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

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

Stock Code 股份代號：551

INTERIM REPORT
中期報告 2023

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

(Incorporated in Bermuda with limited liability)
Stock Code: 00551

2023 Interim Report

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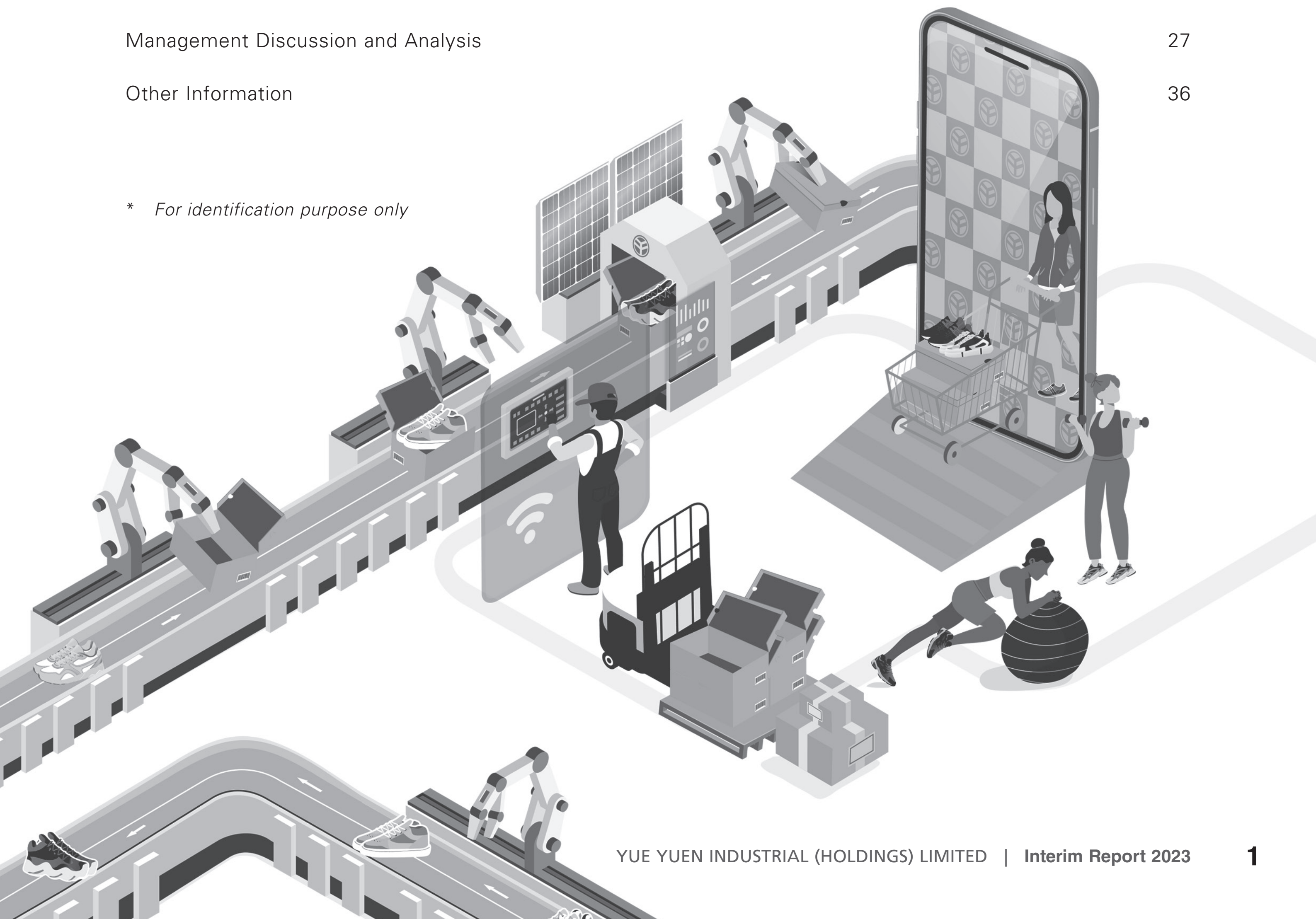
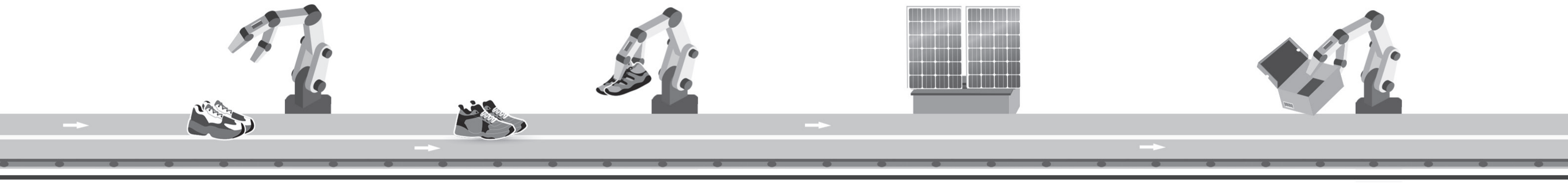
* *For identification purpose only*





CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty [5] *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Liu George Hong-Chih
Shih Chih-Hung *(Chief Financial Officer)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Hak Kun [1, 2, 3, 4]
Ho Lai Hong [1, 3, 5, 6]
Lin Shei-Yuan [1, 3, 5]
Chen Chia-Shen (retired on May 25, 2023) [1, 3]
Yang Ju-Huei (appointed on June 1, 2023) [1, 3]

Notes:

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

COMPANY SECRETARY

Chau Chi Ming, Dickens (resigned on August 11, 2023)
Ng Yin Ling, Jennifer (appointed on August 11, 2023)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

Deloitte Touche Tohmatsu
(Registered Public Interest Entity Auditor)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

(Listed in alphabetical order)

- Australia and New Zealand Banking Group Limited
- Bank of Singapore Limited
- Bank SinoPac
- BNP Paribas
- CTBC Bank Co., Ltd.
- Citibank, N.A.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- Mizuho Bank, Ltd.
- MUFG Bank, Ltd.
- OCBC Bank (Hong Kong) Limited
- Bank of Nova Scotia
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank Co., Ltd
- UBS AG
- United Overseas Bank Ltd.

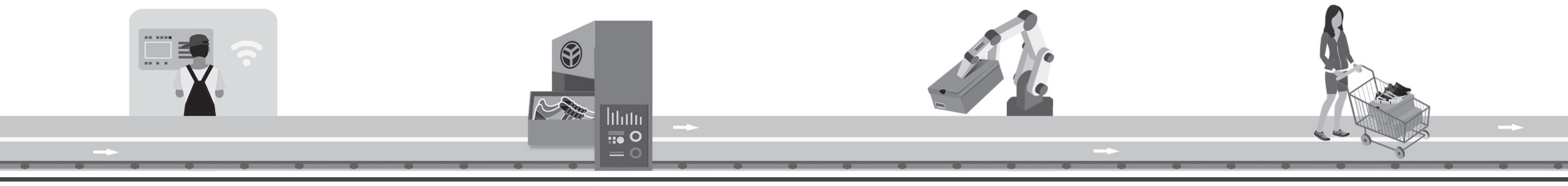
SOLICITORS

Reed Smith Richards Butler LLP

WEBSITE

www.yueyuen.com

STOCK CODE: 00551

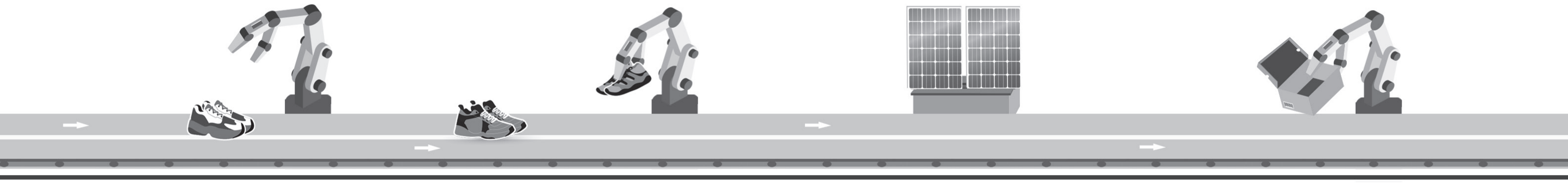


FINANCIAL AND OPERATING HIGHLIGHTS

(US$ million, except where otherwise stated)

	For the six months ended June 30,		
	2023	2022	% change
Key Financial/Operating information			
Total shoe volume (million pairs)	**109.8**	144.1	(23.8)
Revenue	**4,155.0**	4,709.8	(11.8)
Gross Profit	**977.7**	1,095.7	(10.8)
EBITDA	**356.6**	461.9	(22.8)
Profit attributable to owners of the Company	**83.6**	175.0	(52.2)
Recurring profit attributable to owners of the Company	**79.9**	165.0	(51.6)
Basic earnings per share (US cents)	**5.19**	10.87	(52.3)
Dividend per share			
– interim (HK$)	**0.20**	0.40	(50.0)
Key Financial Ratios			
Gross profit margin (%)	**23.5**	23.3	
Operating profit margin (%)	**3.7**	4.5	
Return on equity# (%)	**4.1**	8.4	
Return on assets# (%)	**2.9**	4.1	
	At June 30, 2023	At December 31, 2022	
Gearing ratio* (%)	**26.5**	30.9	
Net gearing ratio* (%)	**5.3**	9.0	
Current ratio (x)	**2.3**	2.1	

\# *Calculated on annualized basis*
* *Debt excludes lease liabilities*



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 26, which comprise the condensed consolidated statement of financial position as of June 30, 2023 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

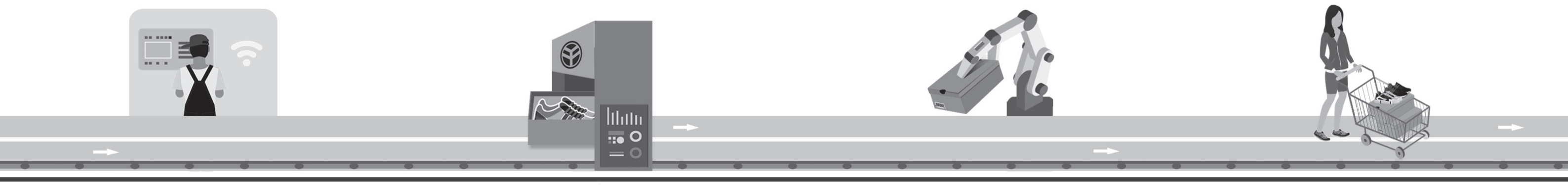
Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 11, 2023



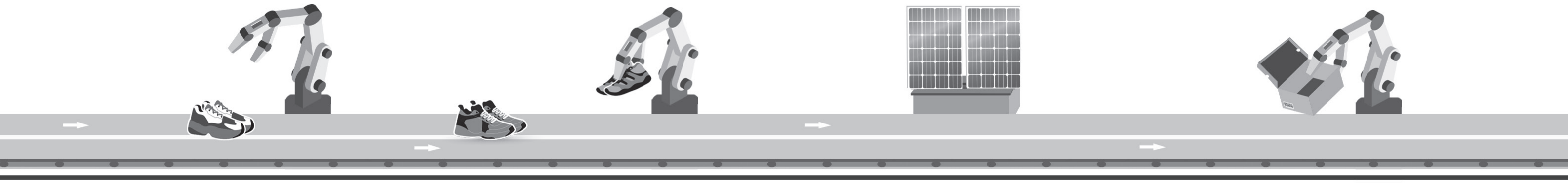
INTERIM RESULTS

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited (the "Company" or "Yue Yuen") 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, 2023 with comparative figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2023

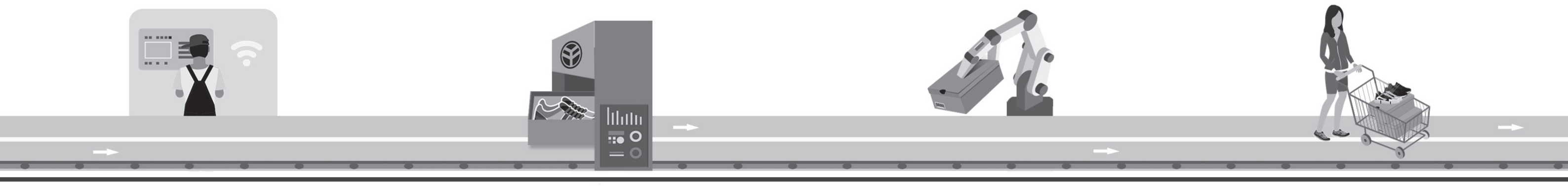
		For the six months ended June 30,	
		2023	2022
		(unaudited)	(unaudited)
	NOTES	**US$'000**	US$'000
Revenue	3	**4,154,968**	4,709,792
Cost of sales		**(3,177,258)**	(3,614,054)
Gross profit		**977,710**	1,095,738
Other income		**66,537**	61,357
Selling and distribution expenses		**(473,375)**	(538,640)
Administrative expenses		**(286,325)**	(298,123)
Other expenses		**(130,162)**	(109,100)
Finance costs		**(43,944)**	(27,226)
Share of results of associates		**22,285**	23,541
Share of results of joint ventures		**6,841**	6,713
Other gains and losses	4	**3,660**	9,688
Profit before taxation		**143,227**	223,948
Income tax expense	5	**(38,216)**	(47,474)
Profit for the period	6	**105,011**	176,474
Attributable to:			
Owners of the Company		**83,601**	175,049
Non-controlling interests		**21,410**	1,425
		105,011	176,474
		US cents	US cents
Earnings per share	8		
– Basic		**5.19**	10.87
– Diluted		**5.19**	10.86



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2023

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Profit for the period	**105,011**	176,474
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity instruments at fair value through other comprehensive income	**(689)**	(7,045)
Share of other comprehensive (expense) income of associates	**(11,895)**	1,297
	(12,584)	(5,748)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(58,576)**	(64,515)
Share of other comprehensive expense of associates and joint ventures	**(4,521)**	(13,555)
	(63,097)	(78,070)
Other comprehensive expense for the period	**(75,681)**	(83,818)
Total comprehensive income for the period	**29,330**	92,656
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**30,282**	115,620
Non-controlling interests	**(952)**	(22,964)
	29,330	92,656



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2023

	NOTES	**At June 30, 2023 (unaudited) US$'000**	At December 31, 2022 (audited) US$'000
Non-current assets			
Investment properties		**245,479**	246,075
Property, plant and equipment	9	**1,717,794**	1,871,035
Right-of-use assets	10	**536,923**	584,010
Deposits paid for acquisition of property, plant and equipment/right-of-use assets		**23,482**	26,814
Intangible assets		**9,830**	9,072
Goodwill		**256,828**	260,378
Interests in associates		**432,150**	431,601
Interests in joint ventures		**175,988**	183,507
Equity instruments at fair value through other comprehensive income		**16,894**	17,873
Financial assets at fair value through profit or loss		**26,835**	20,505
Rental deposits		**17,658**	20,717
Deferred tax assets		**121,751**	120,309
		3,581,612	3,791,896
Current assets			
Inventories		**1,252,010**	1,625,117
Trade and other receivables	11	**1,511,983**	1,430,944
Financial assets at fair value through profit or loss		**17,540**	60,557
Equity instrument at fair value through other comprehensive income		**3,744**	3,609
Taxation recoverable		**5,979**	5,039
Bank deposits over three months		**52,590**	23,478
Cash and cash equivalents		**907,244**	994,781
		3,751,090	4,143,525

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2023

	NOTES	**At June 30, 2023 (unaudited) US$'000**	At December 31, 2022 (audited) US$'000
Current liabilities			
Trade and other payables	12	**1,026,150**	1,223,214
Contract liabilities		**66,685**	72,808
Financial liabilities at fair value through profit or loss		**108**	1,264
Taxation payable		**71,800**	86,239
Bank borrowings	13	**370,282**	506,430
Lease liabilities		**94,108**	113,337
		1,629,133	2,003,292
Net current assets		**2,121,957**	2,140,233
Total assets less current liabilities		**5,703,569**	5,932,129
Non-current liabilities			
Bank borrowings	13	**829,003**	928,501
Deferred tax liabilities		**55,118**	55,944
Lease liabilities		**191,145**	217,906
Retirement benefit obligations		**98,765**	87,453
		1,174,031	1,289,804
Net assets		**4,529,538**	4,642,325
Capital and reserves			
Share capital	14	**52,040**	52,040
Reserves		**4,025,626**	4,137,671
Equity attributable to owners of the Company		**4,077,666**	4,189,711
Non-controlling interests		**451,872**	452,614
Total equity		**4,529,538**	4,642,325

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 30, 2023

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Statutory reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2022 (audited)	52,040	592,677	57,520	(16,688)	8,118	4,551	63,418	(4,415)	1,322	143,759	98,493	3,097,663	4,098,458	505,993	4,604,451
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	(40,547)	–	(40,547)	(23,968)	(64,515)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	(6,978)	–	–	–	–	–	–	–	–	–	(6,978)	(67)	(7,045)
Share of other comprehensive income (expense) of associates and joint ventures	–	–	1,297	–	–	–	–	–	–	–	(13,201)	–	(11,904)	(354)	(12,258)
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	175,049	175,049	1,425	176,474
Total comprehensive (expense) income for the period	–	–	(5,681)	–	–	–	–	–	–	–	(53,748)	175,049	115,620	(22,964)	92,656
Purchase of shares under share award scheme	–	–	–	–	–	–	–	(2,366)	–	–	–	–	(2,366)	–	(2,366)
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	–	–	–	–	–	–	–	–	2,939	–	–	–	2,939	402	3,341
Share awards vested	–	–	–	–	–	–	–	2,882	(1,930)	–	–	(952)	–	–	–
Dividends *(Note 7)*	–	–	–	–	–	–	–	–	–	–	–	(40,991)	(40,991)	–	(40,991)
Dividends paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(4,088)	(4,088)
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	12,313	–	(12,313)	–	–	–
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	188	188
At June 30, 2022 (unaudited)	52,040	592,677	51,839	(16,688)	8,118	4,551	63,418	(3,899)	2,331	156,072	44,745	3,218,456	4,173,660	479,531	4,653,191
At January 1, 2023 (audited)	**52,040**	**592,677**	**40,062**	**(16,688)**	**8,859**	**4,551**	**75,750**	**(3,899)**	**2,981**	**193,622**	**8,397**	**3,231,359**	**4,189,711**	**452,614**	**4,642,325**
Exchange difference arising on the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(36,522)**	**–**	**(36,522)**	**(22,054)**	**(58,576)**
Fair value changes on equity instruments at fair value through other comprehensive income	**–**	**–**	**(689)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(689)**	**–**	**(689)**
Share of other comprehensive expense of associates and joint ventures	**–**	**–**	**(11,895)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,213)**	**–**	**(16,108)**	**(308)**	**(16,416)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**83,601**	**83,601**	**21,410**	**105,011**
Total comprehensive (expense) income for the period	**–**	**–**	**(12,584)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(40,735)**	**83,601**	**30,282**	**(952)**	**29,330**
Purchase of shares under share award scheme	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(704)**	**–**	**–**	**–**	**–**	**(704)**	**–**	**(704)**
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,544**	**–**	**–**	**–**	**2,544**	**210**	**2,754**
Share awards vested	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,585**	**(5,418)**	**–**	**–**	**833**	**–**	**–**	**–**
Dividends *(Note 7)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(144,167)**	**(144,167)**	**–**	**(144,167)**
Transfer upon disposal of an equity instrument at fair value through other comprehensive income	**–**	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**–**	**–**
Transfer to statutory reserve fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,579**	**–**	**(5,579)**	**–**	**–**	**–**
At June 30, 2023 (unaudited)	**52,040**	**592,677**	**27,474**	**(16,688)**	**8,859**	**4,551**	**75,750**	**(18)**	**107**	**199,201**	**(32,338)**	**3,166,051**	**4,077,666**	**451,872**	**4,529,538**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended June 30, 2023

notes:

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

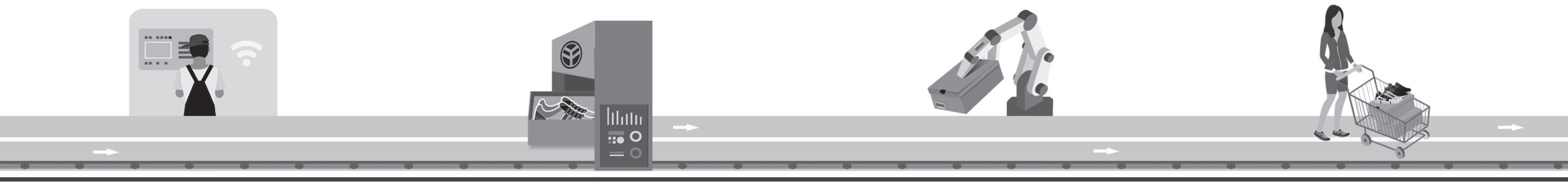
For the six months ended June 30, 2023

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Net cash from operating activities	**363,589**	8,759
Net cash from (used in) investing activities		
Payment for acquisition of property, plant and equipment	**(76,757)**	(111,425)
Payment for right-of-use assets	**(6,002)**	(311)
Proceeds from disposal of property, plant and equipment	**80,691**	4,371
Payment for acquisition of intangible assets	**(1,918)**	–
Refund of rental deposits	**1,978**	2,583
Dividends received from joint ventures	**7,420**	6,000
Acquisition of financial instruments at fair value through profit or loss ("FVTPL")	**(7,081)**	(55,000)
Settlement of financial instruments at FVTPL	**61,847**	14,319
Proceed from disposal of an equity instrument at fair value through other comprehensive income ("FVTOCI")	**148**	–
Interest received	**14,819**	7,449
Placement of bank deposits over three months	**(41,698)**	–
Release of bank deposits over three months	**10,644**	–
Proceeds from disposal of a joint venture	**–**	13,992
Settlement of other financial asset at amortized costs	**–**	8,790
Receipt of deferred consideration receivable	**–**	5,821
Proceeds from disposal of right-of-use assets	**–**	921
	44,091	(102,490)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended June 30, 2023

	For the six months ended June 30, 2023 (unaudited) US$'000	2022 (unaudited) US$'000
Net cash (used in) from financing activities		
Repayment of bank borrowings	**(755,438)**	(1,676,918)
Bank borrowings raised	**520,227**	1,893,808
Interest paid	**(36,861)**	(17,938)
Repayment of lease liabilities, including related interest	**(70,663)**	(96,268)
Dividends paid	**(144,167)**	(40,991)
Purchase of shares under share award scheme	**(704)**	(2,366)
Dividends paid to non-controlling interests of a subsidiary	**–**	(4,088)
	(487,606)	55,239
Net decrease in cash and cash equivalents	**(79,926)**	(38,492)
Cash and cash equivalents at beginning of the period	**994,781**	837,965
Effect of foreign exchange rate changes	**(7,611)**	(15,122)
Cash and cash equivalents at end of the period	**907,244**	784,351
Analysis of cash and cash equivalents		
Cash and cash equivalents	**907,244**	783,267
Cash and cash equivalents included in assets classified as held for sales	**–**	1,084
	907,244	784,351



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.

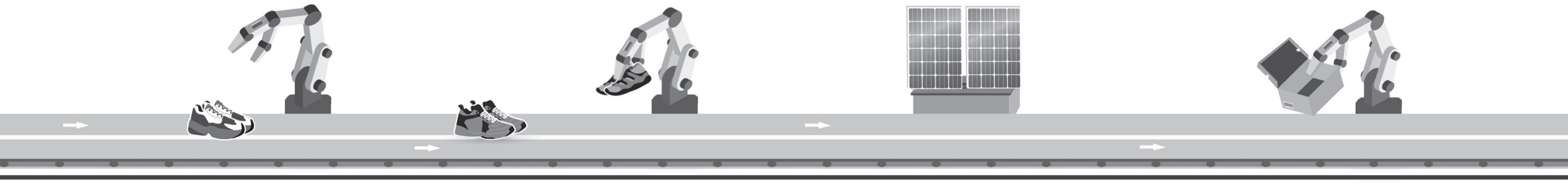
Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2022.

2.1 Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two Model Rules

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

2.2.1 Accounting policies

The application of Amendments to HKAS 12 results in changes in accounting policies for taxation:

Taxation

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognizes a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized and a deferred tax liability for all taxable temporary differences.

2.2.2 Transition and summary of effects

As disclosed in the Group's annual financial statements for the year ended December 31, 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

(i) the Group has applied the new accounting policies retrospectively to leasing transactions that occurred on or after January 1, 2022;

(ii) the Group also, as at January 1, 2022, recognized a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (continued)

2.2.2 Transition and summary of effects (continued)

The Group recognized the related deferred tax assets associated with the lease liabilities of US$112,480,000 and US$81,655,000 as at January 1, 2022 and December 31, 2022 respectively and deferred tax liabilities of US$107,396,000 and US$76,861,000 associated with the right-of-use assets as at January 1, 2022 and December 31, 2022 respectively on a gross basis but it has no impact on the Group's financial position as the related deferred tax assets and liabilities continues to offset for the purpose of presentation in the condensed consolidated statement of financial position. There is also no impact on the Group's performance and the retained earnings at the earliest period presented.

2.3 Impacts on application of Amendments to HKAS 12 International Tax Reform-Pillar Two Model Rules

HKAS 12 is amended to add the exception to recognizing and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after January 1, 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the executive Directors, 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 information regarding revenue derived from the principal businesses described above is reported below:

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Revenue		
Manufacturing Business	**2,573,895**	3,188,899
Retailing Business	**1,581,073**	1,520,893
	4,154,968	4,709,792

Revenue from major products

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

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Athletic/outdoor shoes	**2,063,432**	2,465,170
Casual shoes and sports sandals	**315,562**	440,737
Soles, components and others	**194,901**	282,992
Retail sales – shoes, apparel, commissions from concessionaire sales and others	**1,581,073**	1,520,893
	4,154,968	4,709,792

3. REVENUE AND SEGMENTAL INFORMATION (continued)

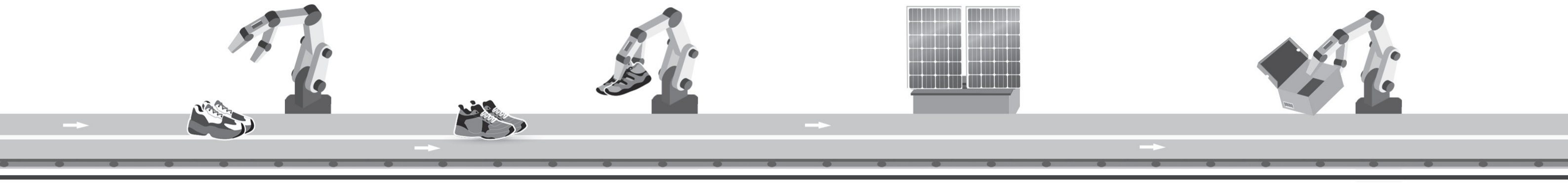
Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the PRC. The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
US	**707,210**	1,119,946
Europe	**696,045**	856,220
PRC	**1,975,733**	1,942,018
Other countries in Asia	**537,588**	532,190
Others	**238,392**	259,418
	4,154,968	4,709,792

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Fair value changes on financial instruments at FVTPL	**3,670**	7,022
Loss on deregistration of subsidiaries	**(10)**	–
Gain on disposal of a joint venture	**–**	3,633
Impairment losses on property, plant and equipment and right-of-use assets	**–**	(967)
	3,660	9,688



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INCOME TAX EXPENSE

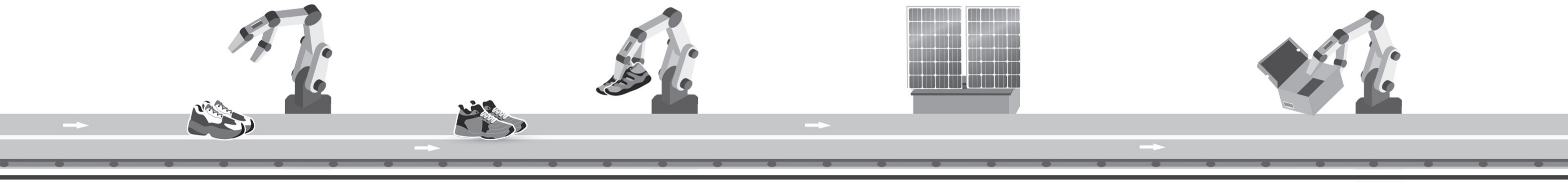
	For the six months ended June 30, 2023 (unaudited) US$'000	2022 (unaudited) US$'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax		
– current period	**16,362**	17,690
– (over)underprovision in prior periods	**(2,201)**	1,433
Overseas taxation		
– current period	**27,798**	30,621
– (over)underprovision in prior periods	**(832)**	613
	41,127	50,357
Withholding tax on dividend	**379**	2,102
Deferred tax credit	**(3,290)**	(4,985)
	38,216	47,474

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
	US$'000	US$'000
Profit for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**1,066,381**	1,170,303
Net exchange loss (gain) (included in other expenses/income)	**14,387**	(626)
Amortization of intangible assets (included in selling and distribution expenses and administrative expenses)	**680**	699
Depreciation of right-of-use assets	**69,971**	91,120
Depreciation of property, plant and equipment *(note)*	**146,386**	166,288
Net changes in allowance for inventories (included in cost of sales)	**(3,589)**	14,851
(Gain) loss on disposal of property, plant and equipment (included in other income/expenses)	**(2,855)**	863
Loss on disposal of right-of-use assets (included in other expenses)	**19**	210
Research and development expenditures (included in other expenses)	**83,400**	98,194
Impairment losses recognized on trade and other receivables	**1,715**	898
Finance costs		
Interest expenses for bank and other borrowings	**36,665**	17,494
Interest expenses for lease liabilities	**6,571**	9,052
Amortization of upfront fee on bank borrowings	**708**	680
	43,944	27,226

note: Total staff costs and depreciation of property, plant and equipment disclosed above included amounts capitalized in inventories. In addition, the staff costs for six months ended June 30, 2023 included severance expenses of approximately US$20,521,000 (2022: nil) (included in other expenses) arising from factory adjustments in the manufacturing side.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDENDS

	For the six months ended June 30, 2023 (unaudited) US$'000	2022 (unaudited) US$'000
Dividends recognized as distribution during the period:		
2022 final dividend of HK$0.70 per share (2022: 2021 final dividend of HK$0.20 per share)	**144,167**	40,991

The board of directors of the Company (the "Board") has resolved to declare an interim dividend of HK$0.20 (2022: HK$0.40) per share for the six months ended June 30, 2023. The interim dividend of approximately HK$322,434,000 shall be paid on October 6, 2023.

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, 2023 (unaudited) US$'000	2022 (unaudited) US$'000
Earnings:		
Earnings for the purpose of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	**83,601**	175,049

8. EARNINGS PER SHARE (continued)

	For the six months ended June 30,	
	2023 (unaudited)	2022 (unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,610,344,699**	1,609,755,323
Effect of dilutive potential ordinary shares: Unvested awarded shares	**1,809,746**	2,253,923
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,612,154,445**	1,612,009,246

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 17(I)).

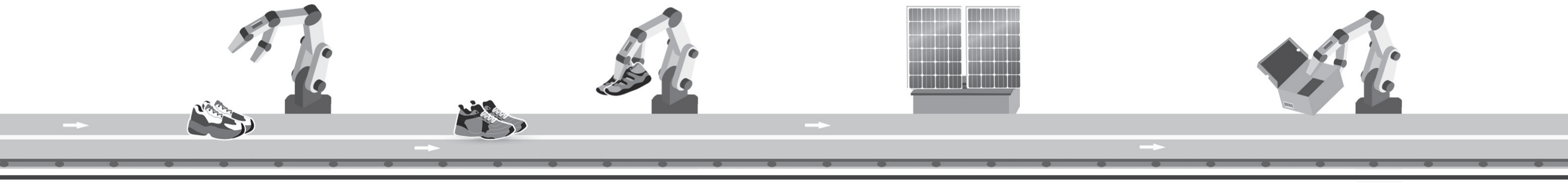
9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$77,836,000 (six months ended June 30, 2022: US$5,234,000) for cash proceeds of US$80,691,000 (six months ended June 30, 2022: US$4,371,000), resulting in a gain on disposal of US$2,855,000 (six months ended June 30, 2022: loss on disposal of US$863,000).

During the current interim period, the Group acquired property, plant and equipment of US$76,526,000 (six months ended June 30, 2022: US$103,485,000).

10. RIGHT-OF-USE ASSETS

During the current interim period, the Group recognized right-of-use assets, net of early termination and modification, amounting to US$36,671,000 (six months ended June 30, 2022: US$33,151,000).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$952,926,000 (December 31, 2022: US$934,027,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2023 (unaudited) US$'000	At December 31, 2022 (audited) US$'000
0 to 30 days	**569,290**	649,294
31 to 90 days	**374,886**	281,494
Over 90 days	**8,750**	3,239
	952,926	934,027

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables, presented based on the invoice date/ issuance date of the bills at the end of the reporting period.

	At June 30, 2023 (unaudited) US$'000	At December 31, 2022 (audited) US$'000
0 to 30 days	**305,995**	276,970
31 to 90 days	**85,789**	93,393
Over 90 days	**5,784**	56,567
	397,568	426,930

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. MOVEMENTS IN BANK BORROWINGS

During the current interim period, the Group obtained and repaid bank borrowings which mainly consisted of short-term revolving loans, of approximately US$520,227,000 (six months ended June 30, 2022: US$1,893,808,000) and US$755,438,000 (six months ended June 30, 2022: US$1,676,918,000) respectively. The proceeds of new bank borrowings were used to refinance bank borrowings and to finance the daily operation of the Group. Among these bank borrowings, the variable-rate borrowings carry a credit spread over Hong Kong Interbank Offered Rate, London Interbank Offered Rate, Secured Overnight Financing Rate, Taipei Interbank Offered Rate or loan prime rate published by National Interbank Funding Center, as appropriate.

14. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Authorized:		
Ordinary shares of HK$0.25 each:		
At January 1, 2022, June 30, 2022,		
January 1, 2023 and June 30, 2023	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each:		
At January 1, 2022, June 30, 2022,		
January 1, 2023 and June 30, 2023	1,612,183,986	403,046

	At June 30, 2023 (unaudited) US$'000	At December 31, 2022 (audited) US$'000
Shown in the condensed consolidated financial statements	**52,040**	52,040

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

	Fair value as at		
	June 30, 2023 (unaudited) US$'000	December 31, 2022 (audited) US$'000	**Fair value hierarchy**
Financial assets at FVTPL			
Forward contracts *(note i)*	**306**	115	Level 2
Interest rate swaps *(note ii)*	**1,442**	6,997	Level 2
Unlisted overseas funds *(note iii)*	**42,627**	20,755	Level 2
Daily range accrual notes *(note i)*	**–**	53,195	Level 2
Equity instruments at FVTOCI			
Listed equity securities *(note iv)*	**20,383**	21,220	Level 1
Financial liabilities at FVTPL			
Forward contracts *(note i)*	**108**	1,264	Level 2

notes:

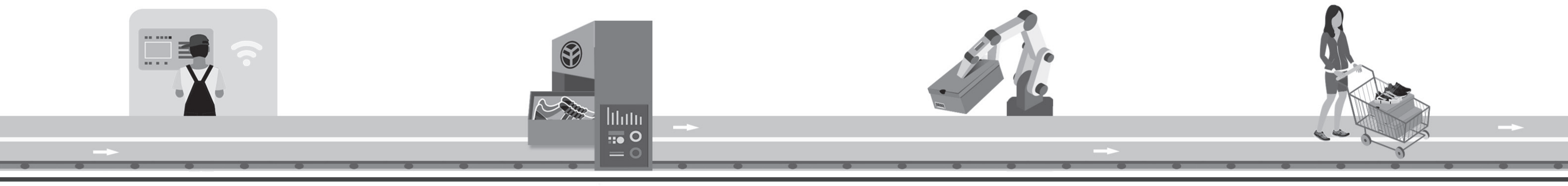
(i) These financial assets and liabilities are measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate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

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

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

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

Except as described above, the Directors consider the carrying amounts of the financial assets and financial liabilities recognized in the condensed consolidated financial statements approximate their fair values.



16. FINANCIAL GUARANTEE CONTRACTS AND COMMITMENTS

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

(I) FINANCIAL GUARANTEE CONTRACTS

	At June 30, 2023 (unaudited) US$'000	At December 31, 2022 (audited) US$'000
Guarantees given to banks in respect of banking facilities granted to:		
(i) a joint venture		
– amount guaranteed	**27,500**	22,500
– amount utilized	**15,525**	13,572
(ii) an associate		
– amount guaranteed	**20,700**	20,700
– amount utilized	**149**	7,349

(II) CAPITAL COMMITMENTS

	At June 30, 2023 (unaudited) US$'000	At December 31, 2022 (audited) US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– construction of buildings	**128,630**	18,358
– acquisition of property, plant and equipment	**7,772**	9,227
	136,402	27,585

In addition, the Group entered into a memorandum of understanding with the Tamil Nadu Government in India on April 17, 2023, under which an indirect wholly-owned subsidiary of the Company will invest approximately 23 billion Rupees (equivalent to approximately US$276 million) in phases in the investment project to establish the Group's manufacturing base in a special economic zone in India. The investment project will be funded by the internal resources of the Group and/or bank borrowings, if necessary. For details, please refer to the announcement of the Company dated April 17, 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. SHARE AWARD SCHEMES

(I) SHARE AWARD SCHEME OF THE COMPANY

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

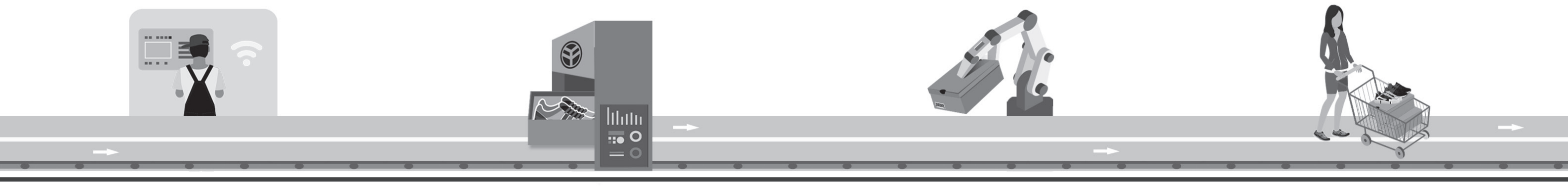
	Number of awarded shares	
	2023	2022
As at January 1	**1,470,000**	1,740,000
Granted	**2,935,000**	1,184,000
Vested	**(2,609,000)**	(1,184,000)
Lapsed	**(46,000)**	(180,000)
As at June 30	**1,750,000**	1,560,000

A total of 13,000 ordinary shares of the Company were held by the trustee of the Yue Yuen Share Award Scheme at June 30, 2023 (December 31, 2022: 2,122,000 ordinary shares).

(II) SHARE AWARD SCHEME OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED ("POU SHENG")

Pou Sheng has its share award scheme adopted pursuant to a board resolution passed by Pou Sheng's directors on May 9, 2014 and amended on November 11, 2016. Movement in the number of awarded shares outstanding is as follows:

	Number of awarded shares	
	2023	2022
As at January 1	**8,163,000**	15,967,500
Vested	**(377,400)**	(5,464,000)
Lapsed	**(126,400)**	(443,500)
As at June 30	**7,659,200**	10,060,000



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. It has long-standing relations and a reputation for serving leading international brands, including Nike, adidas, Asics, New Balance, Salomon and Timberland at the highest level. The Group's production capacity located across the globe 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.

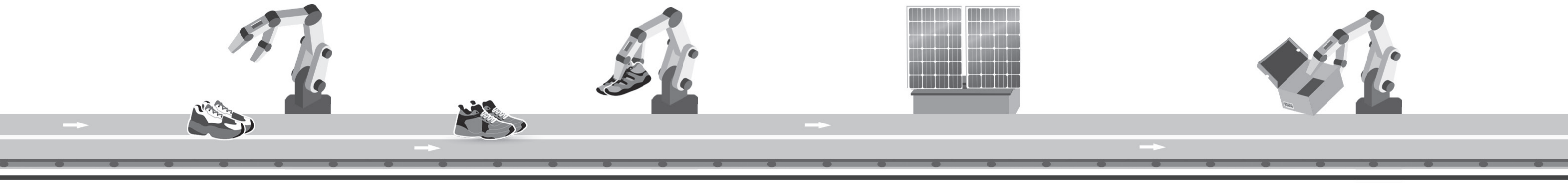
In the six months ended June 30, 2023 (the "Period"), statistics of major footwear manufacturing countries showed that global demand for footwear remained soft. According to China Customs, the value of Chinese footwear exports in the first half declined by 6.3% year-on-year to US$25.1 billion. According to Vietnam Customs, the value of Vietnamese footwear exports in the first half declined by 16.8% year-on-year to US$9.8 billion while according to the Central Bureau of Statistics of Indonesia, the value of Indonesian sports shoes exports in the first five months declined by 26.9% year-on-year to US$1.8 billion.

Throughout the Period, a sluggish global macroeconomic environment and the ongoing inventory destocking cycle across the footwear industry pushed down the short-term performance of the Group's manufacturing business. Notwithstanding relatively resilient demand for its high-end footwear that led to a good expansion in export prices, a weak order book and low visibility inevitably impacted the capacity utilization rate and operating efficiency of the Group's manufacturing business, resulting in operating deleverage that affected its profitability.

The Group combatted these short-term pressures by continuing to implement its highly agile capacity allocation strategy and flexibly adjusting its manpower with demand. It also continued to implement strict cost control measures while enhancing productivity where possible to safeguard the underlying fundamentals and profitability of the manufacturing business.

Meanwhile, the Group's retail subsidiary Pou Sheng saw decent recovery momentum during the Period, including increased foot traffic at shopping malls and its retail stores and improved purchasing intent following the lifting of all pandemic control measures in mainland China. It also benefitted from a low base effect stemming from the escalation of lockdowns in the same period of last year. Further, sales through its omni-channels remained robust as Pou Sheng pressed ahead with its digital transformation. In particular, Pou Sheng's private domain channels, which include its WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms, saw strong sales growth of over 50% year-on-year during the Period. Pou Sheng also continued to push forward its retail refinement strategy, further streamlining and rightsizing its retail network while strengthening the integration of its omni-channels, as well as diversifying channel mix to clear excess inventory. With the market environment remaining volatile, Pou Sheng continued to focus on sales conversion, associated purchase rates and in-season full-price sales, while deepening its engagement with customers and improving its operational efficiency. For a more detailed explanation of the financials and strategy of the Group's retail business, please refer to the 2023 interim report of Pou Sheng.

As a responsible leader in the footwear industry, Yue Yuen is a member of the World Federation of the Sporting Goods Industry ("WFSGI") and supports the principles of the WFSGI Code of Conduct. It is also an advocate for the United Nations Global Compact ("UNGC") and key Sustainable Development Goals ("SDGs"). The Group remains committed to sustainability, ethical conduct and its corporate values. Whenever making important business decisions, the Group considers the interests of all stakeholders. 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.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

The Group's sustainability efforts continued to be recognized by distinguished external parties. It has recently been ranked among the top three in the 'Best ESG' category by *Institutional Investor* magazine following votes from the investment community. The Group's CDP Climate Change Score was upgraded to 'B' (Management) level. It continued to maintain its resilient 'BBB' MSCI ESG rating, reflecting its efforts and that of its parent company, Pou Chen Corporation ("Pou Chen"), in setting targets and taking action to promote sustainability and corporate governance.

As a people-oriented business, the Group abides by its Code of Conduct and is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. Its parent company Pou Chen continues to be accredited by the Fair Labor Association ("FLA"), and together with the Group, places the health, safety and welfare of all employees as a top priority while fostering human rights and providing fair compensation in its workplaces and to build a great place to work culture. For more details, please refer to the 2022 Environmental, Social and Governance Report of the Company, which is the first prepared to align with more stringent international sustainability standards and frameworks, such as those set by the Global Reporting Initiative ("GRI"), Sustainability Accounting Standards Board ("SASB") and recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

RESULTS OF OPERATIONS

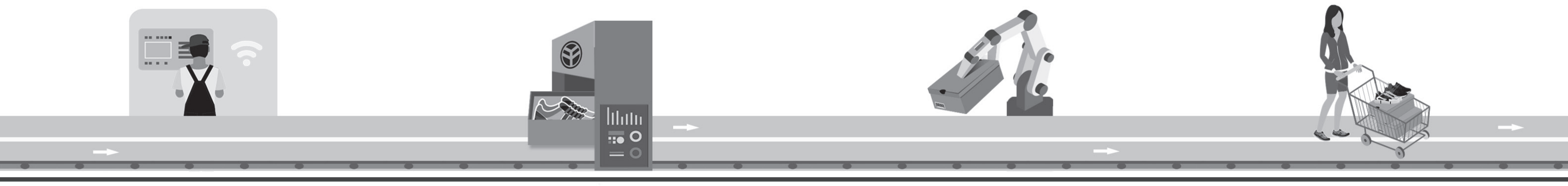
In the Period under review, the Group recorded revenue of US$4,155.0 million, representing a decrease of 11.8% compared with the corresponding period of last year, which was mostly due to weakness in its manufacturing business resulting from softer global demand for footwear amid the current inventory destocking cycle taking place across the industry. The profit attributable to owners of the Company was US$83.6 million, a decrease of 52.2% compared to a profit attributable to owners of the Company of US$175.0 million recorded for the corresponding period of last year. The profit attributable to owners of the manufacturing business decreased by 67.7% to US$56.0 million. The decline was partly offset by the decent recovery momentum of Pou Sheng during the Period with the profit attributable to owners of Pou Sheng increasing by 1,654.2% to RMB305.5 million. The basic earnings per share for the first half of 2023 was 5.19 US cents, compared to the basic earnings per share of 10.87 US cents for the corresponding period of last year.

Revenue Analysis

For the Period under review, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) decreased by 18.1% to US$2,379.0 million, compared with the corresponding period of last year. The volume of shoes shipped during the Period decreased by 23.8% to 109.8 million pairs due to soft global demand and a high base effect. The average selling price increased by 7.5% to US$21.67 per pair, led by relatively resilient demand for the Group's high-end footwear.

The Group's athletic/outdoor shoes category accounted for 86.7% of footwear manufacturing revenue in the Period under review. Casual shoes and sports sandals accounted for 13.3% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 49.7% of total revenue, followed by casual shoes and sports sandals, which accounted for 7.6% of total revenue.

For the Period under review, the Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$2,573.9 million, representing a decrease of 19.3% as compared to the corresponding period of last year.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Revenue Analysis (continued)

For the Period under review, revenue attributed to Pou Sheng increased by 4.0% to US$1,581.1 million, compared to US$1,520.9 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 11.1% to RMB10,960.0 million, compared to RMB9,864.8 million in the corresponding period of last year. The increase in revenue was mainly attributed to a recovery of purchasing intent and foot traffic at its retail stores across mainland China, the resilient performance of its omni-channels, particularly its Pan-WeChat Ecosphere, as well as a low base effect. As of June 30, 2023, Pou Sheng had 3,723 directly operated retail outlets across the Greater China region, representing a net closure of 370 stores as compared with the 2022 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 is also leveraging its operational expertise and 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 19.7% (first half of 2022: 16.9%).

Total Revenue by Category

	For the six months ended June 30,				
	2023		2022		change
	US$ million	**%**	US$ million	%	%
Athletic/Outdoor Shoes	**2,063.4**	**49.7**	2,465.2	52.3	(16.3)
Casual Shoes & Sports Sandals	**315.6**	**7.6**	440.7	9.4	(28.4)
Soles, Components & Others	**194.9**	**4.7**	283.0	6.0	(31.1)
Pou Sheng*	**1,581.1**	**38.0**	1,520.9	32.3	4.0
Total Revenue	**4,155.0**	**100.0**	4,709.8	100.0	(11.8)

* *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 are balancing agile capacity allocation, on-time delivery and quick response time in the face of short-term uncertainties.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Production Review

During the first half of 2023, the Group's manufacturing business shipped a total of 109.8 million pairs of shoes, a decrease of 23.8% compared to the 144.1 million pairs shipped in the corresponding period of last year. The average selling price per pair was US$21.67, an increase of 7.5% as compared to US$20.16 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 2023, representing 35%, 48% and 12% of total shoe shipments, respectively.

Cost Review

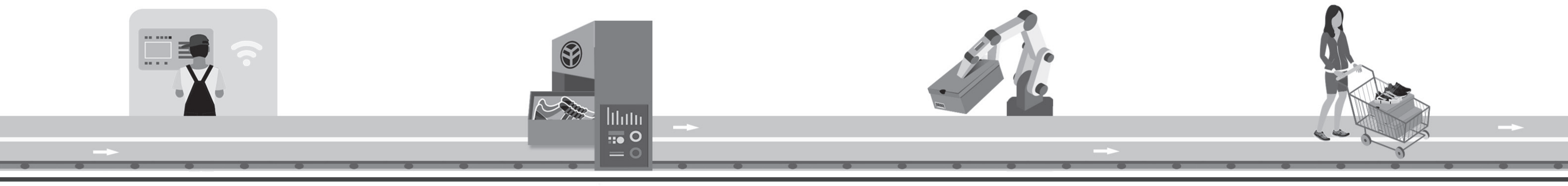
With respect to the cost of goods sold by the Group's manufacturing business in the Period under review, total main material costs were US$943.6 million (first half of 2022: US$1,219.3 million). Direct labor costs and production overheads were US$1,182.1 million (first half of 2022: US$1,412.8 million). The total cost of goods sold by the Group's manufacturing business was US$2,125.7 million (first half of 2022: US$2,632.1 million). For the Group's retail business, Pou Sheng, cost of sales were US$1,051.5 million in the Period under review (first half of 2022: US$982.0 million).

During the Period under review, the Group's gross profit decreased by 10.8% to US$977.7 million, led by the decline in revenue. The overall gross profit margin increased by 0.2 percentage points to 23.5%.

The gross profit of the manufacturing business during the Period decreased by 19.5% to US$448.2 million. The gross profit margin of the manufacturing business during the Period remained largely stable, declining by just 0.1 percentage points to 17.4% compared to the corresponding period of last year, which was mainly attributed to the Group's cost-reduction and efficiency-improvement efforts, flexible production scheduling, and the prompt adjustment of manpower versus demand, all of which help to offset most of the negative impact of the reduced capacity utilization rate resulting from weaker demand.

Cost of Goods Sold Analysis – Manufacturing Business

	For the six months ended June 30,				
	2023		2022		change
	US$ million	**%**	US$ million	%	%
Main Material Costs	**943.6**	**44.4**	1,219.3	46.3	(22.6)
Direct Labor Costs & Production Overheads	**1,182.1**	**55.6**	1,412.8	53.7	(16.3)
Total Cost of Goods Sold	**2,125.7**	**100.0**	2,632.1	100.0	(19.2)



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESULTS OF OPERATIONS (continued)

Cost Review (continued)

Despite well-managed discount control, Pou Sheng's gross profit margin decreased by 1.9 percentage points to 33.5% in the first half of 2023, which was mainly attributed to negative channel mix impact.

The Group's total selling and distribution expenses for the first half of 2023 decreased by 12.1% to US$473.4 million (first half of 2022: US$538.6 million), equivalent to approximately 11.4% (first half of 2022: 11.4%) of revenue.

Administrative expenses for the first half of 2023 decreased by 4.0% to US$286.3 million (first half of 2022: US$298.1 million), equivalent to approximately 6.9% (first half of 2022: 6.3%) of revenue.

Other income for the first half of 2023 increased by 8.4% to US$66.5 million (first half of 2022: US$61.4 million), equivalent to approximately 1.6% (first half of 2022: 1.3%) of revenue. Other expenses increased by 19.3% to US$130.2 million (first half of 2022: US$109.1 million), equivalent to approximately 3.1% (first half of 2022: 2.3%) of revenue. During the Period, the Group made necessary adjustments to its manufacturing business to combat volatile capacity utilization and as part of its long-term capacity allocation plan. The related severance expenses amounted to approximately US$20.5 million.

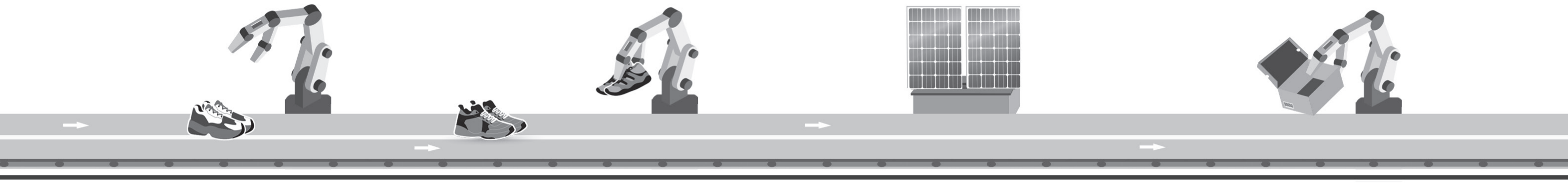
Recurring Profit Attributable to Owners of the Company

In the Period under review, the non-recurring profit attributable to owners of the Company plunged to US$3.7 million. The decrease was mainly due to the decline in gains on fair value changes on financial instruments at fair value through profit or loss ("FVTPL") and no gain on disposal during the Period, unlike in the corresponding period of last year. In the same period of 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 FVTPL, as well as a gain of US$3.6 million on the disposal of a joint venture.

Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the Period under review, was US$79.9 million, compared to a recurring profit attributable to owners of the Company of US$165.0 million for the corresponding period of last year.

Product Development

In the Period under review, the Group spent US$83.4 million (first half of 2022: US$98.2 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 brand 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 Period under review, the Group recorded net cash generated from operating activities (net of tax) of US$363.6 million (first half of 2022: US$8.7 million). Net free cash inflow amounted to US$281.0 million (first half of 2022: net free cash outflow US$102.7 million). Net cash inflow generated from investing activities amounted to US$44.1 million (first half of 2022: outflow US$102.5 million) while net cash used in financing activities was US$487.6 million (first half of 2022: inflow US$55.2 million). The overall net decrease in cash and cash equivalents amounted to US$87.5 million (first half of 2022: net decrease of US$53.6 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at June 30, 2023, the Group had bank balances and cash of US$959.8 million* (December 31, 2022: US$1,018.3 million) and total bank borrowings of US$1,199.3 million (December 31, 2022: US$1,434.9 million). The Group's gearing ratio (total bank borrowings to total equity) was 26.5% (December 31, 2022: 30.9%). As at June 30, 2023, the Group had net borrowing of US$239.5 million (December 31, 2022: US$416.7 million) and a net gearing ratio (net bank borrowings to total equity) of 5.3% (December 31, 2022: 9.0%). As at June 30, 2023, the Group had current assets of US$3,751.1 million (December 31, 2022: US$4,143.5 million) and current liabilities of US$1,629.1 million (December 31, 2022: US$2,003.3 million). The current ratio was 2.3 as at June 30, 2023 (December 31, 2022: 2.1).

* *Ending bank balances and cash as at June 30, 2023, included bank deposits with original maturity over three months which amounted to US$52.6 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, 2023, around 79.1% of the Group's total bank borrowings were long-term bank loans while around 69.1% 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.

All of the Group's bank borrowings relating to its manufacturing business are on a floating rate basis, while some bank borrowings relating to its retail business are fixed-rate. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

Capital Expenditure

For the Period under review, the Group's overall capital expenditure reached US$82.6 million (first half of 2022: US$111.4 million). The capital expenditure for the Group's manufacturing business was US$59.9 million (first half of 2022: US$89.2 million), as it adopted a disciplined approach to push forward with its capital expenditure program targeting the strategic expansion and optimization of its manufacturing capacity under the current uncertain macro environment backdrop.

As for investments in its retail business Pou Sheng, capital expenditure increased to US$22.7 million during the Period under review (first half of 2022: US$22.2 million), in line with its retail refinement 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.

Significant Investments Held and Future Plans for Material Investments or Capital Assets

During the Period under review, apart from investments for operation purposes which may be made in the ordinary and usual course of business, the Group also entered into a memorandum of understanding with the Tamil Nadu Government in India on April 17, 2023, under which an indirect wholly-owned subsidiary of the Company will invest approximately 23 billion Rupees (equivalent to approximately US$276 million) in phases in the investment project to establish the Group's manufacturing base in a special economic zone in India. The investment project will be funded by the internal resources of the Group and/or bank borrowings, if necessary. For details, please refer to the announcement of the Company dated April 17, 2023.

The Group currently has no plans for acquiring capital assets.

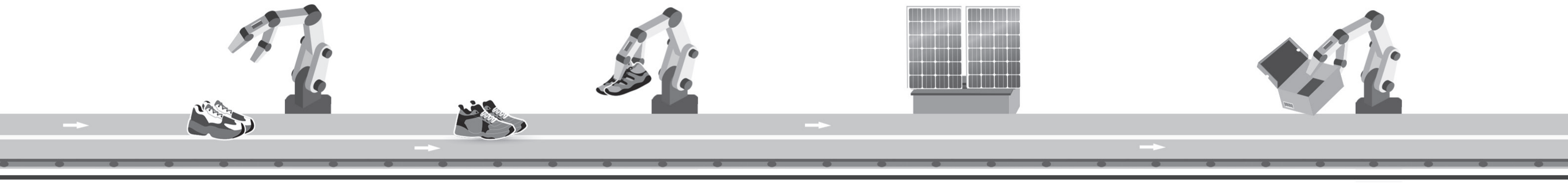
The Group may explore potential opportunities to invest for its sustainable growth from time to time and may have other plans for making material investments or acquiring capital assets in the future.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group did not have material acquisitions or disposals of subsidiaries, associates and joint ventures during the first half of 2023.

Contingent Liabilities

The Group has provided guarantees to banks in respect of banking facilities granted to a joint venture and an associate, the detail of which can be seen in Note 16 to the condensed consolidated financial statements in the 2023 interim report of the Company.



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

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.

Share of Results of Associates and Joint Ventures

For the Period under review, the share of results of associates and joint ventures was a combined profit of US$29.1 million, compared to a combined profit of US$30.3 million in the corresponding period of last year.

EMPLOYEES

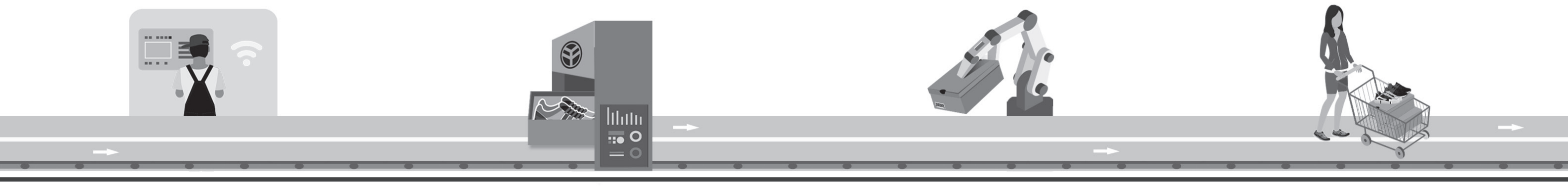
As at June 30, 2023, the Group had approximately 276,800 employees employed across all regions in which it operates, a decrease of 14.2% as compared to approximately 322,500 employees employed as at June 30, 2022. The Group adopts a remuneration system based on an employee's performance throughout the 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 company, Pou Chen 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 participating in FLA's initiatives such as fair compensation project.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS

While the Group remains optimistic about the long-term prospects of its manufacturing business, the uncertain macroeconomic outlook including persistent inflation and high interest rates, alongside the conservative approaches being seen across the industry will continue to weigh on the order visibility of its manufacturing business in the near term.

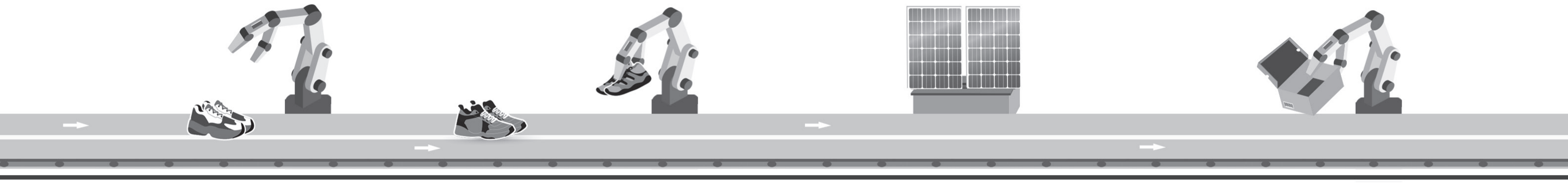
The Group will continue to proactively monitor the situation and dynamically allocate its manufacturing capacity to balance demand, its order pipeline and labor supply. The Group will sustain its efficiency and productivity, as well as the highest level of flexibility and agility, by leveraging its core strengths, adaptability and competitive edges to overcome any short-term disruptions and safeguard its profitability, while focusing on cost controls and cash flow management to ensure the healthiness of its liquidity and financial position.

Having adopted a disciplined approach on capital expenditure in the short-term, the Group remains committed to its mid to long-term capacity allocation strategy of diversifying its manufacturing capacity in regions such as Indonesia and India where labor supply and infrastructure are supportive of sustainable growth. It will continue to exploit its strategy of prioritizing value growth, leveraging the ‘athleisure’ and premiumization trends to seek more high value-added orders with a better product mix.

The Group will continue to pursue its long-term digital transformation strategy aimed towards achieving operational excellence through digital lean management, having continuously rolled out SAP ERP implementation coupled with the implementation of other real-time data applications and remote monitoring systems. It will also 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 Operational Control Procedures (“OCP”) and Distributed Resource Scheduler (“DRS”) to optimize its ongoing eco-intelligent and smart manufacturing strategy.

The Group is optimistically cautious about the recovery momentum in its retail business Pou Sheng continuing into the second half of 2023, with overall top-line recovery being supported by improved foot traffic and purchasing intent although the extent of this will vary month to month due to the uneven impact that control measures had on its retail business in the corresponding periods of 2022. The prospects for the sports industry in mainland China remain bright and Pou Sheng intends to fully leverage this by continuing to pursue its digital transformation, strengthening and diversifying its omni-channels while elevating digitally-enabled physical stores as part of its retail refinement strategy. Pou Sheng will also continue to actively expand its strategic alliance with its brand partners, many of whom are long-term customers of the Group’s manufacturing business, strengthening inventory integration, growing memberships and loyalty, increasing in-season sales, and accelerating the sales cycle to ensure better profitability and operating efficiency. 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.



OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.20 per share (2022: HK$0.40 per share) to shareholders whose names appear on the register of members of the Company on Thursday, September 14, 2023. The interim dividend shall be paid on Friday, October 6, 2023.

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

CLOSURE OF REGISTER OF MEMBERS

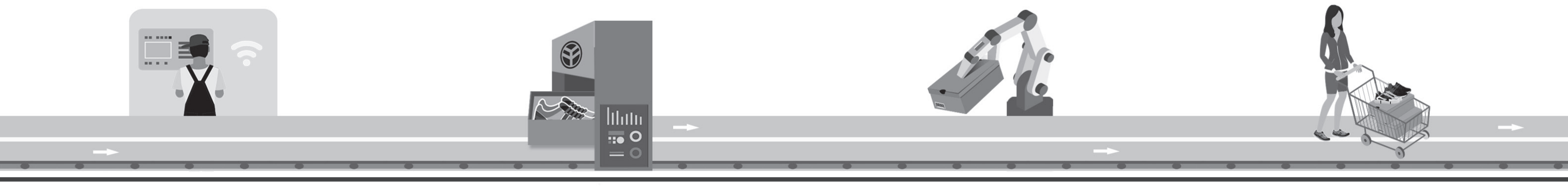
The register of members of the Company will be closed from Thursday, September 14, 2023 to Monday, September 18, 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, September 13, 2023.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2023, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) as required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or demanded to have under such provisions of the SFO); or (b) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

		Number of Shares/underlying Shares held *(Long position)*					
Name of Directors	**Capacity**	**Personal Interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Percentage of issued Shares** *(Note 1)*
Lu Chin Chu	Beneficial owner	379,000	–	–	–	379,000	0.02%
Chan Lu Min	Beneficial owner	424,000	–	–	–	424,000	0.02%
Lin Cheng-Tien	Beneficial owner	227,000	–	–	–	227,000	0.01%
Liu George Hong-Chih	Beneficial owner	545,000 *(Note 2)*	–	–	–	545,000	0.03%
Shih Chih-Hung	Beneficial owner	91,000	–	–	–	91,000	0.00%



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

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

		Number of Shares/underlying Shares held *(Long position)*					Percentage of issued shares of Pou Sheng *(Note 3)*
Name of Directors	**Capacity**	**Personal Interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	–	–	–	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	–	–	–	851,250	0.02%
Liu George Hong-Chih	Beneficial owner	–	414,000	–	–	414,000	0.01%

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

		Number of Shares/underlying Shares held *(Long position)*					Percentage of issued shares of Pou Chen *(Note 4)*
Name of Directors	**Capacity**	**Personal Interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	
Lu Chin Chu	Beneficial owner	1,070,470	73,300	–	–	1,143,770	0.04%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	–	–	–	4,177,779	0.14%
Chan Lu Min	Beneficial owner	336,452	–	–	–	336,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	–	–	–	297,760	0.01%
Shih Chih-Hung	Beneficial owner	–	40,000	–	–	40,000	0.00%

Notes:

1. The total number of issued Shares as at June 30, 2023 is 1,612,183,986.
2. Mr. Liu George Hong-Chih is interested in 90,000 Shares, which was granted by the Company with vesting conditions pursuant to the Yue Yuen Share Award Scheme, details of which please refer to the section headed "Share Incentive Schemes (b) Share Award Scheme of the Company" of this report.
3. The total number of issued shares of Pou Sheng as at June 30, 2023 is 5,326,179,615.
4. The total number of issued shares of Pou Chen as at June 30, 2023 is 2,946,787,213.

Other than the interests disclosed above, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at June 30, 2023.

SHARE INCENTIVE SCHEMES

(a) Share Option Scheme of the Company

To enable the Company to grant options to participants as incentive or reward for their contribution to the growth of the Group and to provide the Group with a flexible means to reward, remunerate, compensate and/or provide benefits to the participants, the Company adopted a share option scheme on May 31, 2019 (the "Yue Yuen Share Option Scheme" which has a life of 10 years until May 30, 2029). As at January 1, 2023, June 30, 2023 and the date of this report, the total number of Shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 Shares, representing approximately 10.01% of the issued Shares as at the date of this report. No option has been granted under the Yue Yuen Share Option Scheme since its adoption. Details of the Yue Yuen Share Option Scheme are set out in the 2022 annual report of the Company (the "Annual Report").

(b) Share Award Scheme of the Company

Yue Yuen Share Award Scheme was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group (and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (the "Associated Entity")) and to attract suitable personnel for further development of the Group. It is funded by the existing Shares and does not involve issue of new Shares. Subject to early termination determined by the Board, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014.

Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded Shares as it may determine appropriate provided that (a) the remuneration committee of the Company also recommended such granting pursuant to the Listing Rules; (b) the total number of awarded Shares shall not exceed 2% of the issued share capital of the Company as at the date of grant which is 32,243,679 Shares. The maximum number of Shares which may be awarded to a selected participant (including vested and non-vested Shares) under Yue Yuen Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time , which is 16,121,839 Shares.

As at March 15, 2023 (being the date of the Annual Report) and the date of this report, the total number of Shares available for being further awarded under the Yue Yuen Share Award Scheme was 23,726,679 Shares and 21,249,679 Shares respectively, representing 1.47% and 1.32% of the issued Shares as at the date of the Annual Report and the date of this report respectively. A consideration of HK$1.00 is payable by the selected participant upon acceptance of the awarded Shares with no specified period which the consideration shall be paid.

The selected participant must remain an employee of the Company or an Associated Entity on the vesting date; otherwise the awarded Shares shall be lapsed. The awarded Shares granted under the Yue Yuen Share Award Scheme might be vested subject to fulfilment of performance targets or conditions. When such targets or conditions apply, an appraisal mechanism will be implemented to evaluate the achievement of performance targets. The selected participant shall obtain an appraisal ranking that is equal to or higher than "good" during the vesting period. Clawback will be applied where there is exceptionally poor performance, misconduct or material breach of terms of employment or rules or policies of the Company or an Associated Entity prior to the vesting date and the Board will determine to vary or cancel the relevant award.

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

SHARE INCENTIVE SCHEMES (continued)

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

Details of the movements of the awarded Shares during the Period are as follows:

			Number of awarded Shares				
	Date of grant *(Note 1)*	Vesting period *(Note 2)*	Outstanding as at January 1, 2023	Granted during the Period	Lapsed/ Cancelled during the Period	Vested during the Period	Outstanding as at June 30, 2023
Directors							
Lu Chin Chu	23.03.2023	23.03.2023-01.06.2023	–	123,000	–	(123,000)	–
Chan Lu Min	23.03.2023	23.03.2023-01.06.2023	–	161,000	–	(161,000)	–
Lin Cheng Tien	23.03.2023	23.03.2023-01.06.2023	–	62,000	–	(62,000)	–
Shih Chih Hung	01.06.2021	01.06.2021-31.05.2023	60,000	–	–	(60,000)	–
	23.03.2023	23.03.2023-01.06.2023	–	31,000	–	(31,000)	–
Liu George Hong-Chih	01.06.2021	01.06.2021-31.05.2023	60,000	–	–	(60,000)	–
	23.03.2023	23.03.2023-01.06.2023	–	119,000	–	(119,000)	–
	28.06.2023	28.06.2023-31.05.2025	–	90,000	–	–	90,000
Sub-total			120,000	586,000	–	(616,000)	90,000
Directors of the Company's subsidiaries/Employees of the Group and/or Associated Entities							
	01.06.2021	01.06.2021-31.05.2023	1,350,000	–	–	(1,350,000)	–
	18.01.2023	18.01.2023-01.06.2023	–	458,000	(46,000)	(412,000)	–
	23.03.2023	23.03.2023-01.06.2023	–	231,000	–	(231,000)	–
	31.03.2023	31.03.2023-31.03.2025	–	85,000	–	–	85,000
	28.06.2023	28.06.2023-31.05.2025	–	1,575,000	–	–	1,575,000
Sub-total			1,350,000	2,349,000	(46,000)	(1,993,000)	1,660,000
Total			1,470,000	2,935,000	(46,000)	(2,609,000)	1,750,000

Notes:

1. During the Period,

   (i) the closing prices of the Shares immediately before the dates of grant on January 18, 2023, March 23, 2023, March 31, 2023 and June 28, 2023 were HK$11.62 per Share, HK$11.00 per Share, HK$10.90 per Share and HK$10.32 per Share, respectively.

   (ii) the fair value of the awarded Shares is determined in accordance with Hong Kong Financial Reporting Standard 2 "Share-based Payment" and details of the accounting policy adopted are set out in Note 3 to the consolidated financial statements of the 2022 Annual Report. The fair value of the awarded Shares at the dates of grant on January 18, 2023, March 23, 2022, March 31, 2023 and June 28, 2023 were US$690,000, US$1,032,000, US$120,000, and US$2,198,000, respectively, which is calculated based on the closing price of Shares on the dates of grant of HK$11.78, HK$11.14 HK$11.06 and HK$10.34, respectively.

2. During the Period, the weighted average closing price of the Shares immediately before the dates on which the awards were vested (being May 31, 2023 and June 1, 2023) was HK$10.14 per Share.

During the Period, the Group recognized a net expense of US$2,544,000 as equity-settled share-based payments in relation to the Yue Yuen Share Award Scheme.

As at the date of this report, a total of 13,000 Shares were held by the Trustee, representing 0.0008% of the issued Shares.

SHARE INCENTIVE SCHEMES (continued)

(c) Share Award Scheme of Pou Sheng

The share award scheme of Pou Sheng was adopted on May 9, 2014 and duly amended on November 11, 2016 (the "Pou Sheng Share Award Scheme") for recognising the contributions by certain persons, including directors of Pou Sheng and employees of Pou Sheng and its subsidiaries (the "Pou Sheng Group"), providing incentives to retain them for continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. All personnel of the Pou Sheng Group are entitled to participate. It is funded by the existing shares of Pou Sheng and does not involve issue of new shares. The Pou Sheng Share Award Scheme is valid and effective for a term of 10 years commencing on May 9, 2014 and ending on May 8, 2024. No further share awards should be granted upon termination or expiry of the term of the Pou Sheng Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Pou Sheng's board of directors (the "Pou Sheng Board") and approved by the Pou Sheng Board. All the awarded shares granted under the Pou Sheng Share Award Scheme should be vested in accordance with the conditions (such as employment status, individual performance and common key performance indicators) and timetable (i.e. vesting period) as determined by the Pou Sheng Board. In the case of a director or an employee of the Pou Sheng Group, the grantee must remain at all times a director or an employee of the Pou Sheng Group. Clawback will be applied where there is exceptionally poor performance, misconduct or material breach of terms of employment or rules or policies of Pou Sheng prior to the vesting date and the Pou Sheng Board will determine to vary or cancel the relevant award.

Pou Sheng's awarded shares are generally granted on the basis of the individual performance of the relevant grantee, and vested in three tranches over three years with dates determined by the Pou Sheng Board subject to fulfilment of performance target(s) and condition(s). The most common performance target is "attaining "good" or better performance rating for all appraisals conducted during the vesting period". Taking 'vest-in-tranches' into consideration, vesting periods of awarded Pou Sheng's shares granted generally range from 1 to 3 years.

According to the letter of award, the amount payable on acceptance of the grant of awarded shares of Pou Sheng is HK$1.00 with no deadline specified. No monetary payment has to be made by grantee to acquire awarded shares under the Pou Sheng Share Award Scheme.

The total number of Pou Sheng's shares to be awarded under the Pou Sheng Share Award Scheme should not exceed 4% of the number of Pou Sheng's issued shares (i.e. 5,326,179,615 shares) as at the date of grant, which is 213,047,184 shares. The maximum number of Pou Sheng's shares (including vested and non-vested shares) which may be awarded to a selected participant should not exceed 1% of the Pou Sheng's issued shares from time to time, which is 53,261,796 shares.

Under the Pou Sheng Share Award Scheme, a total of 111,721,810 shares, representing approximately 2.10% of the Pou Sheng's issued shares, have been awarded and the total number of Pou Sheng's shares available for being further awarded was/is 101,325,374 shares, representing approximately 1.90% of the Pou Sheng's issued shares, as at March 15, 2023 (being the date of the annual report of Pou Sheng for the year ended December 31, 2023) and the date of 2023 interim report of Pou Sheng.

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

SHARE INCENTIVE SCHEMES (continued)

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

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

			Number of Pou Sheng's awarded shares				
	Date of grant	Vesting period	Outstanding as at January 1, 2023	Granted during the Period	Lapsed/ cancelled during the Period	Vested during the Period	Outstanding as at June 30, 2023
Director/Chief Executive of Pou Sheng							
Yu Huan-Chang	11.11.2022	11.11.2022-10.11.2023	360,000	–	–	–	360,000
	11.11.2022	11.11.2022-10.11.2024	360,000	–	–	–	360,000
	11.11.2022	11.11.2022-10.11.2025	480,000	–	–	–	480,000
Wang Jun	24.03.2021	24.03.2021-23.09.2023	144,000	–	–	–	144,000
	24.03.2021	24.03.2021-23.03.2024	240,000	–	–	–	240,000
Sub-total			1,584,000	–	–	–	1,584,000
Employees of Pou Sheng in aggregate							
	24.03.2021	24.03.2021-23.09.2023	1,759,500	–	(28,800)	–	1,730,700
	24.03.2021	24.03.2021-23.03.2024	2,932,500	–	(48,000)	–	2,884,500
	13.08.2021	13.08.2021-12.02.2023	377,400	–	–	(377,400)	–
	13.08.2021	13.08.2021-12.02.2024	566,100	–	(18,600)	–	547,500
	13.08.2021	13.08.2021-12.08.2024	943,500	–	(31,000)	–	912,500
Sub-total			6,579,000	–	(126,400)	(377,400)	6,075,200
Total			8,163,000	–	(126,400)	(377,400)	7,659,200

The weighted average closing price of the Pou Sheng's shares immediately before the date on which the awards that were vested during the Period was HK$0.87 per share.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at June 30, 2023, the register of substantial shareholders ("Register") maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, other than the interests disclosed in the section "Directors' and Chief Executives' Interests in Securities", the following shareholders had notified the Company of their relevant interests in the Shares and underlying Shares:

Name of shareholders	Capacity	Number of Shares held	Percentage of the issued Shares*
		(Long position)	
Pou Chen	Interest of controlled corporations *Note (a)*	824,143,835	51.11%
Wealthplus Holdings Limited ("Wealthplus")	*Note (a)*	773,156,303	47.95%
Merrill Lynch & Co. Inc.	Interest of controlled corporations *Note (b)*	99,315,703	6.16%
Silchester International Investors LLP	Investment manager	97,081,000	6.02%
		(Short Position)	
Merrill Lynch & Co. Inc	Interest of controlled corporations *Note (b)*	109,341,792	6.78%

* *The total number of issued Shares as at June 30, 2023 is 1,612,183,986.*

Notes:

(a) Of the 824,143,835 Shares beneficially owned by Pou Chen, 773,156,303 Shares were held by Wealthplus and 50,987,532 Shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of Pou Chen. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty and Mr. Chan Lu Min, the executive Directors, are also directors of Pou Chen and Wealthplus. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.

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

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

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES (continued)

Notes:

(b) (continued)

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 Shares (long position) and 106,721,792 Shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International indirectly through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company dated March 10, 2008.

Other than the interests disclosed above, as at June 30, 2023, the Directors or chief executive of the Company were not aware of any other person or corporation (other than the Directors and chief executive of the Company) who had, or were deemed or taken to have, any interests or short positions in any Shares or underlying Shares as recorded in the Register.

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the publication of the Annual Report are set out below:

1. Mr. Chen Chia-Shen retired as an independent non-executive Director, a member of the audit committee and the remuneration committee of the Company on May 25, 2023.

2. Dr. Yang Ju-Huei was appointed as an independent non-executive Director, a member of the audit committee and the remuneration committee of the Company on June 1, 2023.

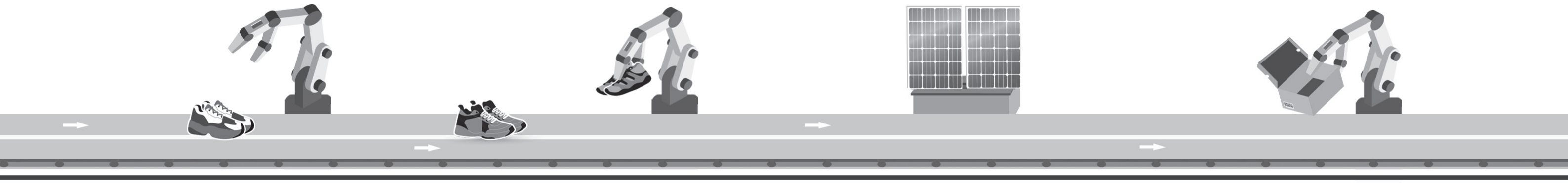
3. Mr. Ho Lai Hong was appointed as an independent non-executive director of KRP Development Holdings Limited (a company listed on the main board of the Stock Exchange on March 23, 2023) on February 21, 2023, and ceased to be an independent non-executive director of Leo Paper Group (Hong Kong) Limited on March 30, 2023.

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Yue Yuen Share Award Scheme, pursuant to the terms of the trust deed of the Yue Yuen Share Award Scheme, purchased on the Stock Exchange a total of 500,000 Shares at a total consideration of approximately HK$5,524,000 (equivalent to approximately US$704,000).

REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT

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



REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT (continued)

In addition, the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, has reviewed the condensed consolidated interim financial information for the Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and an unmodified review report is issued.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices by focusing on transparency, accountability and responsibility to the Shareholders. During the Period, 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 Listing Rules.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the Period.

The Company's relevant employees, who are likely to be in possession of unpublished inside information, have been requested to comply with internal guidelines that similar to those terms in the Model Code. No incident of non-compliance by relevant employees was noted for the Period.

ACKNOWLEDGEMENT

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

DIRECTORS

As at the date of this report, the Directors 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. Shih Chih-Hung (Chief Financial Officer).

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Mr. Lin Shei-Yuan and Dr. Yang Ju-Huei.

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

Hong Kong, August 11, 2023

Website: www.yueyuen.com

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

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