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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 THREE MONTHS ENDED MARCH 31, 2022

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2022. 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 three months ended March 31, 2022 was approximately US\$88.6 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 three months ended March 31, 2022 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 three months ended March 31, 2022

	For the three months ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	2,394,369	2,493,272
Cost of sales	<u>(1,826,084)</u>	<u>(1,858,106)</u>
Gross profit	568,285	635,166
Other income	29,980	30,996
Selling and distribution expenses	(290,225)	(319,950)
Administrative expenses	(142,955)	(150,616)
Other expenses	(51,961)	(54,827)
Finance costs	(12,149)	(13,767)
Share of results of associates	11,025	8,559
Share of results of joint ventures	2,428	11,539
Other gains and losses	<u>6,490</u>	<u>(1,096)</u>
Profit before taxation	120,918	146,004
Income tax expense	<u>(23,800)</u>	<u>(37,160)</u>
Profit for the period	<u><u>97,118</u></u>	<u><u>108,844</u></u>
Attributable to:		
Owners of the Company	88,576	85,379
Non-controlling interests	<u>8,542</u>	<u>23,465</u>
	<u><u>97,118</u></u>	<u><u>108,844</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2022

	For the three months ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Profit for the period	<u>97,118</u>	<u>108,844</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(4,509)	1,906
Share of other comprehensive income of associates	<u>6,837</u>	<u>2,189</u>
	<u>2,328</u>	<u>4,095</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	2,554	(10,895)
Share of other comprehensive expense of associates and joint ventures	(4,865)	(9,218)
Reserve released upon disposal of an associate	<u>–</u>	<u>(868)</u>
	<u>(2,311)</u>	<u>(20,981)</u>
Other comprehensive income (expense) for the period	<u>17</u>	<u>(16,886)</u>
Total comprehensive income for the period	<u><u>97,135</u></u>	<u><u>91,958</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	87,391	72,743
Non-controlling interests	<u>9,744</u>	<u>19,215</u>
	<u><u>97,135</u></u>	<u><u>91,958</u></u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the three months ended March 31, 2022 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 three months ended March 31, 2022 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2021.

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 Accountants which are mandatorily effective for the annual period beginning on or after January 1, 2022 for the preparation of the Group’s unaudited consolidated results for the three months ended March 31, 2022. 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

Global demand for the Group's footwear products was robust during the first quarter of 2022 with the Group continued to ramp up its manufacturing capacity. A more solid order book also yielded a higher utilization rate. However, the utilization rate throughout the period under review was still uneven, partially due to lockdowns in mainland China associated with the 2019 novel coronavirus ("COVID-19") pandemic ("Pandemic") that impacted logistics across its manufacturing base. Nevertheless, the normalization of the Group's operations in Vietnam following earlier Pandemic-related disruptions resulted in higher operating leverage and drove another decent quarter-on-quarter improvement in the margins of its manufacturing business. At the same time, the Group also oversaw a marked improvement in its product mix as it continued to prioritize quality growth and higher-value orders, leveraging the ongoing 'athleisure' and premiumization trends.

Yet, the Group's overall performance in the first three months of 2022 was overshadowed by its retail subsidiary Pou Sheng International (Holdings) Limited ("Pou Sheng"), which was adversely impacted by the recent resurgence of COVID-19 in mainland China. This has led to the temporary shuttering of some of its retail stores and a massive drop in foot traffic in many cities and provinces. Pou Sheng continued to progress its digital transformation strategy and position itself for a recovery later in the year, strengthening and diversifying its online public and private traffic domains, further streamlining its brick-and-mortar network, deepening its engagement with customers, and strengthening its operational efficiency. 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\$2,394.4 million in the first three months of 2022, representing a decline of 4.0% compared to US\$2,493.3 million in the same period of 2021, with the resilient performance of manufacturing business being largely offset by weak retail sales in mainland China following recent COVID-19 outbreaks.

In the three months ended March 31, 2022, the revenue attributable to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 14.8% to US\$1,394.2 million, compared with the corresponding period of last year. The volume of shoes shipped during the period increased by 3.8% to 70.9 million pairs, which was attributed to solid global demand for the Group's footwear products. The average selling price increased by a robust 10.5% to US\$19.65 per pair as compared with the corresponding period of last year, led by strong demand for the Group's high-end footwear, as well as its ongoing efforts to refine its product mix and obtain more high-value orders.

The Group's athletic/outdoor shoes category accounted for 85.0% of footwear manufacturing revenue in the first three months of 2022. Casual shoes and sports sandals accounted for 15.0% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 49.5% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.7% of total revenue. In the first three months of 2022, the Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US\$1,531.9 million, representing an increase of 12.2% as compared with the corresponding period of last year.

During the period, the revenue attributable to Pou Sheng declined by 23.5% to US\$862.5 million, compared to US\$1,127.7 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first three months of 2022 declined by 25.0% to RMB5,480.6 million, compared to RMB7,306.8 million in the corresponding period of last year, which was mainly attributed to weak foot traffic in the shopping venues and cities where Pou Sheng operates following COVID-19 lockdowns and local government's closed-loop management across mainland China.

Total Revenue by Category

	For the three months ended March 31,				change %
	2022		2021		
	US\$ million	%	US\$ million	%	
Athletic/Outdoor Shoes	1,185.5	49.5	1,020.2	40.9	16.2
Casual Shoes & Sports Sandals	208.7	8.7	194.2	7.8	7.5
Soles, Components & Others	137.7	5.8	151.2	6.1	(8.9)
Pou Sheng*	862.5	36.0	1,127.7	45.2	(23.5)
Total Revenue	2,394.4	100.0	2,493.3	100.0	(4.0)

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

Gross Profit

In the first three months of 2022, the Group's gross profit decreased by 10.5% to US\$568.3 million. The gross profit of the manufacturing business increased by 5.7% to US\$262.3 million whilst the gross profit margin reached 17.1%. This represented a decline of 1.1 percentage points as compared to the corresponding period in 2021, but an increase of 1.1 percentage points as compared to the fourth quarter of 2021. The improvement of the gross profit margin compared to the previous quarter was mostly attributed to a better capacity utilization of around 91%, lifting operational efficiency.

The gross profit margin for Pou Sheng increased by 1.2 percentage points to 35.5%, as compared to the corresponding period of 2021, due to an enhanced channel mix and the optimizing of markdowns within a dynamic retail environment.

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

The Group's total selling and distribution expenses during the first three months of 2022 amounted to US\$290.2 million (2021: US\$320.0 million), equivalent to approximately 12.1% (2021: 12.8%) of revenue.

Administrative expenses for the period were US\$143.0 million (2021: US\$150.6 million), equivalent to approximately 6.0% (2021: 6.0%) of revenue.

Net other expenses decreased by 7.8% to US\$22.0 million (2021: US\$23.8 million), equivalent to 0.9% (2021: 1.0%) of revenue.

Share of Results of Associates and Joint Ventures

In the first three months of 2022, the share of results of associates and joint ventures was a combined profit of US\$13.4 million, compared to a combined profit of US\$20.1 million recorded in the corresponding period of last year.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company amounted to US\$88.6 million, representing an increase of 3.7% year-on-year as compared with that of US\$85.4 million recorded in the corresponding period of last year.

During the period, the Group recognized a non-recurring profit attributable to owners of the Company of US\$6.5 million due to a gain on fair value changes on financial instruments at fair value through profit or loss ("FVTPL"). In the same period of 2021, the Group recognized a non-recurring loss attributable to owners of the Company of US\$0.5 million, which included a gain of US\$6.1 million due to fair value changes on financial instruments at FVTPL, offsetting an impairment loss of US\$7.6 million on interest in an associate. Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company amounted to US\$82.1 million for the three months ended March 31, 2022.

Outlook

The Group is cautiously optimistic about the continued growth of its manufacturing business with global demand for its footwear products remaining solid. It continues to see a good and more visible order pipeline, although short-term risks to its manufacturing business remain, particularly those posed by COVID-19 in mainland China, as well as from labor supply in certain Southeast Asia countries. 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.

While the Group does not currently expect any rapid deterioration in its operating environment, current economic and political events, including inflation, interest rate hikes and geopolitical tensions, may still threaten its stability of its business. As a result, it will continue to monitor future order sentiment closely, as well as any uncertainties that emerge amid increasingly volatile global market conditions. The Group will continue to maintain the highest level of flexibility and agility to sustain its efficiency and productivity, while leveraging its core strengths, adaptability, and competitive edges to overcome any short-term disruptions. By diligently implementing its manufacturing excellence and retail digital transformation strategies, the Group aims to anchor the sustainable growth and profitability of its business.

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

Hong Kong, May 12, 2022

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

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