Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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, 2022

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2022	2021	Percentage increase/ (decrease)
Revenue *(US$'000)*	**4,709,792**	4,807,087	**(2.02%)**
Recurring profit attributable to owners of the Company *(US$'000)*	**164,999**	173,468	**(4.88%)**
Non-recurring profit (loss) attributable to owners of the Company *(US$'000)*	**10,050**	(3,213)	**N/A**
Profit attributable to owners of the Company *(US$'000)*	**175,049**	170,255	**2.82%**
Basic earnings per share *(US cents)*	**10.87**	10.57	**2.84%**
Dividend per share – interim dividend *(HK$)*	**0.40**	–	**N/A**

* *For identification purpose only*

INTERIM RESULTS

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2022 with comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2022

		For the six months ended June 30,	
		2022	2021
		(unaudited)	(unaudited)
	NOTES	***US$'000***	*US$'000*
Revenue	*3*	**4,709,792**	4,807,087
Cost of sales		**(3,614,054)**	(3,568,673)
Gross profit		**1,095,738**	1,238,414
Other income		**61,357**	64,670
Selling and distribution expenses		**(538,640)**	(615,090)
Administrative expenses		**(298,123)**	(308,503)
Other expenses		**(109,100)**	(110,891)
Finance costs		**(27,226)**	(27,312)
Share of results of associates		**23,541**	17,142
Share of results of joint ventures		**6,713**	17,434
Other gains and losses	*4*	**9,688**	(3,807)
Profit before taxation		**223,948**	272,057
Income tax expense	*5*	**(47,474)**	(61,440)
Profit for the period	*6*	**176,474**	210,617
Attributable to:			
Owners of the Company		**175,049**	170,255
Non-controlling interests		**1,425**	40,362
		176,474	210,617
		US cents	*US cents*
Earnings per share	*8*		
– Basic		**10.87**	10.57
– Diluted		**10.86**	10.56

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2022

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period	**176,474**	210,617
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	**(7,045)**	10,136
Share of other comprehensive income of associates	**1,297**	7,554
	(5,748)	17,690
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(64,515)**	6,695
Share of other comprehensive expense of associates and joint ventures	**(13,555)**	(721)
Reserve released upon disposal of an associate	**–**	(868)
	(78,070)	5,106
Other comprehensive (expense) income for the period	**(83,818)**	22,796
Total comprehensive income for the period	**92,656**	233,413
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**115,620**	190,149
Non-controlling interests	**(22,964)**	43,264
	92,656	233,413

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2022

	NOTE	At June 30, 2022 (unaudited) US$'000	At December 31, 2021 (audited) US$'000
Non-current assets			
Investment properties		**233,315**	233,999
Property, plant and equipment		**1,948,204**	2,024,657
Right-of-use assets		**550,033**	629,324
Deposits paid for acquisition of property, plant and equipment		**122,288**	122,000
Intangible assets		**10,061**	11,280
Goodwill		**262,996**	267,015
Interests in associates		**445,473**	431,074
Interests in joint ventures		**183,683**	197,579
Equity instruments at fair value through other comprehensive income		**22,309**	28,608
Financial assets at fair value through profit or loss		**19,933**	21,754
Rental deposits		**22,943**	26,464
Deferred tax assets		**129,068**	124,919
		3,950,306	4,118,673
Current assets			
Inventories		**1,833,061**	2,058,022
Trade and other receivables	*9*	**1,795,494**	1,477,957
Other financial asset at amortized cost		**–**	9,424
Financial assets at fair value through profit or loss		**141,648**	105,268
Equity instrument at fair value through other comprehensive income		**4,135**	4,908
Taxation recoverable		**12,991**	25,867
Bank balances and cash		**783,267**	837,965
		4,570,596	4,519,411
Assets classified as held for sale		**4,171**	–
		4,574,767	4,519,411

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2022

	NOTE	At June 30, 2022 (unaudited) US$'000	At December 31, 2021 (audited) US$'000
Current liabilities			
Trade and other payables	10	**1,221,108**	1,516,947
Contract liabilities		**85,275**	80,299
Financial liabilities at fair value through profit or loss		**1,790**	1,996
Taxation payable		**66,913**	57,495
Bank borrowings		**862,169**	655,839
Lease liabilities		**132,908**	155,923
		2,370,163	2,468,499
Liabilities associated with assets classified as held for sale		**1,930**	–
		2,372,093	2,468,499
Net current assets		**2,202,674**	2,050,912
Total assets less current liabilities		**6,152,980**	6,169,585
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**–**	8,382
Bank borrowings		**1,052,542**	1,061,258
Deferred tax liabilities		**52,463**	52,992
Lease liabilities		**250,004**	301,014
Retirement benefit obligations		**144,780**	141,488
		1,499,789	1,565,134
Net assets		**4,653,191**	4,604,451
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**4,121,620**	4,046,418
Equity attributable to owners of the Company		**4,173,660**	4,098,458
Non-controlling interests		**479,531**	505,993
Total equity		**4,653,191**	4,604,451

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.

Other than change in accounting policy resulting from agenda decision of the International Financial Reporting Standards Interpretations Committee (the "Committee") of the International Accounting Standards Board (the "IASB"), the accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2021.

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 Group's annual period beginning on January 1, 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

In addition, the Group applied the agenda decision of the Committee of the IASB issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realizable value of inventories.

Except as described below, the application of amendments to HKFRSs and the Committee's agenda decision 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Impacts on application of the agenda decision of the Committee - Costs necessary to sell inventories

2.2.1 Accounting policy

The application of the Committee's agenda decision results in change in accounting policy for inventories:

Inventories

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2.2.2 Transition and summary of effects

The application of the Committee's agenda decision has had no material impact on the Group's condensed consolidated financial statements and performance.

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 footwear products ("Retailing Business") which includes provision of large scale commercial spaces to retailers and distributors. Accordingly, only entity-wide disclosures are presented.

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

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

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**3,188,899**	2,786,584
Retailing Business	**1,520,893**	2,020,503
	4,709,792	4,807,087

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Fair value gain on financial instruments at fair value through profit or loss	**7,022**	9,774
Gain on disposal of a joint venture/an associate	**3,633**	2,000
Impairment losses on property, plant and equipment and right-of-use assets/an intangible asset	**(967)**	(1,570)
Impairment loss on interest in an associate	**–**	(14,011)
	9,688	(3,807)

5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
The People's Republic of China Enterprise Income Tax		
– current period	**17,690**	34,088
– under(over)provision in prior periods	**1,433**	(2,318)
Overseas taxation		
– current period	**30,621**	24,886
– underprovision in prior periods	**613**	1,152
	50,357	57,808
Withholding tax on dividend	**2,102**	–
Deferred tax (credit) expense	**(4,985)**	3,632
	47,474	61,440

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,170,303**	1,117,413
Net exchange gain (included in other income)	**(626)**	(3,137)
Amortization of intangible assets (included in selling and distribution expenses and administrative expenses)	**699**	7,808
Depreciation of right-of-use assets	**91,120**	99,801
Depreciation of property, plant and equipment *(note)*	**166,288**	174,907
Loss on disposal of property, plant and equipment (included in other expenses)	**863**	3,733
Loss on disposal of right-of-use-assets (included in other expenses)	**210**	–

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

7. DIVIDENDS

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Dividends recognized as distribution during the period:		
2021 final dividend of HK$0.20 per share	**40,991**	–

The 2021 final dividend of approximately HK$321,776,000, equivalent to approximately US$40,991,000, was paid on June 23, 2022 to the shareholders of the Company.

The board of directors of the Company has resolved to declare an interim dividend of HK$0.40 per share for the six months ended June 30, 2022 (2021: nil). The interim dividend of approximately HK$644,025,000 shall be paid on October 6, 2022.

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,	
	2022	2021
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	**175,049**	170,255

	For the six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,609,755,323**	1,610,509,196
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	**2,253,923**	1,551,298
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,612,009,246**	1,612,060,494

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.

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$1,173,294,000 (December 31, 2021: US$957,241,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2022 (unaudited) ***US$'000***	At December 31, 2021 (audited) *US$'000*
0 to 30 days	**897,579**	641,709
31 to 90 days	**253,265**	304,773
Over 90 days	**22,450**	10,759
	1,173,294	957,241

10. TRADE AND OTHER PAYABLES

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

	At June 30, 2022 (unaudited) ***US$'000***	At December 31, 2021 (audited) *US$'000*
0 to 30 days	**385,692**	532,598
31 to 90 days	**116,650**	105,896
Over 90 days	**12,885**	10,033
	515,227	648,527

11. FINANCIAL GUARANTEE CONTRACTS

At the end of the reporting period, the Group had financial guarantee contracts as follows:

	At June 30, 2022 (unaudited) *US$'000*	At December 31, 2021 (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) joint ventures		
– amount guaranteed	**27,500**	27,771
– amount utilized	**14,235**	10,594
(ii) an associate		
– amount guaranteed	**20,700**	16,200
– amount utilized	**20,700**	15,750

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 2022, the Group saw strong yet unmet global demand for sports and outdoor footwear, and hence, robust demand for its footwear products. Coupled with a smoother ramp-up of capacity and enhanced order pipeline, the growth momentum of the Group's manufacturing business accelerated in the first two quarters of 2022. A solid order book also yielded a higher utilization rate partially helped by overtime hours, although distribution was still uneven. Lockdowns in mainland China associated with the 2019 novel coronavirus ("COVID-19") pandemic ("Pandemic") impacted logistics and efficiency across the Group's manufacturing bases, with the situation improving from late May alongside an easing of lockdown restrictions.

As operating leverage improved, the margins of the Group's manufacturing business also progressively improved on a quarter-on-quarter basis, as its operations in Vietnam normalized following Pandemic-related disruptions in the back half of 2021. At the same time, the Group oversaw a marked improvement in its product mix as it continued to prioritize quality growth and higher-value orders, leveraging the ongoing 'athleisure' and premiumization trends.

Yet, the Group's overall top and bottom-line performance were pressured by its retail subsidiary Pou Sheng, which was adversely impacted by continued COVID-19 outbreaks in mainland China, resulting in a massive decline in footfall across the retail sector, disrupting logistics and last-mile delivery while changing consumer behavior. In-store traffic and sales in shopping venues and cities in which Pou Sheng operates were hit hard, although the situation showed some signs of improvement in late May and June. Pou Sheng continued to streamline and refine its brick and mortar network to anchor itself for recovery later in the year. It also continued to strengthen its online channels, including both its public and private traffic domains, to enhance its channel mix, which delivered better conversion rates and more in-season full-price sales during the first half of 2022, while further deepening its engagement with customers and its business partners. For a more detailed explanation of the financials and strategy of the Group's retail business, please refer to the results announcement of Pou Sheng.

As it focuses on recovery, the Group continued to demonstrate its commitment to sustainability, ethical conduct, and corporate values. The Group was recently designated as a 'Climate Leader in Asia-Pacific' in the inaugural Climate Leaders Asia-Pacific 2022 list developed by the Financial Times and Statista. Yue Yuen was one of only 200 companies across the Asia-Pacific that has achieved the greatest compound annual reduction in greenhouse gas emissions intensity (i.e. emissions relative to revenue), a decline of 6.3%, between 2015 and 2020.

As part of its commitment to energy saving, carbon reduction and the use of renewable energy, the Group is committed to achieving a net-zero increase phase-one target in greenhouse gas emissions by 2025, as compared with the base year of 2019. And in line with its brand customers, the Group has committed to achieving a 46.2% reduction in greenhouse emissions by 2030, as compared with the base year of 2019, a target that has been verified by the World Resources Institute ("WRI") and meets standards set by the Science-Based Targets initiative ("SBTi").

Whenever 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 above areas of labor rights and sustainability globally. As a responsible leader in the footwear industry, Yue Yuen is also a member of the World Federation of the 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 2021 Environmental, Social and Governance Report of the Company.

Results of Operations

In the six months ended June 30, 2022, the Group recorded revenue of US$4,709.8 million, representing a decrease of 2.0% compared with the corresponding period of last year. The robust growth of its manufacturing business was largely offset by weak retail sales in mainland China following continued COVID-19 outbreaks. The profit attributable to owners of the Company was US$175.0 million, increased by 2.8% as compared to a profit attributable to owners of the Company of US$170.3 million recorded for the corresponding period of last year. The profit attributable to owners of the manufacturing business increased by 58.9% to US$173.4 million, while profit attributable to owners of Pou Sheng decreased by 97.3% to RMB17.4 million. The basic earnings per share for the first half of 2022 was 10.87 US cents, compared to the basic earnings per share of 10.57 US cents for the corresponding period of last year.

Total Revenue by Category

For the six months ended June 30, 2022, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 16.0% to US$2,905.9 million, compared with the corresponding period of last year. The Group saw a solid quarter-on-quarter acceleration in the volume of shoes shipped during the period, increasing by 5.6% to 144.1 million pairs compared with the corresponding period of last year, which was attributed to solid global demand for its footwear products. The average selling price increased by a robust 9.7% to US$20.16 per pair led by stronger demand for the Group's high-end footwear, as well as its ongoing efforts to refine its product mix and obtain more high-value orders.

For the six months ended June 30, 2022, the Group's athletic/outdoor shoes category accounted for 84.8% of footwear manufacturing revenue. Casual shoes and sports sandals accounted for 15.2% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 52.3% of total revenue, followed by casual shoes and sports sandals, which accounted for 9.4% of total revenue.

For the six months ended June 30, 2022, the Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$3,188.9 million, representing an increase of 14.4% as compared to the corresponding period of last year.

For the six months ended June 30, 2022, revenue attributed to Pou Sheng declined by 24.7% to US$1,520.9 million, compared to US$2,020.5 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue declined by 24.5% to RMB9,864.8 million, compared to RMB13,073.9 million in the corresponding period of last year. The decline in revenue was mainly attributed to weak foot traffic in the shopping venues and cities where Pou Sheng operates following COVID-19 lockdowns and local government's closed-loop management across mainland China. This was despite Pou Sheng experiencing a good start to the year and with the performance of its Pan-WeChat Ecosphere remaining resilient. As of June 30, 2022, Pou Sheng had 4,455 directly operated retail outlets and 3,506 sub-distributors stores across the Greater China region, representing a net closure of 456 stores as compared with the 2021 year-end. The net closure is in line with Pou Sheng's retail refinement strategy that focuses on streamlining and refining store networks to enhance efficiency. It has also leveraged on its operational expertise, taking a more holistic approach in prioritizing selective high-quality openings with business partners. As a result, the contribution of quality larger-format stores (above 300 m^2) to Pou Sheng's directly-operated store count rose to 16.9%.

Total Revenue by Category	For the six months ended June 30,				
	2022		2021		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes	**2,465.2**	**52.3**	2,081.4	43.3	18.4
Casual Shoes & Sports Sandals	**440.7**	**9.4**	424.1	8.8	3.9
Soles, Components & Others	**283.0**	**6.0**	281.1	5.9	0.7
Pou Sheng*	**1,520.9**	**32.3**	2,020.5	42.0	(24.7)
Total Revenue	**4,709.8**	**100.0**	4,807.1	100.0	(2.0)

* *Sales of the Group's retail subsidiary in the Greater China region, 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 shorter lead-times of between 30-45 days. Nevertheless, the short-term priorities of some customers is capacity stability and product availability, as well as on-time delivery.

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

Production Review

During the first half of 2022, the Group's manufacturing business shipped a total of 144.1 million pairs of shoes, an increase of 5.6% compared to the 136.4 million pairs shipped in the corresponding period of last year. The average selling price per pair was US$20.16, a decent increase of 9.7% as compared to US$18.37 in the corresponding period of last year.

In terms of production allocation, Vietnam, Indonesia and mainland China continued to be the Group's main production locations by shoe volume in the first half of 2022, representing 37%, 47% 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 six months ended June 30, 2022, total main material costs were US$1,219.3 million (first half of 2021: US$1,022.8 million). Direct labor costs and production overheads were US$1,412.8 million (first half of 2021: US$1,255.2 million). The total cost of goods sold by the Group's manufacturing business was US$2,632.1 million for the first half of 2022 (first half of 2021: US$2,278.0 million). For the Group's retail business, Pou Sheng, stock costs were US$982.0 million in the six months ended June 30, 2022 (first half of 2021: US$1,290.7 million).

In the six months ended June 30, 2022, the Group's gross profit was impacted by the weak performance of its retail business, decreasing by 11.5% to US$1,095.7 million. The gross profit of the manufacturing business increased by 9.5% to US$556.8 million, whilst the gross profit margin reached 17.5%, a further sequential improvement over previous quarters as better capacity utilization lifted operational efficiency following the resumption of work in Vietnam in late 2021. Nevertheless, this still represented a decline of 0.8 percentage points as compared to the corresponding period of last year, due largely to uneven utilization and productivity across the factories resulting from COVID-19 disruptions in mainland China during the period under review.

Cost of Goods Sold Analysis – Manufacturing Business

	For the six months ended June 30,				
	2022		2021		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Main Material Costs	**1,219.3**	**46.3**	1,022.8	44.9	19.2
Direct Labor Costs & Production Overheads	**1,412.8**	**53.7**	1,255.2	55.1	12.6
Total Cost of Goods Sold	**2,632.1**	**100.0**	2,278.0	100.0	15.5

Pou Sheng's gross profit margin decreased by 0.7 percentage points to 35.4% in the first half of 2022, as compared to the corresponding period of last year, showing some resilience quarter-on-quarter that was mainly attributed to an enhanced channel mix and an effective promotion strategy within the current volatile retail environment.

The Group's total selling and distribution expenses for the first half of 2022 decreased by 12.4% to US$538.6 million (first half of 2021: US$615.1 million), equivalent to approximately 11.4% (first half of 2021: 12.8%) of revenue.

Administrative expenses for the first half of 2022 decreased by 3.4% to US$298.1 million (first half of 2021: US$308.5 million), equivalent to approximately 6.3% (first half of 2021: 6.4%) of revenue.

Net other expenses for the first half of 2022 increased by 3.3% to US$47.7 million (first half of 2021: US$46.2 million), equivalent to approximately 1.0% (first half of 2021: 1.0%) of revenue.

Recurring Profit Attributable to Owners of the Company

In the six months ended June 30, 2022, the Group recognized a non-recurring profit attributable to owners of the Company of US$10.1 million, due to a gain of US$7.0 million on fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), as well as a gain of US$3.6 million on the disposal of a joint venture. In the same period of 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 FVTPL, which was offset by an impairment loss of US$14.0 million on interest in an associate.

Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the six months ended June 30, 2022, was US$165.0 million, compared to a recurring profit attributable to owners of the Company of US$173.5 million for the corresponding period of last year.

Product Development

In the six months ended June 30, 2022, the Group spent US$98.2 million (first half of 2021: US$95.3 million) on product development, including investments in sampling and digital prototyping, technological and process engineering, 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 and lead times, formulate new techniques to produce high-quality footwear, and incorporate innovative and sustainable materials into the design, development, and manufacture of its products.

Liquidity, Financial Resources, Capital Structure and Others

Cash Flow

In the six months ended June 30, 2022, the Group recorded net cash generated from operating activities (net of tax) of US$8.7 million (first half of 2021: US$226.0 million). Net free cash outflow amounted to US$102.7 million (first half of 2021: free cash flow of US$112.1 million). Net cash flow used in investing activities amounted to US$102.5 million (first half of 2021: US$109.5 million) while net cash generated from financing activities was US$55.2 million (first half of 2021: outflow US$88.5 million). Overall net decrease in cash and cash equivalents amounted to US$53.6 million (first half of 2021: net increase US$29.9 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at June 30, 2022, the Group had cash and cash equivalents of US$784.4 million* (December 31, 2021: US$838.0 million) and total bank borrowings of US$1,914.7 million (December 31, 2021: US$1,717.1 million). The Group's gearing ratio (total bank borrowings to total equity) was 41.1% (December 31, 2021: 37.3%). As at June 30, 2022, the Group had net borrowing of US$1,131.4 million and a net gearing ratio (net bank borrowings to total equity) of 24.3% (December 31, 2021: US$879.1 million and 19.1%). As at June 30, 2022, the Group had current assets of US$4,574.8 million (December 31, 2021: US$4,519.4 million) and current liabilities of US$2,372.1 million (December 31, 2021: US$2,468.5 million). The current ratio was 1.9 as at June 30, 2022 (December 31, 2021: 1.8).

* *Ending cash as at June 30, 2022 included bank balances and cash classified as assets held for sale which amounted to US$1.1 million.*

Funding and Capital Structure

The Group principally meets its current and future working capital, capital expenditure and other investment requirements through a combination of funding sources, including cash flows from operations and bank borrowings. 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 loan 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, 2022, around 55.0% of the Group's total bank borrowings had a 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 the local currencies (e.g. VND, IDR, RMB) of the 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 a floating rate basis. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

In the six months ended June 30, 2022, the Group's overall capital expenditure reached US$111.4 million (first half of 2021: US$113.9 million). The capital expenditure for the Group's manufacturing business was US$89.2 million (first half of 2021: US$79.4 million), as it continued to push forward with its capital expenditure program targeting strategic expansion and the optimization of its manufacturing capacity.

As for investments in its retail business Pou Sheng, capital expenditure declined to US$22.2 million in the six months ended June 30, 2022 (first half of 2021: US$34.5 million), in line with its channel optimization strategy. Pou Sheng continued its selective and prudent approach of strategically opening and upgrading experience-driven retail stores that provide a better shopping experience and enhance store productivity, as well as investing in the further optimization of both its online and physical networks to capture growth opportunities in the Greater China region.

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

Contingent Liabilities

The Group has provided guarantees to banks in respect of banking facilities granted to joint ventures and an associate, the detail of which can be seen in Note 16 to the condensed consolidated financial statements in the 2022 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 the Greater China region, the majority of its revenues are denominated in RMB. Correspondingly, almost all expenses are also denominated in RMB. For the retail business outside mainland 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 2022.

Share of Results of Associates and Joint Ventures

In the six months ended June 30, 2022, the share of results of associates and joint ventures was a combined profit of US$30.3 million, compared to a combined profit of US$34.6 million in the corresponding period of last year.

Interim Dividend

The Board has resolved to declare an interim dividend of HK$0.40 per share (2021: Nil) for shareholders whose name appear on the register of members of the Company on Thursday, September 15, 2022. The interim dividend shall be paid on Thursday, October 6, 2022.

The Group's commitment to upholding a relatively steady dividend level over the long-term remains intact.

Employees

As at June 30, 2022, the Group had approximately 322,500 employees employed across all regions in which it operates, an increase of 6.2% as compared to approximately 303,800 employees employed as at June 30, 2021. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

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

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

The Group regularly provides internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training, and corporate core values training, to enable 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 responsible recruitment aimed at implementing workplace standards globally; implementing a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; investing in a social compliance program, training, and remediation; improving its transparency in remediating labor violations at its production sites and establish multiple grievance channels; and on top of all the programs above, actively participate in FLA's initiatives such as fair compensation project.

Prospects

While the Group remains cautiously optimistic about the resilience of its manufacturing business, rising inflation, interest rate hikes and uncertainties are clouding the macro-economic environment. Concerns about global demand overshadow order visibility and have the potential to hamper the stability of the Group's manufacturing business and order book in the second half of the year. At the same time, short-term risks to its manufacturing operations remain, including the chance of lockdowns due to the Pandemic and potential logistical bottlenecks. The Group will continue to actively manage its supply chain and dynamically allocate its manufacturing capacity to balance demand, its order pipeline and labor supply. It will also continue to diversify its manufacturing capacity in Southeast Asia, particularly in Indonesia where labor supply and infrastructure is supportive of sustainable growth.

The Group will continue to maintain the highest level of flexibility and agility to sustain its efficiency and productivity while leveraging its core strengths, adaptability, and competitive edges to overcome any short-term disruptions and safeguard its profitability. It will also continue to exploit its strategy of prioritizing value growth, leveraging the 'athleisure' and premiumization trend to seek more high-value orders with a better product mix.

At the same time, the Group will continue to pursue its long-term digital transformation strategy with an aim of achieving operational excellence through digital lean management, having rolled out a new wave of SAP ERP implementation coupled with the implementation of other real-time data applications and remote monitoring systems. 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, eco-friendliness, more efficient turnaround times, on-time delivery and end-to-end capabilities. This includes enabling digital prototyping and production simulations, automation, more flexible set-ups and frequent line change-overs through process re-engineering, and the further integration of other digitalization tools such as increasingly important Distributed Resource Scheduler (DRS) and Robotic Process Automation (RPA) to optimize its ongoing eco-intelligent and smart manufacturing strategy.

The Group's retail business Pou Sheng is accelerating its own ongoing digital transformation as it positions itself for future recovery. This includes further strengthening and diversifying its omni-channels, including its online public and private traffic domains, as well as elevating digitally-enabled physical stores. It is also actively expanding its cooperation with its brand partners, many of whom are also long-term and strategic customers of the Group's manufacturing business, in ways that support inventory integration, loyalty and membership growth, increased in-season sales and maximum value for consumers. The Group will continue to benefit from cross-business synergies while providing differentiated value-added and one-stop services to its customers and strategic partners.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Share Award Scheme of the Company, pursuant to the terms of the trust deed of the Share Award Scheme of the Company, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 1,500,000 shares in the Company at a total consideration of approximately HK$18,516,000 (equivalent to approximately US$2,366,000).

CORPORATE GOVERNANCE

During the six months ended June 30, 2022, 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 Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the six months ended June 30, 2022.

REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT

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

In addition, our auditor, Messrs. Deloitte Touche Tohmatsu, has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2022 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, September 15, 2022 to Monday, September 19, 2022, 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, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (and with effect from August 15, 2022, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong), for registration not later than 4:30 p.m. on Wednesday, September 14, 2022.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.yueyuen.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended June 30, 2022 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 11, 2022

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. Liu George Hong-Chih and Mr. Yu Huan-Chang.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Mr. Lin Shei-Yuan and Mr. Chen Chia-Shen.

Website: www.yueyuen.com