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YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

UNAUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the nine months ended September 30, 2021. This announcement is made as part of the Company's current practice to publish its financial results quarterly and pursuant to paragraph 13.09(2) of the Listing Rules and Part XIVA of the SFO.

The unaudited consolidated profit attributable to owners of the Company for the nine months ended September 30, 2021 was approximately US\$99.6 million.

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited ("the Company") are making this announcement of the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended September 30, 2021 in line with its current practice to publish the Group's financial results quarterly and pursuant to paragraph 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

* For identification purpose only

CONSOLIDATED INCOME STATEMENT

For the nine months ended September 30, 2021

	For the nine months ended September 30,	
	2021	2020
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	6,441,178	6,086,664
Cost of sales	(4,880,924)	(4,830,800)
Gross profit	1,560,254	1,255,864
Other income	97,028	80,187
Selling and distribution expenses	(882,800)	(734,613)
Administrative expenses	(447,340)	(438,159)
Other expenses	(170,280)	(273,985)
Finance costs	(39,032)	(52,622)
Share of results of associates	19,146	18,670
Share of results of joint ventures	8,226	14,016
Other gains and losses	30,610	(12,088)
Profit (loss) before taxation	175,812	(142,730)
Income tax expense	(37,228)	(3,380)
Profit (loss) for the period	138,584	(146,110)
Attributable to:		
Owners of the Company	99,592	(154,051)
Non-controlling interests	38,992	7,941
	138,584	(146,110)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2021

	For the nine months ended September 30,	
	2021	2020
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Profit (loss) for the period	<u>138,584</u>	<u>(146,110)</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	2,943	(4,690)
Share of other comprehensive income (expense) of associates	28,068	(2,111)
Remeasurement of defined benefit obligations, net of tax	<u>–</u>	<u>(4,868)</u>
	<u>31,011</u>	<u>(11,669)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	10,859	29,130
Share of other comprehensive (expense) income of associates and joint ventures	(2,647)	6,370
Reserve released upon disposal of an associate	(868)	(270)
Reserve released upon partial disposal of a joint venture	–	(4,246)
Reserve released upon deregistration of a subsidiary	<u>–</u>	<u>(53)</u>
	<u>7,344</u>	<u>30,931</u>
Other comprehensive income for the period	<u>38,355</u>	<u>19,262</u>
Total comprehensive income (expense) for the period	<u>176,939</u>	<u>(126,848)</u>
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	133,238	(146,550)
Non-controlling interests	<u>43,701</u>	<u>19,702</u>
	<u>176,939</u>	<u>(126,848)</u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the nine months ended September 30, 2021 have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amount or fair values as appropriate.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies applied and methods of computation used in the unaudited consolidated results for the nine months ended September 30, 2021 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2020.

In the current period, the Group has applied, for the first time, certain amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accounts which are mandatory effective for the annual period beginning on or after January 1, 2021 for the preparation of the Group’s unaudited consolidated results for the nine months ended September 30, 2021. The adoption of the amendments to HKFRSs does not have material impact on the Group’s results and financial positions for the current or prior periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the third quarter of 2021, the Group’s manufacturing business was significantly impacted by the resurgence of the COVID-19 pandemic (the “Pandemic”) in South East Asia, especially in Vietnam, which compelled local authorities to adopt more rigorous Pandemic prevention measures, including lockdowns in Ho Chi Minh City and its surrounding industrial provinces. This has disrupted the Group’s manufacturing operations in Vietnam since mid-July, 2021, which in turn negatively impacted the growth recovery and profitability of the Group’s manufacturing business on a nine-month basis in 2021.

The performance of the Group’s retail subsidiary, Pou Sheng International (Holdings) Limited (“Pou Sheng”) was also impacted by sporadic Pandemic outbreaks in China, as well as extreme weather conditions, during the third quarter of 2021. However, Pou Sheng’s omni-channels proved resilient throughout the first nine months of 2021, as it continued to connect its online public and private traffic domains with its increasingly refined and more efficient brick-and-mortar distribution network, further deepening its engagement with its customers. For more financial details of the Group’s retail business, please refer to the results announcement of Pou Sheng.

Revenue Analysis

The Group recorded revenue of US\$6,441.2 million in the nine months ended September 30, 2021, representing an increase of 5.8% compared to revenue of US\$6,086.7 million in the same period of 2020, with the solid recovery seen in the first half of 2021 largely offset by the disruption to its manufacturing operations in Vietnam and weak retail sales in the third quarter.

In the first nine months ended September 30, 2021, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 3.2% to US\$3,300.5 million, compared with the corresponding period of last year. The volume of shoes shipped during the period was 179.0 million pairs, with demand for the Group's shoe products remaining solid. However, the earlier recovery of shipments was neutralized by the negative impact of the recent Pandemic lockdowns in Vietnam, increasing slightly as compared with the same period of last year. The average selling price increased by 3.1% to US\$18.43 per pair, as compared with the corresponding period of last year, led largely by its continued efforts to upgrade its mix with a focus on more high-value orders.

The Group's athletic/outdoor shoes category accounted for 83.8% of footwear manufacturing revenue in the first nine months of 2021. Casual shoes and sports sandals accounted for 16.2% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 43.0% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.3% of total revenue.

In the first nine months of 2021, the Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US\$3,656.0 million, representing an increase of 5.4% as compared with the corresponding period of last year.

In the first nine months of 2021, the revenue attributed to Pou Sheng increased by 6.3% to US\$2,785.2 million, compared to US\$2,619.3 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first nine months in 2021 decreased by 1.7% to RMB18,021.3 million, compared to RMB18,341.3 million in the corresponding period of last year, which was mainly attributed to market dynamics and sporadic Pandemic outbreaks across China in recent quarters.

Total Revenue by Category

	For the nine months ended September 30,				change %
	2021 US\$ million	%	2020 US\$ million	%	
Athletic/Outdoor Shoes*	2,766.4	43.0	2,715.6	44.6	1.9
Casual Shoes & Sports					
Sandals*	534.1	8.3	481.3	7.9	11.0
Soles, Components &					
Others	355.5	5.5	270.5	4.5	31.4
Pou Sheng**	2,785.2	43.2	2,619.3	43.0	6.3
Total Revenue	6,441.2	100.0	6,086.7	100.0	5.8

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

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

Gross Profit

In the first nine months of 2021, the Group's gross profit increased by 24.2% to US\$1,560.3 million, while the gross profit margin increased by 3.6 percentage points to 24.2%. The gross profit of the manufacturing business increased by 20.2% to US\$560.5 million whilst the gross profit margin expanded by 1.8 percentage points to 15.3%, alongside positive operating leverage, especially in the first half of 2021. As the Group's manufacturing operations in Vietnam resumes, it will continue to streamline its cost structure by aiming to return to the higher order fill rate and more balanced capacity utilization seen earlier in the year, so as to restore operational efficiency.

The gross profit margin for Pou Sheng increased by 5.8 percentage points to 35.9% as compared to the same period in 2020, which was mainly attributed to disciplined discount controls and an enhanced sales mix.

Selling & Distribution Expenses, Administrative Expenses and Other Income/Expenses

The Group's total selling and distribution expenses during the first nine months of 2021 amounted to US\$882.8 million (2020: US\$734.6 million), equivalent to approximately 13.7% (2020: 12.1%) of revenue.

Administrative expenses for the first nine months of 2021 were US\$447.3 million (2020: US\$438.2 million), equivalent to approximately 7.0% (2020: 7.2%) of revenue.

Net other expenses for the first nine months of 2021 decreased by 62.2% to US\$73.3 million (2020: US\$193.8 million), equivalent to 1.1% (2020: 3.2%) of revenue. The sharp decrease was mostly due to a high base in the corresponding period of 2020, the majority of which were one-off charges totaling US\$105 million arising from factory adjustments on the manufacturing side.

Share of Results of Associates and Joint Ventures

In the first nine months of 2021, the share of results of associates and joint ventures was a combined profit of US\$27.4 million, compared to a combined profit of US\$32.7 million recorded in the corresponding period of last year.

Profit/Loss Attributable to Owners of the Company

In the first nine months of 2021, the profit attributable to owners of the Company was US\$99.6 million, compared with a loss of US\$154.1 million attributable to owners of the Company recorded in the corresponding period of last year.

For the nine months ended September 30, 2021, the Group recognized a non-recurring profit attributable to owners of the Company of US\$31.2 million, which included a gain of US\$14.2 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), as well as a combined one-off gain of US\$32.0 million on the disposal of a joint venture and associates, that was partly offset by an impairment loss of US\$14.0 million on interest in an associate. In the same period of 2020, the Group recognized a non-recurring loss attributable to owners of the Company of US\$12.1 million, which included a loss of US\$21.0 million due to fair value changes on financial instruments at FVTPL, as well as an impairment loss of US\$9.0 million on interest in an associate, that was partly offset by a one-off gain of US\$15.7 million on the partial disposal of an interest in a joint venture. Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the nine months ended September 30, 2021, was US\$68.4 million, compared to a recurring loss attributable to owners of the Company of US\$141.9 million for the corresponding period of last year.

Outlook

Despite reporting a strong start to the year, the Group has faced numerous headwinds stemming from the Pandemic and other sudden changes in its business environment, one after the other. Encouragingly, the Group has been gradually resuming production at its manufacturing facilities in Vietnam since the beginning of October in compliance with local safety criteria. It aims to ramp up production to normal levels in a safe and orderly manner in the coming months. As it heads into its peak season in the fourth quarter, the Group will closely monitor the Pandemic situation in its key manufacturing regions while dynamically allocating its manufacturing capacity, where needed, to balance demand, its order pipeline, and labor supply.

With an eye on its medium-term recovery, the Group will continue to maintain the highest level of flexibility to sustain its efficiency and productivity, and leverage its core strengths, adaptability and competitive edges to overcome any short-term disruptions and safeguard its future sustainable growth and profitability.

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

Hong Kong, November 11, 2021

As at the date of this announcement, 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. Hu Chia-Ho, Mr. Liu George Hong-Chih, and Mr. Yu Huan-Chang.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen.

Website: www.yueyuen.com