358**	**4,551**	**24,954**	**(3,684)**	**192**	**135,553**	**82,178**	**3,162,975**	**4,084,393**	**518,705**	**4,603,098**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2021

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the share issued by the Company and the nominal amount of the share 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, 2021

	For the six months ended June 30, 2021 (unaudited) US$'000	2020 (unaudited) US$'000
Net cash from operating activities	**225,950**	280,769
Net cash used in investing activities		
Payment for acquisition of property, plant and equipment	**(113,906)**	(130,965)
Payment for right-of-use assets	**(1,214)**	(2,184)
Proceeds from disposal of property, plant and equipment	**4,920**	8,008
Receipt (payment) of rental deposits	**1,677**	(875)
Dividends received from joint ventures	**7,500**	11,500
Dividends received from associates	**2,577**	1,173
Refund of investment cost from a joint venture	**6,000**	–
Deposits received in respect of/proceeds from disposal of assets classified as held for sale	**3,920**	1,913
Receipt of deferred consideration receivable	**2,411**	1,250
Acquisition of financial assets at fair value through profit or loss ("FVTPL")	**(57,199)**	(8,232)
Settlement of financial assets at FVTPL	**35,372**	5,793
Proceeds from disposal of an equity instrument at fair value through other comprehensive income ("FVTOCI")	**522**	–
Acquisition of other financial asset at amortized cost	**(9,272)**	–
Interest received	**7,238**	4,208
Investments in joint ventures	**–**	(27,406)
Investment in an associate	**–**	(2,275)
Redemption of other financial assets at amortized cost	**–**	4,200
Release of restricted bank deposits	**–**	1,150
Dividend received from an equity instrument at FVTOCI	**–**	121
	(109,454)	(132,621)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended June 30, 2021

	For the six months ended June 30, 2021 (unaudited) US$'000	For the six months ended June 30, 2020 (unaudited) US$'000
Net cash used in financing activities		
Repayment of bank and other borrowings	**(1,486,835)**	(1,280,210)
Bank and other borrowings raised	**1,523,175**	1,518,300
Interest paid	**(14,721)**	(28,496)
Payment of upfront fee on bank borrowings	**(315)**	–
Repayment of lease liabilities, including related interest	**(106,511)**	(81,652)
Dividend paid to a non-controlling interest of a subsidiary	**(61)**	(80)
Purchase of shares under share award scheme	**(3,737)**	–
Contribution from a non-controlling interest of a subsidiary	**541**	13,221
Dividends paid	**–**	(145,430)
Acquisition of additional interests in subsidiaries	**–**	(12,694)
Proceeds from issuance of a listed subsidiary's shares upon exercise of a listed subsidiary's share options	**–**	49
	(88,464)	(16,992)
Net increase in cash and cash equivalents	**28,032**	131,156
Effect of foreign exchange rate changes	**1,846**	(5,850)
Cash and cash equivalents at beginning of the period	**896,977**	982,079
Cash and cash equivalents at end of the period, represented by bank balances and cash	**926,855**	1,107,385

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2021 for the preparation of the Group's condensed consolidated financial statements:

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

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

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Transition and summary of effects

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Potential impact on application of the June 2021 International Financial Reporting Standards Interpretations Committee's (the "Committee") agenda decision - Costs necessary to sell inventories

In June 2021, the Committee, through its agenda decision clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realizable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental to a particular sale.

As at June 30, 2021, the Group is still in the process of assessing the potential impact and has yet to implement the change in accounting policy based on the Committee's agenda decision. The impacts on such change, if any, will be disclosed in the Group's future consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. REVENUE AND SEGMENTAL INFORMATION (continued)

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

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

Revenue from major products

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

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	US$'000
Athletic/outdoor shoes *(note)*	**2,081,424**	1,922,848
Casual shoes and sports sandals *(note)*	**424,103**	317,922
Soles, components and others	**281,057**	177,695
Retail sales - shoes, apparel, commissions from concessionaire sales and others	**2,020,503**	1,667,168
	4,807,087	4,085,633

note: The comparative figures were regrouped in accordance with the Group's new category classification.

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,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	US$'000
US	**969,793**	679,269
Europe	**675,032**	672,966
PRC	**2,483,138**	2,098,407
Other countries in Asia	**471,021**	452,693
Others	**208,103**	182,298
	4,807,087	4,085,633

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	US$'000
Fair value gain (loss) on financial instruments at FVTPL	**9,774**	(21,886)
Gain on disposal of an associate	**2,000**	2,087
Gain on partial disposal of a joint venture *(Note 12)*	**–**	15,665
Impairment loss on interest in an associate	**(14,011)**	(9,000)
Impairment loss on an intangible asset	**(1,570)**	–
	(3,807)	(13,134)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE (CREDIT)

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

6. PROFIT (LOSS) FOR THE PERIOD

	For the six months ended June 30,	
	2021	2020
	(unaudited)	(unaudited)
	US$'000	US$'000
Profit (loss) for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,117,413**	1,167,005
Net exchange gain (included in other income)	**(3,137)**	(1,107)
Amortization of intangible assets (included in selling and distribution expenses)	**7,808**	7,310
Depreciation of right-of-use assets	**99,801**	84,034
Depreciation of property, plant and equipment *(note)*	**174,907**	175,006
Net changes in allowance for inventories (included in cost of sales)	**(2,838)**	(3,487)
Loss on disposal of property, plant and equipment (included in other expenses)	**3,733**	5,139
Research and development expenditures (included in other expenses)	**95,299**	95,394
Impairment losses recognized on trade and other receivables	**1,397**	969
Finance costs		
Interest expenses for bank and other borrowings	**14,838**	27,765
Interest expenses for lease liabilities	**11,223**	8,878
Amortization of upfront fee on bank borrowings	**1,251**	1,223
	27,312	37,866

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

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

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

8. EARNINGS (LOSS) PER SHARE

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

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

8. EARNINGS (LOSS) PER SHARE (continued)

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

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 18(I)).

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

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

9. MOVEMENTS IN 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$8,653,000 for cash proceeds of US$4,920,000, resulting in a loss on disposal of US$3,733,000 (six months ended June 30, 2020: loss of US$5,139,000).

During the current interim period, the Group acquired property, plant and equipment of US$83,976,000 (six months ended June 30, 2020: US$129,418,000).

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, net of early termination and modification, amounting to US$94,651,000 (six months ended June 30, 2020: US$42,495,000).

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$1,121,406,000 (December 31, 2020: US$1,120,141,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

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

Included in the trade and other receivables, an amount of US$70,601,000 (December 31, 2020: US$107,887,000) is trade and other receivables from a joint venture.

12. ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended June 30, 2020, 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 payables by age, presented based on the invoice date.

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

14. MOVEMENTS IN BANK BORROWINGS

During the current interim period, the Group obtained and repaid bank borrowings which mainly consisted of short-term revolving loans, of approximately US$1,523,175,000 (six months ended June 30, 2020: bank and other borrowings US$1,518,300,000) and US$1,486,835,000 (six months ended June 30, 2020: bank and other borrowings US$1,280,210,000) respectively. The other borrowings were fully repaid during the six months ended June 30, 2020. 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 loan prime rate published by National Interbank Funding Center, 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, 2020, June 30, 2020, January 1, 2021 and June 30, 2021	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2020, June 30, 2020, January 1, 2021 and June 30, 2021	1,612,183,986	403,046

	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Shown in the condensed consolidated financial statements	**52,040**	52,040

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. 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, 2021 (unaudited) US$'000	December 31, 2020 (audited) US$'000	**Fair value hierarchy**
Financial assets at FVTPL			
Credit linked notes *(note iii)*	**20,422**	20,306	Level 2
Foreign currency derivatives *(note i)*	**485**	2,173	Level 2
Unlisted overseas funds *(note iii)*	**17,130**	14,106	Level 2
Currency structured forward contracts *(note i)*	**557**	507	Level 2
Dual currency option structured deposits *(note i)*	**96,490**	114,871	Level 2
Auto callable accumulated note *(note i)*	**40,028**	–	Level 2
Equity instruments at FVTOCI			
Listed equity securities *(note iv)*	**39,639**	30,012	Level 1
Financial liabilities at FVTPL			
Foreign currency derivatives *(note i)*	**48**	493	Level 2
Interest rate swap *(note ii)*	**18,749**	25,177	Level 2
Currency structured forward contracts *(note i)*	**–**	514	Level 2

notes:

(i) 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.

(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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. CONTINGENCIES AND COMMITMENTS

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

(I) CONTINGENCIES

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

(II) COMMITMENTS

	At June 30, 2021 (unaudited) US$'000	At December 31, 2020 (audited) US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	**41,996**	36,478
– acquisition of property, plant and equipment	**20,564**	22,934
	62,560	59,412

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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	
	2021	2020
As at January 1	**1,040,000**	1,311,500
Granted	**2,715,000**	–
Vested	**(1,949,000)**	(35,000)
Lapsed	**(36,000)**	(120,000)
As at June 30	**1,770,000**	1,156,500

A total of 1,506,000 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2021 (December 31, 2020: 1,929,000 ordinary shares).

(II) SHARE AWARD SCHEME OF POU SHENG

Pou Sheng has its 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	
	2021	2020
As at January 1	**19,597,200**	42,743,170
Granted	**8,340,000**	1,500,000
Vested	**(8,888,000)**	(4,305,000)
Lapsed	**(1,163,600)**	(9,775,370)
As at June 30	**17,885,600**	30,162,800

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary Pou Sheng International (Holdings) Limited ("Pou Sheng").

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

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

Despite the volatile business environment during the period under review, the Group remained committed to sustainability, ethical conduct and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines for employee relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity. Yue Yuen's parent company, Pou Chen Group, has been accredited by the Fair Labor Association ("FLA") as a result of the Group's efforts in the areas of labor rights and sustainability. In addition, being a responsible leader in the footwear industry, Yue Yuen is a member of the World Federation of Sporting Goods Industry ("WFSGI") and supports the principles of the WFSGI Code of Conduct.

As a people-oriented business, the Group is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. It also places all employees' health, safety and welfare at top priority in a time of multifaceted disruption. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social and governance, please refer to the 2020 Environmental, Social and Governance Report of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS

For the six months ended June 30, 2021, the Group recorded revenue of US$4,807.1 million, representing an increase of 17.7%, compared with the corresponding period of last year. The increase in revenue was attributable to the decent recovery from the low base a year ago, when the COVID-19 outbreak negatively impacted the business in 2020. The profit attributable to owners of the Company was US$170.3 million, compared to the loss attributable to owners of the Company of US$136.8 million recorded for the corresponding period of last year. The basic earnings per share for the first half of 2021 was 10.57 US cents, compared to the basic loss per share of 8.49 US cents for the corresponding period of last year.

Total Revenue by Category

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

The Group's athletic/outdoor shoes category accounted for 83.1% of footwear manufacturing revenue in the first half of 2021. Casual shoes and sports sandals accounted for 16.9% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 43.3% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.8% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$2,786.6 million in the first half of 2021, representing an increase of 15.2% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Total Revenue by Category (continued)

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Production Review

During the first half of 2021, the Group's manufacturing business shipped a total of 136.4 million pairs of shoes, an increase of 5.0% compared to the 129.9 million pairs shipped in the corresponding period of last year, at a record high level production utilization rate of around 89%. The average selling price per pair was US$18.37, an increase of 6.5% as compared to US$17.25 in the corresponding period of last year. In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in the first half of 2021, representing 45%, 41% and 10% of total shoe shipments, respectively.

Cost Review

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

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

Cost of Goods Sold Analysis – Manufacturing Business

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Cost Review (continued)

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

Recurring Profit/Loss Attributable to Owners of the Company

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

Product Development

During the first half of 2021, the Group spent US$95.3 million (first half of 2020: US$95.4 million) on product development, including investments in sampling, technological and digitalization development, as well as production efficiency enhancements. For each of the major branded customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead-time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and sustainable materials into the design, development and manufacture of its products.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND OTHERS

Cash Flow

The Group recorded net cash generated from operating activities (net of tax) of US$226.0 million during the first half of 2021 (first half of 2020: US$280.8 million). Free cash flow amounted to US$112.1 million during the first half of 2021, which was mainly contributed by Pou Sheng. Net cash flow used in investing and financing activities amounted to US$109.5 million and US$88.5 million respectively during the first half of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND OTHERS (continued)

Financial Position and Liquidity

The Group's financial position remained solid. As at June 30, 2021, the Group had cash and cash equivalents of US$926.9 million (December 31, 2020: US$897.0 million) and total bank borrowings of US$1,907.4 million (December 31, 2020: US$1,867.9 million). The Group's gearing ratio (total bank borrowings to total equity) was 41.4% (December 31, 2020: 42.7%). As at June 30, 2021, the Group had net borrowing of US$980.6 million (December 31, 2020: US$971.0 million). As at June 30, 2021, the Group had current assets of US$4,422.3 million (December 31, 2020: US$4,235.9 million) and current liabilities of US$2,216.2 million (December 31, 2020: US$2,337.9 million). The current ratio was 2.0 as at June 30, 2021 (December 31, 2020: 1.8).

Funding and Capital Structure

The Group has relied to a certain extent on debt financing for its funding requirements. With regard to the choice of debt versus equity financing, which would thus affect its capital structure, the Group will consider the impact on its weighted average cost of capital and its leverage ratio, etc., with an aim of lowering the weighted average cost of capital while maintaining its gearing ratio at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the maturity profile of loans, most of the bank loans for the Group's manufacturing business were long-term committed facilities that partly meet the funding needs of its capital expenditures and long-term investments. Short-term revolving loans facilities were also utilized regularly for daily working capital purposes, especially for the Group's retail business. At present, the Group maintains an abundant level of bank facilities to meet its working capital needs. As of June 30, 2021, around 67.1% of the Group's total bank borrowings were with remaining tenor of over one year.

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

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

Capital Expenditure

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND OTHERS (continued)

Contingent Liabilities

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

Foreign Exchange Exposure

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

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

Significant Investments and Material Acquisitions/Disposals

There were no significant investments or material acquisitions/disposals during the first half of 2021.

Share of Results of Associates and Joint Ventures

During the first half of 2021, the share of results of associates and joint ventures was a combined profit of US$34.6 million, compared to a combined profit of US$8.4 million in the corresponding period of last year.

EMPLOYEES

As at June 30, 2021, the Group had approximately 303,800 employees employed across all regions in which it operates, a decrease of 4.7% as compared to approximately 318,800 employees employed as at June 30, 2020. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

EMPLOYEES (continued)

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

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

PROSPECTS

The Group is cautiously optimistic about its continued recovery momentum, particularly for the demand for its manufacturing business, with many global vaccination campaigns proceeding well. This will further support the recovery of global demand for the Group's footwear products.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

With the Group having just rolled out the third wave of SAP ERP implementation within its manufacturing business as an integral part of its digital transformation strategy, it will continue to explore ways to digitalize its processes to achieve manufacturing excellence. Over the longer-term, it will continue to proactively adapt its production capacity and capability to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility, faster turnaround times, on-time delivery and end-to-end capability. This includes enabling more flexible set-ups and frequent line change-overs through process re-engineering, increased automation levels and ERP system implementation to optimize its ongoing smart manufacturing strategy and finally, leveraging on its Greater China retail operation for better cross-business synergies. This will ensure that the Group can continue to provide differentiated value-added and one-stop services to customers and strategic partners with whom it has maintained long-term relationships.

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

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

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, 2021 (2020: Nil). The Group is inclined to preserve more cash momentarily amidst the dynamic business environment until the global pandemic is under control and the Company's profitability has stabilized. It remains committed to upholding a relatively steady dividend level over the long-term.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2021, 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	139,000	0.01%
Chan Lu Min	Beneficial owner	117,000	0.01%
Lin Cheng-Tien	Beneficial owner	99,000	0.01%
Hu Chia-Ho	Beneficial owner	216,000 *(Note 2)*	0.01%
Liu George Hong-Chih	Beneficial owner	237,000 *(Note 2)*	0.01%
Yu Huan-Chang	Beneficial owner	30,000 *(Note 2)*	0.00%

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	1,070,470	0.04%
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%

Notes:

1. The total issued share capital of the Company as at June 30, 2021 is 1,612,183,986 shares.

2. Each of Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 60,000 ordinary shares; Mr. Yu Huan-Chang is interested in 30,000 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, 2021 is 5,356,847,615 shares.

4. The total issued share capital of PCC as at June 30, 2021 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, 2021.

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, 2021 are as follows:

			Number of awarded shares				
	Date of grant	Vesting date	Outstanding as at January 1, 2021	Granted during the period	Lapsed/ cancelled during the period	Vested during the period	Outstanding as at June 30, 2021
Directors of the Company							
Lu Chin Chu	31.03.2021	01.06.2021	–	94,000	–	(94,000)	–
Chan Lu Min	31.03.2021	01.06.2021	–	117,000	–	(117,000)	–
Lin Cheng-Tien	31.03.2021	01.06.2021	–	54,000	–	(54,000)	–
Hu Chia-Ho	02.10.2018	31.05.2021	40,000	–	–	(40,000)	–
	31.03.2021	01.06.2021	–	38,000	–	(38,000)	–
	01.06.2021	31.05.2023	–	60,000	–	–	60,000
Liu George Hong-Chih	02.10.2018	31.05.2021	40,000	–	–	(40,000)	–
	31.03.2021	01.06.2021	–	59,000	–	(59,000)	–
	01.06.2021	31.05.2023	–	60,000	–	–	60,000
Yu Huan-Chang	01.06.2021	31.05.2023	–	30,000	–	–	30,000
Sub-total			80,000	512,000	–	(442,000)	150,000
Employees of the Group and/ or Associated Entities							
	02.10.2018	31.05.2021	960,000	–	–	(960,000)	–
	08.02.2021	01.06.2021	–	279,000	(6,000)	(273,000)	–
	31.03.2021	01.06.2021	–	274,000	–	(274,000)	–
	01.06.2021	31.05.2023	–	1,650,000	(30,000)	–	1,620,000
Sub-total			960,000	2,203,000	(36,000)	(1,507,000)	1,620,000
Total			1,040,000	2,715,000	(36,000)	(1,949,000)	1,770,000

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 the Pou Sheng's issued shares as at the date on which dealings in the 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 the 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 the Pou Sheng's shares on the date of grant; (ii) the average closing price of the Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the 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 the 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, 2021, an aggregate of 31,125,000 Pou Sheng's shares have been issued and an aggregate of 1,166,320 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 1,166,320, representing approximately 0.02% of the Pou Sheng's issued shares.

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

				Number of underlying shares comprised in the Pou Sheng's share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2021	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2021
Former Employees of Pou Sheng								
14.11.2016	2.494	14.11.2016-31.08.2019	01.09.2019–01.09.2021	1,166,320	–	–	–	1,166,320
Total				1,166,320	–	–	–	1,166,320

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 the 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 the 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:

	Date of grant	Vesting period	Number of Pou Sheng's awarded shares: Outstanding as at January 1, 2021	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Outstanding as at June 30, 2021
Director of Pou Sheng							
Lee, Shao-Wu	11.08.2018	11.08.2018-10.03.2021	500,000	–	(500,000)	–	–
	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
	24.03.2021	24.03.2021-23.09.2022	–	100,000	–	–	100,000
	24.03.2021	24.03.2021-23.09.2023	–	150,000	–	–	150,000
	24.03.2021	24.03.2021-23.03.2024	–	250,000	–	–	250,000
Sub-total			2,800,000	500,000	(1,000,000)	–	2,300,000
Employees of Pou Sheng	11.08.2018	11.08.2018-10.03.2021	7,978,000	–	(7,888,000)	(90,000)	–
	23.03.2019	23.03.2019-22.09.2021	3,307,200	–	–	(350,100)	2,957,100
	23.03.2019	23.03.2019-22.03.2022	5,512,000	–	–	(583,500)	4,928,500
	24.03.2021	24.03.2021-23.09.2022	–	1,568,000	–	(28,000)	1,540,000
	24.03.2021	24.03.2021-23.09.2023	–	2,352,000	–	(42,000)	2,310,000
	24.03.2021	24.03.2021-23.03.2024	–	3,920,000	–	(70,000)	3,850,000
Sub-total			16,797,200	7,840,000	(7,888,000)	(1,163,600)	15,585,600
Total			19,597,200	8,340,000	(8,888,000)	(1,163,600)	17,885,600

The closing price of the Pou Sheng's shares immediately before the grant of Pou Sheng's awarded shares on March 24, 2021 is HK$1.78 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, 2021, 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, 2021 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. 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 dated March 10, 2008.

(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, 2021.

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 2020 annual report on March 23, 2021 are set out below:

Mr. Wong Hak Kun resigned as an independent non-executive director of Zhejiang Cangnan Instrument Group Limited ("Cangnan") with effect from July 24, 2021. Cangnan withdrew its listing from the main board of the Stock Exchange on July 5, 2021.

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

During the six months ended June 30, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Yue Yuen Share Award Scheme, pursuant to the terms of the trust deed of the Yue Yuen Share Award Scheme, purchased on the Stock Exchange a total of 1,526,000 shares in the Company at a total consideration of approximately HK$29,011,000 (equivalent to approximately US$3,737,000).

REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT

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

In addition, our auditor, Messrs. Deloitte Touche Tohmatsu, has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2021 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and an unmodified review report is issued.

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, 2021, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The general framework of the Company's corporate governance practices is set out in the corporate governance report in the Company's 2020 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, 2021.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained sufficient public float throughout the six month period ended June 30, 2021.

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 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 12, 2021

Website: www.yueyuen.com

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

www.yueyuen.com