YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2024

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2024	2023	Percentage Increase/ (decrease)
Revenue *(US$'000)*	**4,015,407**	4,154,968	**(3.4)%**
Recurring profit attributable to owners of the Company *(US$'000)*	**178,887**	79,941	**123.8%**
Non-recurring profit attributable to owners of the Company *(US$'000)*	**5,514**	3,660	**50.7%**
Profit attributable to owners of the Company *(US$'000)*	**184,401**	83,601	**120.6%**
Basic earnings per share *(US cents)*	**11.44**	5.19	**120.4%**
Dividend per share – interim dividend *(HK$)*	**0.40**	0.20	**100.0%**

* *For identification purpose only*

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, 2024 with comparative figures for the corresponding period in 2023 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2024

		For the six months ended June 30,	
		2024	2023
		(unaudited)	(unaudited)
	NOTES	***US$'000***	*US$'000*
Revenue	*3*	**4,015,407**	4,154,968
Cost of sales		**(3,040,320)**	(3,177,258)
Gross profit		**975,087**	977,710
Other income		**63,373**	66,537
Selling and distribution expenses		**(424,158)**	(473,375)
Administrative expenses		**(275,307)**	(286,325)
Other expenses		**(79,676)**	(130,162)
Finance costs		**(32,602)**	(43,944)
Share of results of associates		**21,237**	22,285
Share of results of joint ventures		**11,732**	6,841
Other gains and losses	*4*	**5,514**	3,660
Profit before taxation		**265,200**	143,227
Income tax expense	*5*	**(61,229)**	(38,216)
Profit for the period	*6*	**203,971**	105,011
Attributable to:			
Owners of the Company		**184,401**	83,601
Non-controlling interests		**19,570**	21,410
		203,971	105,011
		US cents	*US cents*
Earnings per share	*8*		
– Basic		**11.44**	5.19
– Diluted		**11.43**	5.19

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2024

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period	**203,971**	105,011
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity instruments at fair value through other comprehensive income	**899**	(689)
Share of other comprehensive income (expense) of associates	**249**	(11,895)
	1,148	(12,584)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(29,775)**	(58,576)
Share of other comprehensive expense of associates and joint ventures	**(6,261)**	(4,521)
Reserve release upon partial disposal of associates	**1,463**	–
	(34,573)	(63,097)
Other comprehensive expense for the period	**(33,425)**	(75,681)
Total comprehensive income for the period	**170,546**	29,330
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**161,887**	30,282
Non-controlling interests	**8,659**	(952)
	170,546	29,330

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2024

	NOTE	At June 30, 2024 (unaudited) US$'000	At December 31, 2023 (audited) US$'000
Non-current assets			
Investment properties		**245,917**	257,368
Property, plant and equipment		**1,617,193**	1,675,886
Right-of-use assets		**489,206**	528,501
Deposits paid for acquisition of property, plant and equipment/right-of-use assets		**37,464**	20,069
Intangible assets		**12,193**	12,090
Goodwill		**256,514**	258,237
Interests in associates		**422,681**	433,293
Interests in joint ventures		**161,533**	175,763
Equity instruments at fair value through other comprehensive income		**19,193**	18,217
Financial assets at fair value through profit or loss		**31,394**	25,703
Bank deposits over three months		**77,817**	37,579
Other financial assets at amortized cost		**5,858**	–
Rental deposits		**15,653**	17,551
Deferred tax assets		**118,138**	114,117
		3,510,754	3,574,374
Current assets			
Inventories		**1,256,245**	1,247,003
Trade and other receivables	9	**1,543,393**	1,393,872
Equity instrument at fair value through other comprehensive income		**3,898**	4,022
Financial assets at fair value through profit or loss		**38,435**	20,941
Taxation recoverable		**7,787**	13,525
Bank deposits over three months		**145,689**	181,278
Cash and cash equivalents		**699,313**	923,217
		3,694,760	3,783,858

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2024

	NOTE	At June 30, 2024 (unaudited) US$'000	At December 31, 2023 (audited) US$'000
Current liabilities			
Trade and other payables	10	**1,074,699**	1,136,831
Contract liabilities		**68,291**	45,021
Financial liabilities at fair value through profit or loss		**4,631**	668
Taxation payable		**75,974**	69,799
Bank borrowings		**357,391**	643,159
Lease liabilities		**76,888**	89,196
		1,657,874	1,984,674
Net current assets		**2,036,886**	1,799,184
Total assets less current liabilities		**5,547,640**	5,373,558
Non-current liabilities			
Bank borrowings		**499,589**	329,501
Deferred tax liabilities		**56,579**	54,604
Lease liabilities		**149,928**	177,804
Retirement benefit obligations		**108,263**	101,621
		814,359	663,530
Net assets		**4,733,281**	4,710,028
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**4,206,403**	4,188,228
Equity attributable to owners of the Company		**4,258,443**	4,240,268
Non-controlling interests		**474,838**	469,760
Total equity		**4,733,281**	4,710,028

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 D2 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 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, 2024 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2023.

2.1 Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

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

3. REVENUE AND SEGMENTAL INFORMATION

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

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

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**2,634,404**	2,573,895
Retailing Business	**1,381,003**	1,581,073
	4,015,407	4,154,968

4. OTHER GAINS AND LOSSES

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Gain on partial disposal of associates	**23,999**	–
Fair value changes on financial instruments at fair value through profit or loss	**(11,922)**	3,670
Impairment losses on interest in a joint venture	**(5,000)**	–
Impairment losses on interest in an associate	**(1,563)**	–
Loss on deregistration of subsidiaries	**–**	(10)
	5,514	3,660

5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
The People's Republic of China Enterprise Income Tax		
– current period	**23,619**	16,362
– overprovision in prior periods	**(1,597)**	(2,201)
Overseas taxation		
– current period	**37,462**	27,798
– overprovision in prior periods	**(88)**	(832)
	59,396	41,127
Withholding tax on dividend	**3,837**	379
Deferred tax credit	**(2,004)**	(3,290)
	61,229	38,216

6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Profit for the period has been arrived at after charging (crediting):		
Total staff costs *(note)*	**993,374**	1,066,381
Net exchange (gain) loss (included in other income/expenses)	**(6,157)**	14,387
Amortization of intangible assets (included in selling and distribution expenses and administrative expenses)	**679**	680
Depreciation of right-of-use assets	**58,875**	69,971
Depreciation of property, plant and equipment *(note)*	**139,724**	146,386
Gain on disposal of property, plant and equipment (included in other income)	**(393)**	(2,855)
(Gain) loss on disposal of right-of-use assets (included in other income/expenses)	**(1)**	19

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 costs of approximately US$20,521,000 (included in other expenses) arising from factory adjustments in the manufacturing side.

7. DIVIDENDS

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Dividends recognized as distribution during the period:		
2023 final dividend of HK$0.70 per share (2023: 2022 final dividend of HK$0.70 per share)	**144,458**	144,167

The board of directors of the Company (the "Board") has resolved to declare an interim dividend of HK$0.40 (2023: HK$0.20) per share for the six months ended June 30, 2024. The interim dividend of approximately HK$644,851,000 shall be paid on October 4, 2024.

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,	
	2024	2023
	(unaudited)	(unaudited)
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	**184,401**	83,601

	For the six months ended June 30,	
	2024	2023
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,611,693,788**	1,610,344,699
Effect of dilutive potential ordinary shares:		
Unvested awarded shares	**1,620,702**	1,809,746
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,613,314,490**	1,612,154,445

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme.

9. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, of US$986,755,000 (December 31, 2023: US$885,145,000) presented based on invoice date, which approximated to the respective revenue recognition dates:

	At June 30, 2024 (unaudited) ***US$'000***	At December 31, 2023 (audited) *US$'000*
0 to 30 days	**605,001**	531,826
31 to 90 days	**381,124**	349,371
Over 90 days	**630**	3,948
	986,755	885,145

10. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date at the end of the reporting period:

	At June 30, 2024 (unaudited) ***US$'000***	At December 31, 2023 (audited) *US$'000*
0 to 30 days	**361,334**	370,533
31 to 90 days	**135,348**	99,855
Over 90 days	**6,220**	5,117
	502,902	475,505

11. FINANCIAL GUARANTEE CONTRACTS

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

	At June 30, 2024 (unaudited) ***US$'000***	At December 31, 2023 (audited) *US$'000*
Guarantees given to banks in respect of banking facilities granted to:		
(i) a joint venture		
– amount guaranteed	**32,500**	27,500
– amount utilized	**12,200**	10,150
(ii) an associate		
– amount guaranteed	**20,700**	20,700
– amount utilized	**149**	149

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 International (Holdings) Limited ("Pou Sheng").

In 2023, the global macro-economy faced many challenges including a volatile environment and a lack of consumer confidence. The value of footwear exports from major shoe-producing countries declined by more than 10.0% in 2023. Further, according to the "World Footwear Yearbook 2024" report released by the Portuguese Footwear, Components and Leather Goods Manufacturers' Association ("APICCAPS"), the volume of total global footwear exports fell by 9.1% year-on-year in 2023, with the number of pairs of shoes consumed per capita in the United States dropping significantly from 8.0 pairs in 2022 to 5.8 pairs.

Following the completion of the destocking cycle in the previous year, in the six months ended June 30, 2024 (the "Period"), global demand for footwear showed recovery momentum, with the value of footwear exports from major shoe-producing counties in Southeast Asia returning to a rising trend. According to Vietnam Customs, the value of Vietnamese footwear exports in the first half of 2024 increased by 8.8% year-on-year to US$10.7 billion. According to the Central Bureau of Statistics of Indonesia, the value of Indonesian footwear exports in the first half of 2024 increased by 0.7% year-on-year to US$3.2 billion. According to China Customs, the value of Chinese footwear exports in the first half of 2024 declined by 5.4% year-on-year to US$23.4 billion, while the volume of Chinese footwear exports increased by 3.5% year-on-year to 4,520 million pairs.

As order visibility improved, driven by the gradual recovery of the global footwear industry, the Group's manufacturing business saw strong demand for its footwear capacity. During the Period, manufacturing business experienced a decent recovery in its overall capacity utilization rate and footwear shipment volumes, supported by its flexible production scheduling and orderly overtime arrangement. However, production leveling across its manufacturing facilities was uneven, with some factories experiencing higher utilization rates due to more overtime alongside the ramp-up of new production capacity. At the same time, the Group's sustained focus on cost-reduction and efficiency-improvement initiatives, coupled with stringent expense controls and a low base effect, collectively supported solid growth in profitability.

Meanwhile, the Group's retail subsidiary Pou Sheng experienced soft sales momentum during the Period due to weak store traffic within its brick and mortar ("B&M") channels across various cities in mainland China. The negative trend was compounded by a high base effect resulting from the 'revenge spending' phenomenon that followed the reopening of physical sales channels in the first quarter of last year. Despite the weaker store traffic, Pou Sheng continuously improved sales conversion rates within its retail stores as its progressed its retail refinement strategy while optimizing store-level productivity and efficiency. Further, Pou Sheng's omni-channel sales during the Period remained relatively resilient as it continued to push ahead with its digital transformation strategy and maintain a high degree of agility and flexibility in its decision-making processes. For a more detailed explanation of the financials and strategy of the Group's retail business, please refer to the 2024 interim results announcement 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, while also advocating 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.

The Group's sustainability efforts continue to be recognized by distinguished external parties. In the Corporate Sustainability Assessment ("CSA") conducted by S&P Global, Yue Yuen achieved an S&P Global Environmental, Social and Governance ("ESG") Score of 41 (out of 100) for 2023, and its CSA score placed it ahead of 83% of companies in the Textiles, Apparel & Luxury Goods industry. Yue Yuen was also selected in the S&P Global Sustainability Yearbook (China) 2024 for the first time and named an 'Industry Mover' in recognition of the significant improvement in its ESG performance.

Yue Yuen ranked among the top three companies in the 'Best ESG' category, voted on by investment professionals, as part of the "2024 Asia (ex-Japan) Executive Team" rankings compiled by Institutional Investor magazine. It received a 'B-' (Management) level for its CDP Climate Change Score and a 'B' (Management) level for its first participation in the CDP Water Security Score. The Group also maintained 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 receive accreditation by the Fair Labor Association ("FLA"), and together with the Group, places the health, safety and welfare of all employees as a top priority, fostering human rights, providing fair compensation in its workplaces and building a great place for work culture. For more details, please refer to the 2023 ESG Report of the Company, which is prepared in alignment with stringent international sustainability standards and frameworks, including the universal standards of the Global Reporting Initiative ("GRI"), the industry standards of the Sustainability Accounting Standards Board ("SASB") and the 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$4,015.4 million, representing a decrease of 3.4% as compared with the corresponding period of last year. The profit attributable to owners of the Company was US$184.4 million, an increase of 120.6% compared to US$83.6 million recorded for the corresponding period of last year. The profit attributable to owners of the manufacturing business increased by 177.5% to US$155.4 million. The profit attributable to owners of Pou Sheng increased by 9.9% to RMB335.7 million. The basic earnings per share for the first half of 2024 was 11.44 US cents, compared to 5.19 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) increased by 1.3% to US$2,411.0 million, compared with the corresponding period of last year. The volume of shoes shipped during the Period increased by 9.9% to 120.7 million pairs amid a decent recovery trend and a further normalized order book. The average selling price decreased by 7.8% to US$19.98 per pair, due to a high base effect and changes to its product mix, partially offsetting the recovery of shipment volumes.

The Group's athletic/outdoor shoes category accounted for 86.0% of footwear manufacturing revenue in the Period under review. Casual shoes and sports sandals accounted for 14.0% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 51.7% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.4% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$2,634.4 million for the Period under review, representing an increase of 2.4% as compared to the corresponding period of last year.

Revenue attributed to Pou Sheng decreased by 12.7% to US$1,381.0 million for the Period under review, compared to US$1,581.1 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue decreased by 8.9% to RMB9,983.3 million, compared to RMB10,960.0 million in the corresponding period of last year, which was mostly attributable to weak store traffic amid an increasingly dynamic retail environment in mainland China, despite the relatively resilient performance of its omni-channels. As of June 30, 2024, Pou Sheng had 3,478 directly operated retail stores across the Greater China region, representing a net closure of 45 stores as compared with the 2023 year-end, with the contribution of quality larger-format stores (above 300 m^2) to Pou Sheng's directly-operated store count rose to 21.0% (first half of 2023: 19.7%). Ensuring a holistic approach to new store openings and selectively rightsizing or upgrade of its stores is at the core of Pou Sheng's retail refinement strategy, enabling it to focus on enhancing store-level efficiency.

Total Revenue by Category

	For the six months ended June 30,				
	2024		2023		*change*
	US$ million	**%**	*US$ million*	%	%
Athletic/Outdoor Shoes	**2,074.6**	**51.7**	2,063.4	49.7	0.5
Casual Shoes & Sports Sandals	**336.4**	**8.4**	315.6	7.6	6.6
Soles, Components & Others	**223.4**	**5.5**	194.9	4.7	14.6
Pou Sheng*	**1,381.0**	**34.4**	1,581.1	38.0	(12.7)
Total Revenue	**4,015.4**	**100.0**	4,155.0	100.0	(3.4)

* *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 for product creation and production, in order to get closer to the end consumer market 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, as well as on-time delivery and quick response time alongside macroeconomic uncertainties in the short term.

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

Production Review

During the Period, the Group's manufacturing business shipped a total of 120.7 million pairs of shoes, an increase of 9.9% compared to the 109.8 million pairs shipped in the corresponding period of last year. The average selling price per pair was US$19.98, a decrease of 7.8% as compared to US$21.67 in the corresponding period of last year.

In terms of production allocation, Indonesia, Vietnam and mainland China continued to be the Group's main production locations by shoe volume during the Period, representing 53%, 31% and 12% of total shoe shipments, respectively.

Cost and Expenses 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$925.1 million (first half of 2023: US$943.6 million). Direct labor costs and production overheads were US$1,206.7 million (first half of 2023: US$1,182.1 million). The total cost of goods sold by the Group's manufacturing business was US$2,131.8 million (first half of 2023: US$2,125.7 million). For the Group's retail business, Pou Sheng, cost of sales were US$908.5 million in the Period under review (first half of 2023: US$1,051.5 million).

During the Period under review, the Group's gross profit slightly decreased by 0.3% to US$975.1 million, while the overall gross profit margin increased by 0.8 percentage points to 24.3%. The gross profit of the manufacturing business increased by 12.1% to US$502.6 million, with the gross profit margin of the manufacturing business increased by 1.7 percentage points to 19.1% as compared to the corresponding period of last year, which was mainly attributed to strong demand for footwear capacity which led to its improved overall capacity utilization rate, flexible production scheduling and orderly overtime arrangement, effective cost-reduction, as well as efficiency-improvement efforts. Production leveling across the Group's manufacturing facilities was uneven, with some factories experiencing higher utilization rates due to more overtime, alongside the ramp-up of new production capacity.

Cost of Goods Sold Analysis – Manufacturing Business

	For the six months ended June 30,				
	2024		2023		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Main Material Costs	**925.1**	**43.4**	943.6	44.4	(2.0)
Direct Labor Costs & Production Overheads	**1,206.7**	**56.6**	1,182.1	55.6	2.1
Total Cost of Goods Sold	**2,131.8**	**100.0**	2,125.7	100.0	0.3

The gross profit margin for Pou Sheng in the Period was 34.2%, an increase of 0.7 percentage points. Well-managed discount controls, coupled with effective inventory management, helped offset an unfavorable channel mix.

The Group's total selling and distribution expenses for the Period decreased by 10.4% to US$424.2 million (first half of 2023: US$473.4 million), equivalent to approximately 10.6% (first half of 2023: 11.4%) of revenue.

Administrative expenses for the Period decreased by 3.8% to US$275.3 million (first half of 2023: US$286.3 million), equivalent to approximately 6.9% (first half of 2023: 6.9%) of revenue.

Other income for the Period decreased by 4.7% to US$63.4 million (first half of 2023: US$66.5 million), equivalent to approximately 1.6% (first half of 2023: 1.6%) of revenue. Other expenses decreased by 38.8% to US$79.7 million (first half of 2023: US$130.2 million), equivalent to approximately 2.0% (first half of 2023: 3.1%) of revenue. Among which, there were no expenses for production capacity adjustments incurred during the Period, when compared to one-off expenses of approximately US$20.5 million for production capacity adjustments during the corresponding period of 2023. As a result, the Group's net operating expenses for the Period decreased by US$107.6 million or 13.1%.

Recurring Profit Attributable to Owners of the Company

In the Period under review, the Group recognized a non-recurring profit attributable to owners of the Company of US$5.5 million, as compared to US$3.7 million recognized in the corresponding period of last year. This included a one-off gain on the partial disposal of associates totaling US$24.0 million, which was largely offset by a loss of US$11.9 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL") and a combined impairment loss of US$6.6 million on interests in a joint venture and an associate.

Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the Period under review was US$178.9 million, representing an increase of 123.8% compared with US$79.9 million for the corresponding period of last year.

Product Development

In the Period under review, the Group spent US$68.8 million (first half of 2023: US$83.4 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 to incorporate innovation, technology and sustainable materials into product development work. The Group is also cooperating with its customers to implement digital transformation technology to seek efficiency improvements in development, production processes and lead times, while formulating new techniques to produce best-quality footwear for world-renowned brand customers.

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$173.7 million (first half of 2023: US$363.6 million). Free cash inflow amounted to US$79.9 million (first half of 2023: US$279.1 million). Net cash flow used in investing activities amounted to US$51.4 million (first half of 2023: net inflow of US$44.1 million) while net cash used in financing activities was US$337.7 million (first half of 2023: US$487.6 million), mainly for dividend payment and the repayment of bank borrowings. The overall net decrease in cash and cash equivalents amounted to US$223.9 million (first half of 2023: US$87.5 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at June 30, 2024, the Group had bank balances and cash of US$922.8 million* (December 31, 2023: US$1,142.1 million) and total bank borrowings of US$857.0 million (December 31, 2023: US$972.7 million). The Group's gearing ratio (total bank borrowings to total equity) was 18.1% (December 31, 2023: 20.7%). As at June 30, 2024, the Group had net cash of US$65.8 million (December 31, 2023: US$169.4 million). As at June 30, 2024, the Group had current assets of US$3,694.8 million (December 31, 2023: US$3,783.9 million) and current liabilities of US$1,657.9 million (December 31, 2023: US$1,984.7 million). The current ratio was 2.2 as at June 30, 2024 (December 31, 2023: 1.9).

* *Ending bank balances and cash as at June 30, 2024 included bank deposits with original maturity over three months which amounted to US$223.5 million (December 31, 2023: US$218.9 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. In line with the growing sustainable financing trend, the Group also arranged some of its financing activities with banks that incorporate ESG elements.

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, 2024, around 58.3% of the Group's total bank borrowings were long-term bank loans and all had a remaining tenor of over one year. The Group has already arranged either early refinancing or prepayment of its long-term loan expiring in 2024. As at June 30, 2024, no assets of the Group were pledged to secure banking facilities for the Group.

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 the bank borrowings relating to its retail business are mostly fixed-rate. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

For the Period under review, the Group's overall capital expenditure reached US$93.8 million (first half of 2023: US$84.5 million). The capital expenditure for the Group's manufacturing business was US$67.4 million (first half of 2023: US$59.9 million), with its capital expenditure program targeting the strategic expansion and optimization of its manufacturing capacity.

As for investments in its retail business Pou Sheng, capital expenditure increased to US$26.4 million during the Period under review (first half of 2023: US$24.6 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, while continuing to roll-out its long-term digital transformation strategy, namely optimizing its SAP ERP system.

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

The Group has no significant investments or material acquisitions/disposals undertaken 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 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 a 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 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 undertake material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period under review.

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 11 to the condensed consolidated financial statements in this announcement.

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 and VND 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$32.9 million, compared to a combined profit of US$29.1 million in the corresponding period of last year.

Interim Dividend

The Board has resolved to declare an interim dividend of HK$0.40 per share (2023: HK$0.20 per share) for shareholders whose names appear on the register of members of the Company on Wednesday, September 11, 2024. The interim dividend shall be paid on Friday, October 4, 2024.

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

Employees

As at June 30, 2024, the Group had approximately 277,000 employees employed across all regions in which it operates, an increase of 0.1% as compared to approximately 276,800 employees employed as at June 30, 2023. The Group's manufacturing business employed approximately 256,300 employees, an increase of 1.3%, while Pou Sheng employed around 20,700 employees, a decrease of 12.7%. 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 employee 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 participate in FLA's initiatives such as fair compensation project.

Prospects

The Group is confident about the solid recovery trend taking place in the footwear industry, alongside improving order visibility, which is allowing the further normalization of its order book. The market research agency Statista estimates that global footwear market consumption will experience a compound annual growth rate of 3.4% from 2024 to 2028. However, the overall business environment remains unsettled in a short period of time due to uncertainties stemming from global macroeconomic conditions, including persistent inflation and high interest rates, as well as regional conflicts and its impact on shipping lanes.

The Group will continue to proactively monitor the economic and industry-specific environment and is adopting a comprehensive plan to increase its manufacturing manpower and capacity to balance demand, its order pipeline and labor supply. While the ramp-up of new production capacity will take time, which may impact the Group's short-term efficiency, it will continue to strengthen its operational resilience by enhancing efficiency and productivity, through its highly flexible and agile strategies, and by leveraging its core strengths, adaptability and competitive edges, as well as cost and expense controls, to safeguard its profitability, while focusing on maintaining a healthy cash flow and a solid financial position.

The Group remains optimistic about the long-term prospects of its manufacturing business and remains committed to its mid to long-term capacity allocation strategy. This includes 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' trend and its integrated product development capability that combines automation technology and research and development strength to seek more high value-added orders with a solid product mix.

Yue Yuen will continue to pursue its long-term digital transformation strategy aimed at achieving operational excellence through digital lean management, while also maintaining its focused investments in intelligent automation. It will further integrate its manufacturing management systems into One Common Platform ("OCP") to optimize its ongoing eco-intelligent and smart manufacturing approach. At the core of the OCP is a more focused SAP ERP system that, when implemented together with the automation upgrades, will strengthen the Group's process re-engineering competency, boost productivity and derive more value from its investments. As a powerful management tool, the OCP will enhance the Group's competitive adaptability to cater to the fast-moving market and operation environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility, more efficient turnaround times, on-time delivery, end-to-end capabilities and most importantly, ESG-centric management.

For Pou Sheng, amid the ongoing dynamic retail environment in mainland China, it will continue to safeguard its margins through its retail refinement strategy – dynamically managing its B&M and omni-channel footprint, as well as introducing new store concepts and broadening its category offerings. It will also implement its digital transformation strategy, including the enhancement and upgrade of its SAP system in order to better integrate its business and finance functions and strengthen strategic decision-making at the management level. It will further maximize its strategic partnerships with existing and new business associates and diversify its channel mix, while remaining committed to dynamic inventory control and more effective working capital management.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the 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 share award scheme of the Company (the "Share Award Scheme"), purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 1,350,000 shares of the Company (the "Shares") at a total consideration of approximately HK$15,368,000 (equivalent to approximately US$1,965,000) pursuant to the terms of the rules and trust deed of the Share Award Scheme.

CORPORATE GOVERNANCE

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 C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the 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.

REVIEW OF UNAUDITED INTERIM FINANCIAL REPORT

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

In addition, 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, September 11, 2024 to Friday, September 13, 2024, both days inclusive, during which period no transfer of Shares will be effected. In order to be qualified for the interim dividend, all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office 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 Tuesday, September 10, 2024.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.yueyuen.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the Period will be available on the above websites in due course.

ACKNOWLEDGEMENT

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

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

Hong Kong, August 12, 2024

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

Executive Directors:

Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Liu George Hong-Chih and Mr. 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.

Website: www.yueyuen.com