YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

FINAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2021

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2021

	2021	2020	**Percentage Increase**
Revenue *(US$'000)*	**8,533,337**	8,444,935	**1.05%**
Recurring profit (loss) attributable to owners of the Company *(US$'000)*	**63,022**	(68,356)	**N/A**
Non-recurring profit (loss) attributable to owners of the Company *(US$'000)*	**52,050**	(22,435)	**N/A**
Profit (loss) attributable to owners of the Company *(US$'000)*	**115,072**	(90,791)	**N/A**
Basic earnings (loss) per share *(US cents)*	**7.15**	(5.64)	**N/A**
Dividend per share			
Final dividend (proposed) *(HK$)*	**0.20**	–	**N/A**

* *For identification purpose only*

RESULTS

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2021 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2021

	Notes	**2021** **US$'000**	2020 *US$'000*
Revenue	*3*	**8,533,337**	8,444,935
Cost of sales		**(6,485,102)**	(6,613,920)
Gross profit		**2,048,235**	1,831,015
Other income		**140,067**	122,364
Selling and distribution expenses		**(1,189,488)**	(1,079,169)
Administrative expenses		**(611,886)**	(546,668)
Other expenses		**(225,367)**	(338,258)
Finance costs		**(52,698)**	(68,078)
Share of results of associates		**26,292**	27,205
Share of results of joint ventures		**(14,538)**	21,551
Other gains and losses	*4*	**54,814**	(21,361)
Profit (loss) before taxation		**175,431**	(51,399)
Income tax expense	*5*	**(33,485)**	(20,962)
Profit (loss) for the year	*6*	**141,946**	(72,361)
Attributable to:			
Owners of the Company		**115,072**	(90,791)
Non-controlling interests		**26,874**	18,430
		141,946	(72,361)
		US cents	*US cents*
Earnings (loss) per share	*8*		
– Basic		**7.15**	(5.64)
– Diluted		**7.14**	(5.64)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

	2021	2020
	US\$'000	*US\$'000*
Profit (loss) for the year	**141,946**	(72,361)
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	**3,536**	(1,424)
Share of other comprehensive income (expense) of associates	**28,386**	(1,721)
Remeasurement of defined benefit obligations, net of tax	**(2,104)**	(13,221)
Revaluation gain on transfer of properties to investment properties, net of tax	**38,464**	2,270
	68,282	(14,096)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**26,908**	78,585
Share of other comprehensive income of associates and joint ventures	**3,524**	19,316
Reserve released upon disposal of an associate	**(868)**	(270)
Reserve released upon deemed disposal of an associate	**(9)**	–
Reserve released upon partial disposal of a joint venture	**–**	(4,246)
Reserve released upon deregistration of a subsidiary	**–**	(53)
	29,555	93,332
Other comprehensive income for the year	**97,837**	79,236
Total comprehensive income for the year	**239,783**	6,875
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**201,950**	(43,155)
Non-controlling interests	**37,833**	50,030
	239,783	6,875

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2021

	Note	2021 US$'000	2020 US$'000
Non-current assets			
Investment properties		**233,999**	125,382
Property, plant and equipment		**2,024,657**	2,212,365
Right-of-use assets		**629,324**	665,439
Deposits paid for acquisition of property, plant and equipment		**122,000**	101,423
Intangible assets		**11,280**	27,738
Goodwill		**267,015**	265,292
Interests in associates		**431,074**	418,370
Interests in joint ventures		**197,579**	281,879
Equity instruments at fair value through other comprehensive income		**28,608**	30,496
Financial assets at fair value through profit or loss		**21,754**	31,200
Rental deposits		**26,464**	28,297
Deferred tax assets		**124,919**	94,070
Deferred consideration receivable		**–**	5,018
		4,118,673	4,286,969
Current assets			
Inventories		**2,058,022**	1,584,934
Trade and other receivables	9	**1,477,957**	1,597,108
Equity instrument at fair value through other comprehensive income		**4,908**	–
Other financial asset at amortized cost		**9,424**	–
Financial assets at fair value through profit or loss		**105,268**	120,763
Taxation recoverable		**25,867**	13,968
Bank balances and cash		**837,965**	896,977
		4,519,411	4,213,750
Assets classified as held for sale		**–**	22,151
		4,519,411	4,235,901

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At December 31, 2021

	Note	2021	2020
		US$'000	*US$'000*
Current liabilities			
Trade and other payables	*10*	**1,516,947**	1,446,616
Contract liabilities		**80,299**	95,238
Financial liabilities at fair value through profit or loss		**1,996**	1,085
Taxation payable		**57,495**	58,303
Bank borrowings		**655,839**	574,638
Lease liabilities		**155,923**	161,989
		2,468,499	2,337,869
Net current assets		**2,050,912**	1,898,032
Total assets less current liabilities		**6,169,585**	6,185,001
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**8,382**	25,099
Bank borrowings		**1,061,258**	1,293,303
Deferred tax liabilities		**52,992**	39,271
Lease liabilities		**301,014**	330,994
Retirement benefit obligations		**141,488**	122,192
		1,565,134	1,810,859
Net assets		**4,604,451**	4,374,142
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**4,046,418**	3,843,814
Equity attributable to owners of the Company		**4,098,458**	3,895,854
Non-controlling interests		**505,993**	478,288
Total equity		**4,604,451**	4,374,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform - Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures.

As at January 1, 2021, the Group has credit linked notes, bank borrowings and interest rate swaps, the interest of which are indexed to benchmark rates that may be subject to interest rate benchmark reform. The carrying amount of the credit linked notes and bank borrowings were US$20,306,000 and US$1,376,653,000, respectively. The notional amount of the interest rate swaps were US$800,000,000. Credit linked notes are carrying with London Interbank Offered Rate ("LIBOR") plus spread of 1.10%, bank borrowings are carrying with LIBOR plus spread ranging from 0.70% to 0.90% and interest rate swaps are exchanging LIBOR with fixed rates.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortized cost.

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:

	2021	2020
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**4,914,043**	4,735,704
Retailing Business	**3,619,294**	3,709,231
	8,533,337	8,444,935

Revenue from major products

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

	2021	2020
	US$'000	*US$'000*
Athletic/outdoor shoes *(note)*	**3,762,196**	3,666,574
Casual shoes and sports sandals *(note)*	**688,315**	706,319
Soles, components and others	**463,532**	362,811
Retail sales – shoes, apparel, commissions from concessionaire sales and others	**3,619,294**	3,709,231
	8,533,337	8,444,935

note: The comparative figures were regrouped in accordance with the Group's new category classification.

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 People's Republic of China (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:

	2021	2020
	US$'000	*US$'000*
US	**1,691,480**	1,404,679
Europe	**1,208,100**	1,247,882
PRC	**4,452,730**	4,593,087
Other countries in Asia	**818,605**	850,297
Others	**362,422**	348,990
	8,533,337	8,444,935

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia, Myanmar and Cambodia. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2021	2020
	US$'000	*US$'000*
PRC	**1,301,736**	1,381,527
Vietnam	**740,785**	825,216
Indonesia	**704,687**	655,979
Myanmar	**96,601**	106,113
Cambodia	**54,094**	55,762
Republic of China	**80,583**	78,682
Others	**69,238**	57,365
	3,047,724	3,160,644

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, deferred tax assets, deferred consideration receivable and financial instruments.

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2021 US$'000	2020 US$'000
Customer A	**1,755,185**	1,576,520
Customer B	**1,345,255**	1,464,338

4. OTHER GAINS AND LOSSES

	2021 US$'000	2020 US$'000
Fair value changes on financial instruments at fair value through profit or loss	**21,936**	(30,394)
Fair value changes on investment properties	**15,068**	6,773
Gain on disposal/deemed disposal of associates	**7,770**	2,087
Gain on disposal/partial disposal of a joint venture	**24,278**	15,665
Gain on deregistration of a subsidiary	**–**	53
Impairment loss on interest in an associate	**(14,011)**	(14,000)
Impairment loss on intangible asset/goodwill	**(1,570)**	(1,618)
Reversal of impairment loss on amount due from an associate/ a joint venture	**1,343**	73
	54,814	(21,361)

5. INCOME TAX EXPENSE

	2021 US$'000	2020 US$'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax		
– current year	**39,647**	34,075
– overprovision in prior years	**(2,406)**	(1,856)
Overseas taxation		
– current year	**24,766**	15,682
– under(over)provision in prior years	**1,152**	(2,503)
	63,159	45,398
Deferred tax		
– current year	**(23,955)**	(37,232)
– attributable to a change in tax rate	**(5,719)**	12,796
	33,485	20,962

6. PROFIT (LOSS) FOR THE YEAR

	2021	2020
	US$'000	*US$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Employee benefit expense, including directors' emoluments *(note iii)*		
– basic salaries, bonus, allowances and staff welfare	**1,900,127**	1,873,861
– retirement benefit scheme contributions	**231,517**	310,532
– share-based payments	**4,708**	416
	2,136,352	2,184,809
Auditor's remuneration	**1,437**	1,399
Amortization of intangible assets	**15,536**	14,912
Depreciation of property, plant and equipment *(note iii)*	**369,368**	353,690
Depreciation of right-of-use assets	**197,981**	178,200
Loss on disposal of property, plant and equipment (included in other expenses)	**12,678**	16,078
Research and development expenditure (included in other expenses)	**185,430**	187,146
Net changes in allowance for inventories (included in cost of sales) *(note ii)*	**4,366**	(3,123)
Impairment loss on trade and other receivables	**1,064**	1,024

notes:

(i) For the years ended December 31, 2021 and 2020, cost of inventories recognized as expenses represents cost of sales as shown in the consolidated income statement.

(ii) Changes in allowance for inventories of US$5,031,000 was debited (2020: US$3,499,000 was credited) to the consolidated income statement for the year ended December 31, 2021 arose from the finished goods for the retail and distribution of sportswear and footwear products.

(iii) Staff costs and depreciation of property, plant and equipment disclosed above included amounts capitalized in inventories. In addition, the staff costs for the year ended December 31, 2020 included severance costs of approximately US$107 million (included in other expenses) arising from factory adjustments on the manufacturing side.

7. DIVIDENDS

	2021	2020
	US$'000	*US$'000*
Dividends recognized as distribution during the year:		
2019 Final dividend of HK$0.70 per share	**–**	145,430

The board of directors of the Company (the "Board") has resolved to declare a final dividend of HK$0.20 per share for the year ended December 31, 2021 (2020: Nil) for shareholders whose names appear on the register of members of the Company on June 6, 2022. The proposed final dividend of approximately HK$322,076,000 shall be paid on June 23, 2022.

This proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

8. EARNINGS (LOSS) PER SHARE

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

	2021	2020
	US$'000	*US$'000*
Earnings (loss):		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share, being profit (loss) for the year attributable to owners of the Company	**115,072**	(90,791)

	2021	2020
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,610,445,518**	1,610,199,619
Effect of dilutive potential ordinary shares:		
– Unvested awarded shares	**1,656,370**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,612,101,888**	1,610,199,619

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 of the Company.

The computation of diluted loss per share for the year ended December 31, 2020 did not assume vesting of the Company's outstanding unvested awarded shares since their assumed vest would result in a decrease in loss per share.

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables, net of allowance for credit losses, of US$957,241,000 (2020: US$1,120,141,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2021	2020
	US$'000	*US$'000*
0 to 30 days	**641,709**	651,103
31 to 90 days	**304,773**	452,393
Over 90 days	**10,759**	16,645
	957,241	1,120,141

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of US$648,527,000 (2020: US$597,922,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2021	2020
	US$'000	*US$'000*
0 to 30 days	**532,598**	462,502
31 to 90 days	**105,896**	113,747
Over 90 days	**10,033**	21,673
	648,527	597,922

11. FINANCIAL GUARANTEE CONTRACTS

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

	2021	2020
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**27,771**	36,267
– amount utilized	**10,594**	12,019
(ii) associates		
– amount guaranteed	**16,200**	13,550
– amount utilized	**15,750**	11,700

In the opinion of the directors, the fair value of the financial guarantees given to the banks by the Group are insignificant at initial recognition. Also, after taking into consideration the probability of default and the loss given default of the relevant joint ventures and associates, the management of the Company is of the opinion that no provision is required to be recognized in the consolidated statement of financial position as at December 31, 2021 and 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary Pou Sheng International (Holdings) Limited ("Pou Sheng").

In 2021, the Group faced a volatile operating environment. In the first half of 2021, it benefited from a rebound in the global sportswear market as it emerged from the depths of the 2019 novel coronavirus (the "COVID-19") pandemic (the "Pandemic"). However, in the third quarter of 2021, a resurgence of COVID-19 in Southern Vietnam compelled local authorities to adopt more rigorous prevention measures, including lockdowns in Ho Chi Minh City and its surrounding industrial provinces. This together with the other headwinds stemming from the Pandemic significantly impacted the Group's manufacturing operations from mid-July, 2021. Encouragingly, in the final few months of 2021, the Group was able to gradually re-open and ramp up capacity utilization at its factories in Southern Vietnam, thanks to a rapid on-site vaccination roll-out. Yet, the disruption inevitably place a shadow on the growth recovery and profitability of the Group's manufacturing business during the year under review.

Pou Sheng also faced a challenging and bumpy recovery in 2021. Revenue and margins bounced back strongly in the first quarter of 2021 as consumption recovered to pre-pandemic levels. However, market dynamics that emerged from late March weighed on Pou Sheng's sales momentum throughout much of the rest of the year 2021, a trend that was further compounded by weakening consumer sentiment and shortage of product supply caused by the sporadic resurgence of COVID-19 in mainland China and South-East Asia countries in the latter half of the year 2021. To combat these headwinds, Pou Sheng continued its digital transformation, scaling up its omni-channels, deepening consumer engagement and improving its operational efficiency. Pou Sheng also strengthened its cooperation with brand partners by pioneering innovative strategies that support membership growth, increase in-season sales volumes and maximize experience and value for customers. For more financial details of the Group's retail business, please refer to the results announcement of Pou Sheng.

Despite the dynamic operating environment detailed above, the Group remains committed to sustainability, ethical conduct, and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines for employee relations, workplace safety, and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity.

Yue Yuen's parent company, Pou Chen Group ("Pou Chen"), has been accredited by the Fair Labor Association ("FLA") as a result of the Group's efforts in the above areas of labor rights and sustainability. In addition, as a responsible leader in the footwear industry, Yue Yuen continues to be a member of the World Federation of Sporting Goods Industry ("WFSGI") and supports the principles of the WFSGI Code of Conduct. In 2021, the Group made further progress in combating climate change, following its brand customers' commitments to the Science Based Targets initiative (SBTi), formulating systematic approaches to achieve a more proactive greenhouse gas emissions reduction target, with a goal of reducing our emissions by 46.2% by 2030, as compared with the base year of 2019.

As a people-oriented business, the Group is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. It also places all employees' health, safety, and welfare at top priority in a time of multifaceted disruption. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social, and governance, please refer to the 2021 Environmental, Social and Governance Report of the Company.

Results of Operations

In the year ended December 31, 2021, the Group recorded revenue of US$8,533.3 million, representing an increase of 1.0%, compared with the previous year, 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 second half of the year. Having withstood the turbulent climate throughout the year under review, the Group managed a decent turnaround, recording a profit attributable to owners of the Company of US$115.1 million, compared to a loss attributable to owners of the Company of US$90.8 million for the previous year. Basic earnings per share for the year was 7.15 US cents, compared to a basic loss per share of 5.64 US cents for the previous year.

Total Revenue by Category

In the year ended December 31, 2021, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes, and sports sandals) increased by 1.8% to US$4,450.5 million, compared with the previous year. The volume of shoes shipped during the year was 238.3 million pairs, representing a decline of 2.5% over last year, with most of the earlier solid recovery in demand neutralized by the negative impact of COVID-19 lockdowns in Southern Vietnam. The resurgence of the Pandemic led to production halts in Vietnam, material supply disruption, as well as shipping congestion and delays in some of the Group's production countries in the latter half of 2021. The Group's average selling price increased by 4.4% to US$18.68 per pair in 2021, as compared with the previous year, led largely by its continued efforts to refine its product mix with a focus on more high-value orders.

The Group's athletic/outdoor shoes category accounted for 84.5% of footwear manufacturing revenue in 2021. Casual shoes and sports sandals accounted for 15.5% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 44.1% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.1% 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$4,914.0 million in 2021, representing an increase of 3.8% as compared to the previous year.

In the year ended December 31, 2021, the revenue attributed to Pou Sheng fell by 2.4% to US$3,619.3 million, compared to US$3,709.2 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue decreased by 8.8% to RMB23,350.2 million, compared to RMB25,611.1 million in the previous year, which was mainly attributed to market dynamics, sporadic Pandemic outbreaks and disrupted product supply in China one after another, and weakened consumer sentiment in recent quarters. As of December 31, 2021, Pou Sheng had 4,631 directly operated retail outlets and 3,786 stores operated by sub-distributors across the Greater China region, representing a net closure of 658 stores as compared with the previous year. The net closure is in line with Pou Sheng's channel optimization strategy that focuses on refining store networks to enhance efficiency.

Total Revenue by Category

	For the year ended December 31,				
	2021		2020		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes*	**3,762.2**	**44.1**	3,666.6	43.4	2.6
Casual Shoes & Sports Sandals*	**688.3**	**8.1**	706.3	8.4	(2.5)
Soles, Components & Others	**463.5**	**5.4**	362.8	4.3	27.8
Pou Sheng**	**3,619.3**	**42.4**	3,709.2	43.9	(2.4)
Total Revenue	**8,533.3**	**100.0**	8,444.9	100.0	1.0

* *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*

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 a shorter lead-time of between 30-45 days. Nevertheless, some customers' short-term priority is on capacity and product availability, as well as on-time delivery.

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

Production Review

In 2021, the Group's manufacturing business shipped a total of 238.3 million pairs of shoes, a decrease of 2.5% compared to the 244.4 million pairs shipped in the previous year. The average selling price per pair was US$18.68, an increase of 4.4% as compared to US$17.89 for the previous year, led by resilient demand in high-value orders.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in 2021, representing 35%, 48%, and 12% of total shoe shipments, respectively. The shipment contribution from Vietnam was temporarily impacted due to production disruption led by COVID-19, which reaffirmed the Group's focus on further optimization of country of origin.

Cost Review

With respect to the cost of goods sold for the Group's manufacturing business in 2021, total main material costs were US$1,824.4 million (2020: US$1,731.7 million). The direct labor costs and production overheads were US$2,327.8 million (2020: US$2,306.5 million). The total cost of goods sold by the Group's manufacturing business was US$4,152.2 million in 2021 (2020: US$4,038.2 million). For the Group's retail business, Pou Sheng, cost of sales were US$2,332.9 million in 2021 (2020: US$2,575.7 million).

In the year ended December 31, 2021, the Group's gross profit increased by 11.9% to US$2,048.2 million. The overall gross profit margin increased by 2.3 percentage points to 24.0%.

The gross profit of the manufacturing business increased by 9.2% to US$761.8 million, whilst the gross profit margin expanded by 0.8 percentage points to 15.5%, as compared to the previous year, alongside positive operating leverage particularly in the first half of 2021. Yet margin recovery was weighed down by production halts at the Group's factories located in Southern Vietnam, together with material supply bottlenecks in the second half of the year that affected much of the footwear manufacturing industry there. As the Group's manufacturing operations in Vietnam progressively recovered in the last quarter of 2021, it continued to streamline its operations on top of an improving order fill rate and more balanced capacity utilization, to restore operational efficiency. As such, a decent sequential improvement of gross profit margin was seen in the Group's manufacturing business during the fourth quarter of 2021, as compared with the third quarter of 2021.

Cost of Goods Sold Analysis – Manufacturing Business

	For the year ended December 31,				
	2021		2020		change
	US$ million	***%***	*US$ million*	*%*	*%*
Main Material Costs	**1,824.4**	**43.9**	1,731.7	42.9	5.4
Direct Labor Costs & Production Overheads	**2,327.8**	**56.1**	2,306.5	57.1	0.9
Total Cost of Goods Sold	**4,152.2**	**100.0**	4,038.2	100.0	2.8

The gross profit margin for Pou Sheng increased by 4.9 percentage points to 35.5% as compared to the previous year, which was mainly attributed to disciplined discount controls and enhanced sales mix.

The Group's total selling and distribution expenses for 2021 amounted to US$1,189.5 million (2020: US$1,079.2 million), equivalent to approximately 13.9% (2020: 12.8%) of revenue.

Administrative expenses for 2021 amounted to US$611.9 million (2020: US$546.7 million), equivalent to approximately 7.2% (2020: 6.5%) of revenue.

Net other expenses for 2021 decreased significantly by 60.5% to US$85.3 million (2020: US$215.9 million), equivalent to approximately 1.0% (2020: 2.6%) of revenue. The sharp decrease was mostly due to a high base in 2020, the majority of which were one-off charges of approximately US$107 million arising from factory adjustments on the manufacturing side.

Recurring Profit/Loss Attributable to Owners of the Company

For the year ended December 31, 2021, the Group recognized a non-recurring profit attributable to owners of the Company of US$52.1 million, which included a combined gain of US$33.6 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL") and investment properties, and a combined one-off gain of US$32.0 million on the disposal of a joint venture and associates, which was partly offset by an impairment loss of US$14.0 million on interest in an associate. In 2020, the Group recognized a non-recurring loss attributable to owners of the Company of US$22.4 million, which included a loss of US$30.4 million due to fair value changes on financial instruments at FVTPL and an impairment loss of US$14.0 million on the interest in an associate, which was 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 year ended December 31, 2021 was US$63.0 million, compared to a recurring loss attributable to owners of the Company of US$68.4 million for the previous year.

Product Development

In 2021, the Group spent US$185.4 million (2020: US$187.1 million) on product development, including investments in sampling and digital prototyping, technological and process engineering, as well as production efficiency enhancements. For each of the major branded customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead-time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and sustainable materials into the design, development, and manufacture of its products.

Liquidity, Financial Resources, Capital Structure and Others

Cash Flow

The Group recorded net cash generated from operating activities (net of tax) of US$463.1 million in 2021 (2020: US$834.2 million). Free cash flow amounted to US$177.1 million (2020: US$578.9 million). During the year under review, net cash used in investing and financing activities amounted to US$96.8 million (2020: US$298.2 million) and US$431.3 million (2020: US$640.4 million) respectively. Overall net decrease in cash and cash equivalents amounted to US$65.0 million (2020: US$104.4 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at December 31, 2021, the Group had cash and cash equivalents of US$838.0 million (December 31, 2020: US$897.0 million) and total bank borrowings of US$1,717.1 million (December 31, 2020: US$1,867.9 million). The Group's gearing ratio (total bank borrowings to total equity) was 37.3% (December 31, 2020: 42.7%). As at December 31, 2021, the Group had net borrowing of US$879.1 million (December 31, 2020: US$971.0 million). As at December 31, 2021, the Group had current assets of US$4,519.4 million (December 31, 2020: US$4,235.9 million) and current liabilities of US$2,468.5 million (December 31, 2020: US$2,337.9 million). The current ratio was 1.8 as at December 31, 2021 (December 31, 2020: 1.8).

Funding and Capital Structure

The Group has relied to a certain extent on debt financing for its funding requirements. 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 loans 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. For long term bank loans, in view of the substantial amount due in 2022, the Group found it appropriate and prudent to early refinance the US$870 million club loan originally due in July 2022 with new term loans which were completed in the fourth quarter of 2021. As of December 31, 2021, around 61.8% of the Group's total bank borrowings had a remaining tenor of over one year.

Almost all of the bank borrowings of the Group relating to its manufacturing business are in USD. The Group's cash holdings in relation to its manufacturing business are held in USD and also in the local currencies (e.g. VND, IDR, RMB) of the various countries where its production facilities are located for daily operation purposes. For the Group's retail business, Pou Sheng's bank borrowings and cash balances are held mostly in RMB, which is its functional currency.

The vast majority of the Group's bank borrowings were on a floating rate basis. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

In 2021, the Group's overall capital expenditure reached US$286.0 million (2020: US$255.3 million). The capital expenditure for the Group's manufacturing business was US$215.9 million (2020: US$170.6 million), as it proceeded with its capital expenditure program targeting strategic expansion and optimization of its manufacturing capacity prudently after delaying some projects in 2020.

As for investments in its retail business Pou Sheng, capital expenditure declined to US$70.1 million in 2021 (2020: US$84.7 million), in line with its channel optimization strategy. Pou Sheng continued to invest in the selective opening and upgrade of experience-driven retail stores that provide a better shopping experience, as well as investing in the further optimization of both of its online and physical networks to capture growth opportunities in the Greater China region.

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

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the detail of which can be seen in Note 42 to the consolidated financial statements in the 2021 annual report of the Company.

Foreign Exchange Exposure

All revenues from the manufacturing business are denominated in US dollars. The majority of material and component costs are paid in US dollars, while expenses incurred locally are paid for in the local currency i.e. wages, utilities, and local regulatory fees. A certain portion of IDR exposure is partly hedged with forward contracts.

For the Group's retail business in the Greater China region, the majority of its revenues are denominated in RMB. Correspondingly, almost all expenses are also denominated in RMB. For the retail business outside mainland China, both revenues and expenses are denominated in local currencies.

Significant Investments and Material Acquisitions/Disposals

On December 31, 2021, an indirect wholly owned subsidiary of Pou Sheng entered into an equity transfer agreement with a joint venture partner to acquire its 45% equity interest of Kunshan Baowei Information Technology Co., Ltd., a joint venture jointly controlled by the Group and the joint venture partner, the details of the transactions can be seen in Note 4(a)(iii) and 39 to the consolidated financial statements in the 2021 annual report of the Company.

Share of Results of Associates and Joint Ventures

In 2021, the share of results of associates and joint ventures recorded a combined profit of US$11.8 million, compared to a combined profit of US$48.8 million in the previous year.

Dividends

In light of the improving operating environment notwithstanding ongoing volatility, the Board has resolved to declare a final dividend of HK$0.20 per share (2020: Nil) for shareholders whose names appear on the register of members of the Company on Monday, June 6, 2022. The final dividend shall be paid on Thursday, June 23, 2022.

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

Employees

As at December 31, 2021, the Group had approximately 317,200 employees employed across all regions in which it operates, an increase of 6.3% as compared to approximately 298,500 employees employed as at December 31, 2020. The Group adopts a remuneration system based on an employee's performance throughout the year and prevailing salary levels in the market.

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

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

The Group regularly provides internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training, and corporate core values training, to enable the Group's employees and management to enhance their skills and achieve expertise, as well as to boost their morale.

The social compliance program of the Group's parent, Pou Chen Group has been accredited by the FLA, a non-profit organization dedicated to protecting workers' rights around the world, making the Group the first and only FLA-accredited footwear supplier globally. The accreditation recognized the Group's commitment to responsible recruitment aimed at implementing workplace standards globally; implementing a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; investing in a social compliance program, training, and remediation; improving its transparency in remediating labor violations at its production sites and establish multiple grievance channels; and on top of all the programs above, actively participate in FLA's initiatives such as fair compensation project.

Prospects

The Group is cautiously optimistic about its continued recovery momentum, with global demand remaining strong and with the Group seeing a good and more visible order pipeline. The Group's capacity constraints in Southern Vietnam have eased with production having progressively resumed since October 2021, in compliance with local government regulations and safety criteria. This will allow it to ramp up production to normal levels ahead of planned capacity expansion later in 2022. The Group will continue to actively manage its supply chain and dynamically allocate its manufacturing capacity to balance demand, its order pipeline, and labor supply.

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, leverage its core strengths, adaptability, and competitive edges to overcome short-term disruptions, if any, and safeguard its sustainable growth and profitability in 2022. It will also continue to exploit its strategy of prioritizing value growth, rather than pure volume growth, leveraging the 'athleisure' and premiumization trend and seek more high-value orders with better product mix. The Group will continue to ramp up and diversify its manufacturing capacity in Southeast Asia, particularly in Indonesia where labor supply and infrastructure is supportive for faster growth.

That said, potential risks on the manufacturing side of the Group's business remain, particularly those posed by the COVID-19 situation in Southeast Asia and mainland China, as well as from labor supply in certain Southeast Asia countries. The Group remains highly focused on actively monitoring macroeconomic and other potential headwinds in order to facilitate rapid response plans to mitigate the impact accordingly.

Over the longer term, the Group is continuing to explore ways to digitalize its processes to achieve operational excellence within its manufacturing business, having recently rolled out the third wave of SAP ERP implementation as an integral part of its digital transformation strategy. It will 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, more efficient turnaround times, on-time delivery, and end-to-end capability. This includes enabling digital prototyping, 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 Robotic Process Automation (RPA), to optimize its ongoing smart manufacturing strategy.

The Group remains optimistic about the long-term growth prospects of its retail business with Pou Sheng continuing to progress its digital transformation in ways that strengthen and further diversify its omni-channels and increasingly digitally-enabled physical stores. It will also continue to enhance its business intelligence system and invest in its digital tools such as smart product allocation, dashboard and E-POS systems to better support its operations. Pou Sheng is also actively expanding its cooperation with its brand partners, many of whom are also long-term and strategic customers of the Group's manufacturing business, in ways that support inventory integration, membership growth, increase in-season sales volumes and maximize value for consumers, all of which is designed to translate into a seamless shopping experience. In this way, the Group will continue to benefit from cross-business synergies while providing differentiated value-added and one-stop services to its customers and strategic partners.

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

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

During the year ended December 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of a share award scheme (the "Yue Yuen Share Award Scheme"), which 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, pursuant to the terms of the trust deed of the Yue Yuen Share Award Scheme, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 1,526,000 shares in the Company at a total consideration of approximately HK$29,011,000 (equivalent to approximately US$3,737,000).

CORPORATE GOVERNANCE

During the year ended December 31, 2021, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

RE-ELECTION OF DIRECTORS

In accordance with Bye-law 87 of the Bye-laws of the Company (the "Bye-laws"), Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Liu George Hong-Chih, and Mr. Ho Lai Hong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company ("2022 AGM").

In accordance with Bye-law 86(2) of the Bye-laws, Mr. Lin Shei-Yuan who was appointed as an independent non-executive director of the Company in respect of the retirement of Ms. Yen Mun-Gie (also known as Teresa Yen) shall hold office until 2022 AGM when he will retire and, being eligible, proposed to offer himself for re-election.

Further details of the retiring directors proposed to be re-elected at the 2022 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2021 annual report of the Company, to the shareholders of the Company in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2021.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management and the external auditor, Messrs. Deloitte Touche Tohmatsu, the Group's consolidated financial statements for the year ended December 31, 2021 and the accounting principles and practices adopted and discussed auditing, risk management and internal controls, and financial reporting matters.

SCOPE OF WORK OF THE EXTERNAL AUDITOR

The figures in respect of the Group's consolidated statement of financial position as at December 31, 2021, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2021 as set out in this announcement are in agreement with the amounts as set out in the audited consolidated financial statements of the Group for the year as approved by the Board on March 15, 2022. Since the work performed by the external auditor in this regard did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, the external auditor does not express any assurance on this announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.yueyuen.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

ANNUAL GENERAL MEETING

The 2022 AGM will be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on May 27, 2022 and the notice will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at 2022 AGM

For determining the entitlement of the shareholders of the Company to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Monday, May 23, 2022 to Friday, May 27, 2022, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, May 20, 2022 in order to be eligible to attend and vote at the 2022 AGM.

Entitlement to the proposed final dividend

For determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Monday, June 6, 2022 to Wednesday, June 8, 2022, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, June 2, 2022 in order to be qualified for the proposed final dividend.

ACKNOWLEDGMENT

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 last year.

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

Hong Kong, March 15, 2022

As at the date of this announcement, the Board comprises the following members:

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, Mr. Lin Shei-Yuan and Mr. Chen Chia-Shen.

Website: www.yueyuen.com