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YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

GROUP FINANCIAL HIGHLIGHTS			
	For the six months ended June 30,		Percentage increase/ (decrease)
	2018	2017	
Revenue (<i>US\$'000</i>)	4,769,353	4,448,172	7.22%
Recurring profit attributable to owners of the Company (<i>US\$'000</i>)	165,012	240,938	(31.51%)
Non-recurring (loss) profit attributable to owners of the Company (<i>US\$'000</i>)	(14,918)	17,587	N/A
Profit attributable to owners of the Company (<i>US\$'000</i>)	150,094	258,525	(41.94%)
Basic earnings per share (<i>US cents</i>)	9.14	15.71	(41.82%)
Dividend per share			
– interim dividend (<i>HK\$</i>)	0.40	0.40	–
– special dividend (<i>HK\$</i>)	N/A	3.50	N/A

* *For identification purpose only*

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, 2018 with comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2018

		For the six months ended June 30,	
		2018	2017
		(unaudited)	(unaudited)
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	3	4,769,353	4,448,172
Cost of sales		(3,578,123)	(3,316,793)
Gross profit		1,191,230	1,131,379
Other income		67,684	58,434
Selling and distribution expenses		(582,606)	(467,520)
Administrative expenses		(309,060)	(304,331)
Impairment losses on financial assets, net of reversal		(2,497)	(375)
Other expenses		(120,097)	(127,753)
Finance costs		(35,937)	(17,908)
Share of results of associates		8,296	21,482
Share of results of joint ventures		11,712	5,233
Other gains and losses	4	(14,918)	17,349
Profit before taxation		213,807	315,990
Income tax expense	5	(44,080)	(36,440)
Profit for the period	6	169,727	279,550
Attributable to:			
Owners of the Company		150,094	258,525
Non-controlling interests		19,633	21,025
		169,727	279,550
		<i>US cents</i>	<i>US cents</i>
Earnings per share	8		
– Basic		9.14	15.71
– Diluted		9.10	15.68

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2018

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Profit for the period	<u>169,727</u>	<u>279,550</u>
Other comprehensive (expense) income		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value loss on equity instruments at fair value through other comprehensive income	(18,527)	–
Remeasurement of defined benefits obligations, net of tax	(1,019)	–
Gain on revaluation of properties, transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	<u>5,878</u>	–
	<u>(13,668)</u>	–
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	(14,434)	22,418
Share of other comprehensive income of associates and joint ventures	(9,302)	10,356
Reserve released upon disposal of associates and a joint venture	(1,836)	–
Fair value gain on available-for-sale investments	–	6,955
Reserve released upon disposal of subsidiaries	–	(751)
	<u>(25,572)</u>	<u>38,978</u>
Other comprehensive (expense) income for the period	<u>(39,240)</u>	<u>38,978</u>
Total comprehensive income for the period	<u>130,487</u>	<u>318,528</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<u>116,186</u>	288,459
Non-controlling interests	<u>14,301</u>	<u>30,069</u>
	<u>130,487</u>	<u>318,528</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2018

	<i>NOTE</i>	At June 30, 2018 (unaudited) <i>US\$'000</i>	At December 31, 2017 (audited) <i>US\$'000</i>
Non-current assets			
Investment properties		107,195	85,985
Property, plant and equipment		2,288,214	2,182,285
Deposits paid for acquisition of property, plant and equipment		155,782	187,731
Prepaid lease payments		143,058	150,078
Intangible assets		115,303	124,429
Goodwill		276,512	277,505
Interests in associates		440,582	480,598
Interests in joint ventures		244,150	249,773
Amounts due from joint ventures		452	458
Available-for-sale investments		–	48,558
Equity instruments at fair value through other comprehensive income		20,398	–
Held-to-maturity investments		–	8,787
Financial assets at amortized cost		8,730	–
Financial assets at fair value through profit or loss		19,368	19,580
Rental deposits and prepayments		22,695	23,624
Deferred tax assets		49,567	46,212
		3,892,006	3,885,603
Current assets			
Inventories		1,656,836	1,603,928
Trade and other receivables	9	1,716,388	1,696,434
Prepaid lease payments		4,585	4,606
Taxation recoverable		11,958	11,777
Investments held for trading		–	16,555
Financial assets at fair value through profit or loss		8,218	–
Equity instruments at fair value through other comprehensive income		4,534	–
Derivative financial instruments		868	2,581
Held-to-maturity investments		–	1,213
Financial assets at amortized cost		606	–
Bank balances and cash		1,001,610	1,053,547
		4,405,603	4,390,641
Assets classified as held for sale		9,119	795
		4,414,722	4,391,436

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION –
continued

At June 30, 2018

		At June 30, 2018 (unaudited) US\$'000	At December 31, 2017 (audited) US\$'000
	NOTE		
Current liabilities			
Trade and other payables	10	1,323,797	1,452,314
Contract liabilities		41,806	–
Taxation payable		50,947	50,017
Derivative financial instruments		20,781	–
Bank overdrafts		–	16,722
Bank borrowings		873,514	679,347
		<u>2,310,845</u>	<u>2,198,400</u>
Net current assets		<u>2,103,877</u>	<u>2,193,036</u>
Total assets less current liabilities		<u>5,995,883</u>	<u>6,078,639</u>
Non-current liabilities			
Long-term bank borrowings		1,328,001	1,283,993
Deferred tax liabilities		38,987	39,532
Defined benefits obligations		100,690	85,068
		<u>1,467,678</u>	<u>1,408,593</u>
Net assets		<u><u>4,528,205</u></u>	<u><u>4,670,046</u></u>
Capital and reserves			
Share capital		52,772	53,197
Reserves		4,072,724	4,225,463
Equity attributable to owners of the Company		<u>4,125,496</u>	4,278,660
Non-controlling interests		<u>402,709</u>	391,386
Total equity		<u><u>4,528,205</u></u>	<u><u>4,670,046</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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 amount or fair values as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2017.

In the current interim period, the Group has applied, for the first time, certain new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group’s condensed consolidated financial statements. Of these, HKFRS 15 “Revenue from Contracts with Customers” and HKFRS 9 “Financial Instruments”, are relevant to the Company’s condensed consolidated financial statements. The adoption of HKFRS 15 and HKFRS 9 does not have material impact on the Group’s results and financial positions for the current or prior periods. Details of the impacts and changes in accounting policies are discussed in Note 2.

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES

(a) HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and related interpretations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES – continued

(a) HKFRS 15 “Revenue from Contracts with Customers” – continued

Under HKFRS 15, a contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Upon adoption of HKFRS 15, advance from customers included in trade and other payables amounting to US\$51,589,000 was reclassified to contract liabilities as at the date of initial application, January 1, 2018.

As a result, other than reclassification of contact liabilities, the adoption of HKFRS 15 does not have material impact on when the Group recognizes revenue from sales of goods and services.

(b) HKFRS 9 “Financial Instruments”

In the current period, the Group has applied HKFRS 9 “Financial Instruments”, and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; and 2) expected credit losses (“ECL”) for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Summary of effects arising from initial application of HKFRS 9

(1) Reclassification and measurement of financial assets and financial liabilities

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale investments, of which US\$335,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, US\$48,558,000 were reclassified from available-for-sale investments to equity instruments at fair value through other comprehensive income, of which US\$335,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of US\$36,023,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES – continued

(b) HKFRS 9 “Financial Instruments” – continued

Summary of effects arising from initial application of HKFRS 9 – continued

(1) Reclassification and measurement of financial assets and financial liabilities – continued

Listed debt instruments previously classified as held-to-maturity investments are reclassified and measured at amortized cost upon application of HKFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at January 1, 2018.

The adoption of HKFRS 9 does not have any impact on the accounting of financial liabilities.

(2) Impairment under ECL model

HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortized cost mainly comprise of bank balances and other receivables, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at January 1, 2018, the Group has reviewed and assessed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment loss was identified.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group’s business and the profit of the Group as a whole. 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 the operating and leasing of large scale commercial spaces to retailers and distributors. The revenue from both manufacturing and retailing businesses is recognized at a point in time.

Accordingly, the directors of the Company have determined that the Group has only one operating segment, as defined in HKFRS 8 “Operating Segments”. The information regarding revenue derived from the principal businesses described above is reported below:

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$’000	US\$’000
Revenue		
Manufacturing Business	2,825,105	2,990,046
Retailing Business	1,944,248	1,458,126
	<u>4,769,353</u>	<u>4,448,172</u>

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$’000	US\$’000
Gain on disposal of associates	6,605	9,762
Gain on disposal of subsidiaries	4,780	118
Gain on disposal of a joint venture	1,053	–
Fair value changes on investments properties	149	–
Fair value loss on financial assets at fair value through profit or loss	(212)	–
Impairment loss on interests in associates	(4,799)	–
Fair value (loss) gain on derivative financial instruments	(22,494)	9,388
Gain on deemed disposal of associates	–	2,184
Loss on deemed disposal of a joint venture	–	(4,103)
	<u>(14,918)</u>	<u>17,349</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
People's Republic of China ("PRC")		
Enterprise Income Tax ("EIT") (<i>note i</i>)	28,640	29,192
Overseas income tax (<i>note ii</i>)	15,686	13,442
	<u>44,326</u>	<u>42,634</u>
Under(over)provision in prior periods:		
PRC EIT	1,228	(2,451)
Overseas income tax	4,006	2,073
	<u>5,234</u>	<u>(378)</u>
Current tax charge – total	49,560	42,256
Deferred tax credit	(5,480)	(5,816)
	<u>44,080</u>	<u>36,440</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

5. INCOME TAX EXPENSE – continued

notes:

(i) PRC

The PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax laws, implementation rules and notices in the PRC, except that certain subsidiaries of the Company which are located in the specified provinces of the Western Regions of the PRC and engaged in the business activities under the tax bulletin issued in the PRC. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both periods.

(ii) Overseas

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

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

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions including Indonesia, Republic of China ("Taiwan") and United States of America ("US") is calculated at the rates prevailing in the respective jurisdictions, which were 25% (June 30, 2017: 25%), 20% (June 30, 2017: 17%) and 21% (June 30, 2017: 35%) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Profit for the period has been arrived at after charging (crediting):		
Total staff cost	1,117,539	1,068,044
Net exchange gain (included in other income)	(5,840)	(9,005)
Release of prepaid lease payments	2,198	3,711
Amortization of intangible assets (included in selling and distribution expenses)	9,870	7,296
Depreciation of property, plant and equipment	155,441	134,325
(Reversal of allowance) allowance for inventories (included in cost of sales)	(1,074)	5,294
Loss on disposal of property, plant and equipment (included in other expenses)	5,300	11,070
Loss on disposal of prepaid lease payments (included in other expenses)	57	15
Research and development expenditure (included in other expenses)	101,341	108,401
Subsidies, rebates and other income from suppliers (included in other income)	(17,514)	(11,189)
	<u><u> </u></u>	<u><u> </u></u>

7. DIVIDENDS

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Dividends recognized as distribution during the period:		
2017 final dividend of HK\$1.10 per share (2017: 2016 final dividend of HK\$1.00 per share)	229,704	211,400
	<u><u> </u></u>	<u><u> </u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

7. DIVIDENDS – continued

During the current interim period, a final dividend of HK\$1.10 per share for the year ended December 31, 2017 was declared (2017: final dividend for the year ended December 31, 2016 of HK\$1.00 per share). The final dividend of approximately HK\$1,802,731,000 (2017: HK\$1,645,835,000), equivalent to US\$229,704,000 (2017: US\$211,400,000), was paid on June 29, 2018 to the shareholders of the Company.

An interim dividend of HK\$0.40 (2017: HK\$0.40) per share has been declared for the period ended June 30, 2018. The interim dividend of approximately HK\$652,841,000 (2017: HK\$658,334,000) will be paid on October 11, 2018.

During the six months ended June 30, 2017, in addition to the interim dividend, a special dividend of HK\$3.50 per share was declared. The special dividend of approximately HK\$5,760,424,000, equivalent to US\$737,269,000, was paid on October 10, 2017 to the shareholders of the Company.

8. EARNINGS PER SHARE

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

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the period attributable to owners of the Company	150,094	258,525
Effect of dilutive potential ordinary shares:		
Adjustments to the share of profits of subsidiaries based on dilution of their earnings per share	<u>(602)</u>	<u>(252)</u>
Earnings for the purpose of diluted earnings per share	<u>149,492</u>	<u>258,273</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

8. EARNINGS PER SHARE – continued

	For the six months ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,641,403,862	1,645,835,486
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	<u>1,041,345</u>	<u>1,054,351</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,642,445,207</u>	<u>1,646,889,837</u>

note:

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.

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of US\$1,181,419,000 (December 31, 2017: US\$1,236,086,000) and an aged analysis based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	At	At
	June 30,	December 31,
	2018	2017
	(unaudited)	(audited)
	US\$'000	US\$'000
0 to 30 days	787,486	758,844
31 to 90 days	373,499	453,325
Over 90 days	<u>20,434</u>	<u>23,917</u>
	<u>1,181,419</u>	<u>1,236,086</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$425,216,000 (December 31, 2017: US\$461,480,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	At June 30, 2018 (unaudited) US\$'000	At December 31, 2017 (audited) US\$'000
0 to 30 days	330,076	345,244
31 to 90 days	90,791	106,376
Over 90 days	4,349	9,860
	425,216	461,480

11. CONTINGENCIES

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

	At June 30, 2018 (unaudited) US\$'000	At December 31, 2017 (audited) US\$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	31,425	26,425
– amount utilized	12,227	15,500
(ii) associates		
– amount guaranteed	21,705	17,345
– amount utilized	12,642	5,693

MANAGEMENT DISCUSSION AND ANALYSIS (INTERIM FY2018)

Business Review

Results

For the six months ended June 30, 2018, the Group recorded revenue of US\$4,769.4 million, representing an increase of 7.2%, compared with the corresponding period of last year. Profit attributable to owners of the Group declined by 41.9% to US\$150.1 million, as compared to US\$258.5 million recorded for the corresponding period of last year. Basic earnings per share for the first half of 2018 declined by 41.8% to US9.14 cents, compared with US15.71 cents for the corresponding period of last year.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring nature, the recurring profit for the six months ended June 30, 2018, declined by 31.5% to US\$165.0 million, compared to a recurring profit of US\$240.9 million for the corresponding period of last year. For the six months ended June 30, 2017, the Company recognized a non-recurring profit of US\$17.6 million, which included a fair value gain of US\$9.4 million on derivative financial instruments and a one-off gain of US\$9.8 million on the disposal of associates. By contrast, during the first half of 2018, the Group recorded a non-recurring loss of US\$14.9 million, included a fair value loss of US\$22.5 million on derivative financial instruments that was partly offset by a one-off gains arising from disposal of associates and subsidiaries.

Operations

General Overview

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. Throughout the first half of 2018, the Group faced unprecedented headwinds including operational changes and disruptions associated with the fast fashion trend, as well as more flexible procurement approaches by brand customers, which resulted in more volatile monthly revenue, much lower order visibility, as well as operating deleverage within the manufacturing business. To address these challenges, the Group will continue increasing automation levels and enhancing operational efficiency so as to provide differentiated value-added and one-stop OEM/ODM services to leading international brand customers that it has maintained long-term relationships with.

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region, as well as event management and sport services. In response to intensifying competition and omni-channel integration between 'brick and mortar' channels and e-commerce channels, the Group is currently in the process of strengthening its market presence and optimizing profitability by implementing customer experience-focused initiatives, expanding its omni-channel capabilities and investing in the latest information systems and technologies in order to further digitize its operations and shorten the sales cycle. For a more detailed explanation of the Group's retail business model, please refer to the interim report of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company.

Throughout the first half of 2018, the Group made further progress in adapting its manufacturing business to an ever-changing market environment, in particular increasing demand for greater versatility and flexibility among consumers, as well as for shorter lead-times. In particular, the Group focused on: enhancing its lean manufacturing and efficiency; upgrading its equipment and machinery; and improving its technological innovation, process re-engineering and automation to improve efficiency at key production sites across the region, in line with customer demand.

The Group remains committed to sustainability, ethical conduct and corporate values. Each business unit considers the interests of all stakeholders, including employees and the surrounding community, when making important business decisions. The Group monitors and manages its business units using comprehensive guidelines on industrial relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity.

The Group is also dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. For more details on the Group's sustainable development strategy and reporting on Environmental, Social and Governance ("ESG"), please refer to the Group's ESG report for 2017.

Total Revenue by Product Category

In the six months ended June 30, 2018, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) declined 4.5% to US\$2,563.6 million, compared with the corresponding period of last year, with the volume of shoes produced and average selling price per pair decreasing by 2.5% to 158.9 million pairs and by 2.0% to US\$16.14 per pair, respectively, as compared with the corresponding period of last year. The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) and the apparel wholesale business (Texas Clothing Group, "TCG") during the first half of 2018 was US\$3,016.6 million, a decrease of 1.7%.

The gross profit of the Group's manufacturing business decreased by 14.9% to US\$530.0 million in the first half of 2018 due to fluctuating order patterns and unfavorable product mix, which resulted in operating deleverage and negatively impacted the gross profit margin for the manufacturing business.

During the first half of 2018, Vietnam, Indonesia and the PRC continued to be the Group's main production locations by volume, representing 46%, 37% and 15% of total shoe production, respectively, during the period.

The Group's athletic footwear category outperformed all other categories as a result of the global athleisure trend, accounting for 77.9% of footwear manufacturing revenue during the first half of 2018. Casual/outdoor shoes accounted for 20.4% of footwear manufacturing revenue during the same period. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 41.9% of total revenue, followed by casual/outdoor shoes, which accounted for 11.0% of total revenue.

The Group's distribution sales are derived primarily from its retail operations in the Greater China region, namely the sale of international brand-name athletic footwear and apparel in major cities, which operates under Pou Sheng, the Group's retail subsidiary. It also includes sales from TCG, the apparel wholesale business in North America. In the six months ended June 30, 2018, the revenue attributable to Pou Sheng grew by 27.1% to US\$1,752.8 million, compared to US\$1,379.6 million in the previous financial year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 17.7% to RMB11,202.0 million, compared to RMB9,515.1 million in the corresponding period of last year. Pou Sheng's gross profit margin decreased from 34.6% in the same period of last year to 33.5% in the first half of 2018, mainly due to channel mix changes and increased discounts and clearance sales for emerging brands.

As of June 30, 2018, Pou Sheng had 5,531 directly operated retail outlets and 3,417 stores operated by sub-distributors in the PRC.

Total Revenue by Product Category

	For the six months ended June 30,		2017		% change
	2018		2017		
	<i>US\$ million</i>	<i>%</i>	<i>US\$ million</i>	<i>%</i>	
Athletic Shoes	1,996.7	41.9	2,071.5	46.6	(3.6)
Casual/Outdoor Shoes	522.3	11.0	569.0	12.8	(8.2)
Sports Sandals	44.6	0.9	44.7	1.0	(0.2)
Soles, Components & Others	261.5	5.5	304.9	6.8	(14.2)
Apparel Wholesale	191.5	4.0	78.5	1.8	143.9
Retail Sales – shoes, apparel & leasing	1,752.8	36.7	1,379.6	31.0	27.1
Total Revenue	4,769.4	100.0	4,448.2	100.0	7.2

Orders from international brands are received by a sales department that manages each customer and normally take about ten to twelve weeks to fill. Some orders requested a shorter lead-time of 30-45 days.

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

Production Review

During the first half of 2018, the Group's manufacturing business produced a total of 158.9 million pairs of shoes, a decrease of 2.5% compared to the 163.0 million pairs produced in the corresponding period of last year. The average selling price per pair was US\$16.14, compared to US\$16.47 in the corresponding period of last year.

Cost Review

With respect to the Group's manufacturing business, revenue in six months ended June 30, 2018 amounted to US\$2.8 billion (first half of 2017: US\$3.0 billion) whereas the direct labor costs were US\$0.6 billion (first half of 2017: US\$0.6 billion). Total main material costs were US\$1.0 billion (first half of 2017: US\$1.1 billion) and total production overheads amounted to US\$0.6 billion (first half of 2017: US\$0.6 billion).

For the Group's distribution business, revenue during the first half of 2018 amounted to US\$1.9 billion (first half of 2017: US\$1.5 billion). Distribution stock costs were US\$1.3 billion (first half of 2017: US\$0.9 billion).

The Group's total selling and distribution expenses for the first half of 2018 amounted to US\$582.6 million (first half of 2017: US\$467.5 million), equivalent to approximately 12.2% (first half of 2017: 10.5%) of revenue. The increase in selling and distribution expenses was in proportion with the strong growth of the Group's distribution business, which has a higher ratio of selling and distribution expenses to revenue compared to the manufacturing business.

Administrative expenses for the first half of 2018 amounted to US\$309.1 million (first half of 2017: US\$304.3 million), equivalent to approximately 6.5% (first half of 2017: 6.8%) of revenue, remaining stable.

With cost pressures remaining significant for both the manufacturing and distribution businesses, the management of both units will continuously look for ways to improve efficiency and productivity.

Product Development

During the first half of 2018, the Group spent US\$101.3 million (first half of 2017: US\$108.4 million) on product development, including investments in sample and technical development, as well as in production efficiency enhancements. For each of the major branded customers that have a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead times and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmentally-friendly materials into the design, development and manufacture of footwear.

Financial Review

Liquidity and Financial Resources

The Group's financial position remained solid. As at June 30, 2018, the Group had cash and cash equivalents of US\$1,001.6 million (December 31, 2017: US\$1,036.8 million) and total bank borrowings of US\$2,201.5 million (December 31, 2017: US\$1,963.3 million). The Group's gearing ratio (total borrowings to total equity) was 48.6% (December 31, 2017: 42.0%). As of June 30, 2018, the Group had net borrowing of US\$1,199.9 million (December 31, 2017: net borrowing of US\$926.5 million). The increase in borrowing was mainly attributable to the efforts to improve the Group's cost of capital, as well as increased bank borrowings by Pou Sheng for working capital purposes.

The Group used forward contracts for currency hedging purposes.

Capital Expenditure

During the first half of 2018, the capital expenditure for the Group's manufacturing and distribution segments were US\$237.9 million (first half of 2017: US\$218.5 million) and US\$37.4 million (first half of 2017: US\$40.1 million) respectively. Capital expenditure during the first half of 2018 included capacity upgrades and the maintenance of production facilities in Vietnam and Indonesia, as well as investment in innovation centers for the Group's product development and process re-engineering, which was funded by both external and internal resources. For the distribution segment, resources were invested in the expansion, upgrade and maintenance of new concept and experience stores.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in note 17 to the condensed consolidated financial statements in the 2018 interim report of the Company.

Significant Investments and Material Acquisitions/Disposals

During the first half 2018, the share of results from associates and joint ventures was a combined profit of US\$20.0 million, compared to a combined profit of US\$26.7 million in the corresponding period of last year.

Details of the material acquisitions and disposals of subsidiaries in the period are set out in note 14 and note 15 to the condensed consolidated financial statements in the 2018 interim report of the Company.

Dividends

An interim dividend of HK\$0.40 per share (2017: HK\$0.40 per share) has been declared to shareholders whose names appear on the register of members of the Company on Monday, September 17, 2018. The interim dividend shall be paid on Thursday, October 11, 2018.

The Group's operating cash flow remains stable, and a suitable level of cash holdings will be maintained. The Group's commitment to upholding steady growth in normal dividend payment over time remains intact.

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 small portion of RMB and Indonesia Rupiah exposure are partly hedged with forward contracts.

For the Group's retail business in the PRC, all revenues are denominated in RMB. Correspondingly, all expenses are also denominated in RMB. For the retail business of other regions, both revenues and expenses are denominated in local currencies.

Goodwill and Intangible Assets

The goodwill and intangible assets recorded on the Group's Consolidated Statement of Financial Position are the result of acquisitions of businesses in the distribution and manufacturing industries.

Employees

As at June 30, 2018, the Group had approximately 345,000 employees across all regions, of which 315,000 were employed by the Group's manufacturing segment, a decrease of 4.2% and 4.5% respectively as compared to 360,000 employees (whole Group) and 330,000 employees (manufacturing segment only) as at June 30, 2017. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

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

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

The Group regularly undertakes 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 upgrading the quality and expertise of the Group's employees and management, as well as morale.

During the first half of 2018, the social compliance program of the Group's parent, Pou Chen Group obtained accreditation from the Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers' rights around the world, making the Group the 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 improving its transparency in remediating labor violations at its production sites and establishing multiple grievance channels.

Prospects

The Group's manufacturing business continues to face a number of uncertainties and challenges, including intense competition and changing customer order patterns, particularly shortening lead-times and increased seasonality. This will continue to affect operating deleveraging and margins. Other risks include stronger-than-expected wage inflation, raw material price volatility and foreign exchange movements. Although economic growth and consumer sentiment in most major economies, including the United States, the PRC and the Eurozone remains robust, this could be threatened by increasing trade frictions and the implementation of additional trade tariffs. The Group is actively monitoring the macroeconomic and geopolitical situation.

The Group will continue to leverage on its core strengths and competitive edges to hedge against these long and short-term challenges in order to address the demand for shorter lead-times, limit the impact of monthly order volatility, and safeguard its sustainable and steady growth. This includes investing in automation, technology, production workflow optimization, process re-engineering and other enhancements to the Group's manufacturing capabilities. It will also continue to enhance its product and material development capability, innovate on new products and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, while creating long-term synergies for the Group.

For the distribution business, apart from the apparel wholesale business, the Group remains optimistic about the long-term growth prospects for sportswear retailing, given increasing health awareness, higher sports participation rates and the growth of 'athleisure' trend in the Greater China region. Pou Sheng's omni-channel distribution strategy will also continue to benefit from the favorable environment being fostered by official government support for the popularization of sport. It will continue to invest heavily in upgrading its store formats and integrating digital channels to reinforce the consumer experience and stimulate higher-margin sales, while also fulfilling the ever-changing shopping habits of end consumers.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2018, the Company repurchased a total of 13,324,500 shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at a total consideration of HK\$313,543,250.00 (equivalent to approximately US\$39,981,781.00).

Details of the repurchase of shares of the Company during the six months ended June 30, 2018 are set out as follows:

Date of repurchase	No. of shares repurchased	Highest price paid HK\$	Lowest price paid HK\$	Total paid HK\$
April 13, 2018	6,580,000	24.65	23.95	160,062,250.00
May 16, 2018	47,500	21.95	21.95	1,042,625.00
May 17, 2018	304,000	21.95	21.95	6,672,800.00
May 23, 2018	8,500	21.95	21.95	186,575.00
May 24, 2018	948,500	22.40	22.00	21,132,325.00
May 25, 2018	1,000,000	22.75	22.15	22,632,625.00
May 28, 2018	1,121,500	22.95	22.70	25,678,950.00
May 29, 2018	292,500	22.95	22.75	6,707,625.00
May 30, 2018	694,000	22.95	22.70	15,910,450.00
June 7, 2018	376,500	23.00	22.90	8,637,925.00
June 8, 2018	951,500	23.00	22.95	21,884,400.00
June 11, 2018	23,500	23.00	23.00	540,500.00
June 12, 2018	76,500	23.00	23.00	1,759,500.00
June 13, 2018	900,000	23.00	22.95	20,694,700.00
Total:	13,324,500			313,543,250.00

The aforesaid repurchased shares of the Company were cancelled on May 9, June 14 and June 27, 2018 respectively. The Directors believe that the repurchases of shares would lead to an enhancement of the net asset value per share of the Company and its earnings per share. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended June 30, 2018.

CORPORATE GOVERNANCE

During the six months ended June 30, 2018, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. Having made specific enquiries of 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, 2018.

REVIEW OF ACCOUNTS

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

The external auditor has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2018 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, September 17, 2018 to Wednesday, September 19, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, September 14, 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.yueyuen.com) and of the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2018 will be dispatched to shareholders and published on the aforesaid websites in due course.

ACKNOWLEDGEMENT

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

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

Hong Kong, August 10, 2018

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

Executive Directors:

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

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Huang Ming Fu, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

Website: www.yueyuen.com