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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, 2022

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the nine months ended September 30, 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 nine months ended September 30, 2022 was approximately US\$270.1 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, 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 nine months ended September 30, 2022

	For the nine months ended September 30,	
	2022	2021
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	6,971,820	6,441,178
Cost of sales	<u>(5,313,880)</u>	<u>(4,880,924)</u>
Gross profit	1,657,940	1,560,254
Other income	89,384	97,028
Selling and distribution expenses	(773,014)	(882,800)
Administrative expenses	(447,234)	(447,340)
Other expenses	(189,342)	(170,280)
Finance costs	(45,764)	(39,032)
Share of results of associates	41,320	19,146
Share of results of joint ventures	12,880	8,226
Other gains and losses	<u>7,247</u>	<u>30,610</u>
Profit before taxation	353,417	175,812
Income tax expense	<u>(81,134)</u>	<u>(37,228)</u>
Profit for the period	<u>272,283</u>	<u>138,584</u>
Attributable to:		
Owners of the Company	270,120	99,592
Non-controlling interests	<u>2,163</u>	<u>38,992</u>
	<u>272,283</u>	<u>138,584</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2022

	For the nine months ended	
	September 30,	
	2022	2021
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Profit for the period	<u>272,283</u>	<u>138,584</u>
Other comprehensive (expense) income		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(12,174)	2,943
Share of other comprehensive (expense) income of associates	(2,424)	28,068
Remeasurement of defined benefit obligations, net of tax	<u>485</u>	<u>–</u>
	<u>(14,113)</u>	<u>31,011</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	(143,970)	10,859
Share of other comprehensive expense of associates and joint ventures	(25,538)	(2,647)
Reserve released upon disposal of an associate	<u>–</u>	<u>(868)</u>
	<u>(169,508)</u>	<u>7,344</u>
Other comprehensive (expense) income for the period	<u>(183,621)</u>	<u>38,355</u>
Total comprehensive income for the period	<u>88,662</u>	<u>176,939</u>
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	140,884	133,238
Non-controlling interests	<u>(52,222)</u>	<u>43,701</u>
	<u>88,662</u>	<u>176,939</u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the nine months ended September 30, 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 change in accounting policy for determining the net realizable value of inventories resulting from agenda decision of the International Financial Reporting Standards Interpretations Committee of the International Accounting Standards Board (the “Agenda Decision”), the accounting policies applied and methods of computation used in the unaudited consolidated results for the nine months ended September 30, 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 Hong Kong Financial Reporting Standards (“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 and the Agenda Decision for the preparation of the Group’s unaudited consolidated results for the nine months ended September 30, 2022. The adoption of the amendments to HKFRSs and the Agenda Decision 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 2022, the Group’s manufacturing business continued to see growth momentum and relatively resilient demand for its high-end footwear products despite a softening global demand backdrop, supported by a low base following disruptions to its Vietnam operations in the same quarter of 2021. Economies of scale helped push up the operating leverage, together with stringent cost control measures, supporting a progressive improvement of the margins of the Group’s manufacturing business. The Group also continued to oversee accelerated pricing growth, prioritizing quality growth and higher value-added orders and leveraging on the ongoing ‘athleisure’ and premiumization trends, while further optimizing production allocation amid volatile visibility.

The Group’s retail subsidiary, Pou Sheng International (Holdings) Limited (“Pou Sheng”) experienced a bumpy recovery. Despite seeing a gradual improvement in store traffic in shopping venues and cities in which Pou Sheng operates throughout much of the third quarter, volatile and mixed retail sentiment and recently more stringent COVID-19 control measures hindered its recovery momentum. Nevertheless, Pou Sheng continued to accelerate the development of its digital business to offset its sluggish in-store performance, further optimizing its online channels to enhance its channel mix. It also continued to progress its retail refinement strategy, streamline its brick-and-mortar network while further deepening its engagement with customers and its business partners. For more financial details of the Group’s retail business, please refer to the results announcements of Pou Sheng.

Revenue Analysis

The Group recorded revenue of US\$6,971.8 million in the nine months ended September 30, 2022, representing an increase of 8.2% compared to revenue of US\$6,441.2 million in the same period of 2021, with the solid growth of its manufacturing business being partially offset by weak retail sales in mainland China amidst volatile retail sentiment following continued COVID-19 outbreaks.

For the nine months ended September 30, 2022, the revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 33.0% to US\$4,389.1 million, compared with the corresponding period of last year. The volume of shoes shipped during the period saw a strong year-on-year growth of 19.0%, reaching 213.0 million pairs, which was attributed to solid global demand for its footwear products, on top of a low-base effect following disruptions to its Vietnam operations in the third quarter of 2021. The average selling price increased by a robust 11.8% to US\$20.61 per pair as compared with the corresponding period of last year, led by resilient demand for the Group's high-end footwear, as well as its ongoing efforts to refine its product mix by obtaining more high value-added orders.

For the nine months ended September 30, 2022, the Group's athletic/outdoor shoes category accounted for 85.4% of footwear manufacturing revenue. Casual shoes and sports sandals accounted for 14.6% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 53.8% of total revenue, followed by casual shoes and sports sandals, which accounted for 9.2% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) in the nine months ended September 30, 2022, was US\$4,793.4 million, representing an increase of 31.1% as compared with the corresponding period of last year.

For the nine months ended September 30, 2022, the revenue attributed to Pou Sheng declined by 21.8% to US\$2,178.4 million, compared to US\$2,785.2 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue declined by 20.1% to RMB14,393.6 million, compared to RMB18,021.3 million in the corresponding period of last year despite the resilient performance of its Pan-WeChat Ecosphere. The decline was mainly attributed to volatile foot traffic in the shopping venues and cities where Pou Sheng operates following COVID-19 lockdowns, disrupted logistics and last-mile delivery, and control measures introduced by local governments in different parts of mainland China.

Total Revenue by Category

	For the nine months ended September 30,				change %
	2022		2021		
	<i>US\$ million</i>	<i>%</i>	<i>US\$ million</i>	<i>%</i>	
Athletic/Outdoor Shoes	3,750.3	53.8	2,766.4	43.0	35.6
Casual Shoes & Sports Sandals	638.8	9.2	534.1	8.3	19.6
Soles, Components & Others	404.3	5.8	355.5	5.5	13.7
Pou Sheng*	2,178.4	31.2	2,785.2	43.2	(21.8)
Total Revenue	6,971.8	100.0	6,441.2	100.0	8.2

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

Gross Profit

For the nine months ended September 30, 2022, the Group's gross profit increased by 6.3% to US\$1,657.9 million. The gross profit of the manufacturing business increased by 55.7% to US\$872.9 million, whilst the gross profit margin expanded to 18.2%, representing an increase of 2.9 percentage points as compared with the same period of 2021. This represented a further sequential improvement of the gross profit margin for the manufacturing business on a quarter-on-quarter basis and a reversal of the declining trend seen in the last two quarters on a year-on-year basis, and was attributed to improved capacity utilization and production efficiency during the period, better operating leverage brought by a recovery in sales scale, as well as a low-base effect following disruptions to its Vietnam operations in the third quarter of 2021.

The gross profit margin for Pou Sheng increased slightly by 0.1 percentage points to 36.0% in the nine months ended September 30, 2022, as compared to the same period of 2021. The resilient year-on-year and quarter-on-quarter performance of the growth profit margin was mainly attributed to an enhanced channel mix and a disciplined discount control strategy undertaken within the current volatile retail environment.

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

For the nine months ended September 30, 2022, the Group's total selling and distribution expenses amounted to US\$773.0 million (2021: US\$882.8 million), equivalent to approximately 11.1% (2021: 13.7%) of revenue.

Administrative expenses were US\$447.2 million (2021: US\$447.3 million), equivalent to approximately 6.4% (2021: 7.0%) of revenue.

Net other expenses increased by 36.4% to US\$100.0 million (2021: US\$73.3 million), equivalent to 1.4% (2021: 1.1%) of revenue.

Share of Results of Associates and Joint Ventures

For the nine months ended September 30, 2022, the share of results of associates and joint ventures was a combined profit of US\$54.2 million, representing a near two-fold growth as compared to a combined profit of US\$27.4 million recorded in the corresponding period of last year.

Profit Attributable to Owners of the Company

For the nine months ended September 30, 2022, the profit attributable to owners of the Company was US\$270.1 million, representing an increase of 171.2% as compared with US\$99.6 million recorded in the corresponding period of last year. The recurring profit attributable to owners of the Company was US\$262.5 million, representing an increase of 283.8% as compared with US\$68.4 million for the corresponding period of last year.

For the nine months ended September 30, 2022, the Group recognized a non-recurring profit attributable to owners of the Company of US\$7.6 million, due to a gain of US\$4.5 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), as well as a gain of US\$3.6 million on the disposal of a joint venture. In the same period of 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 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.

Outlook

The Group continues to remain cautiously optimistic about the long-term development of its manufacturing business. However, rising inflation, interest rate hikes and other uncertainties have led to an unstable global macroeconomic environment. This could result in slower global demand and less visibility, which together with rising inventory levels may hamper the stability of the Group's manufacturing business in the coming months. At the same time, short-term risks to its manufacturing operations remain, including the chance of further lockdowns in mainland China due to the pandemic and potential logistical bottlenecks. 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. It will also continue to commit to its mid-term strategy of diversifying its manufacturing capacity in Southeast Asia, particularly in Indonesia where labor supply and infrastructure are supportive of sustainable growth.

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 and safeguard its profitability. To secure the sustainable growth and profitability of its business, the Group will continue to exploit its strategy of prioritizing value growth, leveraging the 'athleisure' and premiumization trend to seek more high value-added orders with a better product mix, while also diligently implementing its digital transformation strategies within both its manufacturing and retail businesses.

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

Hong Kong, November 10, 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. 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 Mr. Chen Chia-Shen.

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