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, 2022

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2022

	2022	2021	Percentage Increase/ (decrease)
Revenue *(US$'000)*	**8,970,228**	8,533,337	**5.12%**
Recurring profit attributable to owners of the Company *(US$'000)*	**291,874**	63,022	**363.13%**
Non-recurring profit attributable to owners of the Company *(US$'000)*	**4,473**	52,050	**(91.41%)**
Profit attributable to owners of the Company *(US$'000)*	**296,347**	115,072	**157.53%**
Basic earnings per share *(US cents)*	**18.41**	7.15	**157.48%**
Dividend per share			
Interim dividend *(HK$)*	**0.40**	–	**N/A**
Final dividend (proposed) *(HK$)*	**0.70**	0.20	**250.00%**

* *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, 2022 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2022

	Notes	**2022** **US$'000**	2021 *US$'000*
Revenue	*3*	**8,970,228**	8,533,337
Cost of sales		**(6,833,014)**	(6,485,102)
Gross profit		**2,137,214**	2,048,235
Other income		**131,347**	140,067
Selling and distribution expenses		**(988,482)**	(1,189,488)
Administrative expenses		**(609,102)**	(611,886)
Other expenses		**(254,150)**	(225,367)
Finance costs		**(67,710)**	(52,698)
Share of results of associates		**46,489**	26,292
Share of results of joint ventures		**16,124**	(14,538)
Other gains and losses	*4*	**1,521**	54,814
Profit before taxation		**413,251**	175,431
Income tax expense	*5*	**(120,050)**	(33,485)
Profit for the year	*6*	**293,201**	141,946
Attributable to:			
Owners of the Company		**296,347**	115,072
Non-controlling interests		**(3,146)**	26,874
		293,201	141,946
		US cents	*US cents*
Earnings per share	*8*		
– Basic		**18.41**	7.15
– Diluted		**18.39**	7.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2022

	2022	2021
	US$'000	*US$'000*
Profit for the year	**293,201**	141,946
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	**(12,000)**	3,536
Share of other comprehensive (expense) income of associates	**(5,525)**	28,386
Remeasurement of defined benefit obligations, net of tax	**12,019**	(2,104)
Revaluation gain on transfer of properties to investment properties, net of tax	**12,332**	38,464
	6,826	68,282
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(106,907)**	26,908
Share of other comprehensive (expense) income of associates and joint ventures	**(23,455)**	3,524
Reserve released upon disposal of an associate	**–**	(868)
Reserve released upon deemed disposal of an associate	**–**	(9)
	(130,362)	29,555
Other comprehensive (expense) income for the year	**(123,536)**	97,837
Total comprehensive income for the year	**169,665**	239,783
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**213,066**	201,950
Non-controlling interests	**(43,401)**	37,833
	169,665	239,783

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2022

	Note	**2022** *US$'000*	2021 *US$'000*
Non-current assets			
Investment properties		**246,075**	233,999
Property, plant and equipment		**1,871,035**	2,024,657
Right-of-use assets		**584,010**	629,324
Deposits paid for acquisition of property, plant and equipment/right-of-use assets		**26,814**	122,000
Intangible assets		**9,072**	11,280
Goodwill		**260,378**	267,015
Interests in associates		**431,601**	431,074
Interests in joint ventures		**183,507**	197,579
Equity instruments at fair value through other comprehensive income		**17,873**	28,608
Financial assets at fair value through profit or loss		**20,505**	21,754
Rental deposits		**20,717**	26,464
Deferred tax assets		**120,309**	124,919
		3,791,896	4,118,673
Current assets			
Inventories		**1,625,117**	2,058,022
Trade and other receivables	*9*	**1,430,944**	1,477,957
Equity instrument at fair value through other comprehensive income		**3,609**	4,908
Other financial asset at amortized cost		**–**	9,424
Financial assets at fair value through profit or loss		**60,557**	105,268
Taxation recoverable		**5,039**	25,867
Bank balances and cash		**1,018,259**	837,965
		4,143,525	4,519,411

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At December 31, 2022

	Note	**2022**	2021
		US$'000	*US$'000*
Current liabilities			
Trade and other payables	*10*	**1,223,214**	1,516,947
Contract liabilities		**72,808**	80,299
Financial liabilities at fair value through profit or loss		**1,264**	1,996
Taxation payable		**86,239**	57,495
Bank borrowings		**506,430**	655,839
Lease liabilities		**113,337**	155,923
		2,003,292	2,468,499
Net current assets		**2,140,233**	2,050,912
Total assets less current liabilities		**5,932,129**	6,169,585
Non-current liabilities			
Financial liabilities at fair value through profit or loss		**–**	8,382
Bank borrowings		**928,501**	1,061,258
Deferred tax liabilities		**55,944**	52,992
Lease liabilities		**217,906**	301,014
Retirement benefit obligations		**87,453**	141,488
		1,289,804	1,565,134
Net assets		**4,642,325**	4,604,451
Capital and reserves			
Share capital		**52,040**	52,040
Reserves		**4,137,671**	4,046,418
Equity attributable to owners of the Company		**4,189,711**	4,098,458
Non-controlling interests		**452,614**	505,993
Total equity		**4,642,325**	4,604,451

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 Group's annual period beginning on January 1, 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020

In addition, the Group applied the agenda decisions of the International Financial Reporting Standards Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in May 2021 which clarified the periods of services to which an entity attributes benefit for a particular defined benefit plan, and in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realizable value of inventories. The application of the Committee's agenda decisions results in changes in accounting policies for retirement benefit obligations and inventories.

The application of the amendments to HKFRSs and the Committee's agenda decisions 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.

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:

	2022	2021
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**6,203,137**	4,914,043
Retailing Business	**2,767,091**	3,619,294
	8,970,228	8,533,337

Revenue from major products

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

	2022	2021
	US$'000	*US$'000*
Athletic/outdoor shoes	**4,890,553**	3,762,196
Casual shoes and sports sandals	**816,090**	688,315
Soles, components and others	**496,494**	463,532
Retail sales – shoes, apparel, commissions from concessionaire sales and others	**2,767,091**	3,619,294
	8,970,228	8,533,337

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:

	2022	2021
	US$'000	*US$'000*
US	**2,043,360**	1,691,480
Europe	**1,663,528**	1,208,100
PRC	**3,646,284**	4,452,730
Other countries in Asia	**1,073,669**	818,605
Others	**543,387**	362,422
	8,970,228	8,533,337

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:

	2022	2021
	US$'000	*US$'000*
PRC	**1,092,324**	1,301,736
Vietnam	**661,344**	740,785
Indonesia	**704,276**	704,687
Myanmar	**87,923**	96,601
Cambodia	**54,048**	54,094
Republic of China	**75,198**	80,583
Others	**82,610**	69,238
	2,757,723	3,047,724

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, deferred tax assets 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:

	2022	2021
	US$'000	*US$'000*
Customer A	**2,202,664**	1,755,185
Customer B	**1,375,269**	1,345,255

4. OTHER GAINS AND LOSSES

	2022	2021
	US$'000	*US$'000*
Fair value changes on financial instruments at fair value through profit or loss	**8,855**	21,936
Fair value changes on investment properties	**(9,768)**	15,068
Gain on disposal/deemed disposal of associates	**–**	7,770
Gain on disposal of a joint venture	**3,633**	24,278
Loss on disposal/deregistration of subsidiaries	**(1,199)**	–
Impairment loss on interest in an associate	**–**	(14,011)
Impairment loss on an intangible asset	**–**	(1,570)
Reversal of impairment loss on amount due from an associate	**–**	1,343
	1,521	54,814

5. INCOME TAX EXPENSE

	2022	2021
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax		
– current year	**40,964**	39,647
– under(over)provision in prior years	**1,456**	(2,406)
Overseas taxation		
– current year	**63,264**	24,766
– underprovision in prior years	**613**	1,152
	106,297	63,159
Withholding tax on dividend	**14,760**	–
Deferred tax		
– current year	**(1,007)**	(23,955)
– attributable to a change in tax rate	**–**	(5,719)
	120,050	33,485

6. PROFIT FOR THE YEAR

	2022	2021
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Employee benefit expense, including directors' emoluments *(note iii)*		
– basic salaries, bonus, allowances and staff welfare	**1,979,766**	1,900,127
– retirement benefit scheme contributions	**278,556**	231,517
– share-based payments	**4,090**	4,708
	2,262,412	2,136,352
Auditor's remuneration	**1,421**	1,437
Amortization of intangible assets	**1,350**	15,536
Depreciation of property, plant and equipment *(note iii)*	**323,316**	369,368
Depreciation of right-of-use assets	**169,812**	197,981
Loss on disposal of property, plant and equipment (included in other expenses)	**6,278**	12,678
Loss on disposal of right-of-use assets (included in other expenses)	**209**	–
Impairment loss on property, plant and equipment and right-of-use assets (included in selling and distribution expenses)	**2,970**	–
Research and development expenditure (included in other expenses)	**189,742**	185,430
Net changes in allowance for inventories (included in cost of sales) *(note ii)*	**25,943**	4,366
Impairment loss on trade and other receivables	**19,228**	1,064

notes:

(i) For the years ended December 31, 2022 and 2021, 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$11,286,000 (2021: US$5,031,000) was debited to the consolidated income statement for the year ended December 31, 2022 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, 2022 included severance costs of approximately US$61,816,000 (2021: nil) (included in other expenses) arising from factory adjustments in the manufacturing side.

7. DIVIDENDS

	2022	2021
	US$'000	*US$'000*
Dividends recognized as distribution during the year:		
2021 Final dividend of HK$0.20 per share	**40,991**	–
2022 Interim dividend of HK$0.40 per share	**82,045**	–
	123,036	–

The board of directors of the Company (the "Board") has resolved to declare a final dividend of HK$0.70 per share for the year ended December 31, 2022 (2021: HK$0.20 per share) for shareholders whose names appear on the register of members of the Company on June 2, 2023. The proposed final dividend of approximately HK$1,127,043,000 shall be paid on June 21, 2023.

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

8. EARNINGS PER SHARE

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

	2022	2021
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**296,347**	115,072

	2022	2021
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,609,909,915**	1,610,445,518
Effect of dilutive potential ordinary shares:		
– Unvested awarded shares	**1,285,863**	1,656,370
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,611,195,778**	1,612,101,888

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.

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$934,027,000 (2021: US$957,241,000) 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:

	2022	2021
	US$'000	*US$'000*
0 to 30 days	**649,294**	641,709
31 to 90 days	**281,494**	304,773
Over 90 days	**3,239**	10,759
	934,027	957,241

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$426,930,000 (2021: US$648,527,000) and an aged analysis presented based on the invoice date/issuance date of the bills at the end of the reporting period is as follows:

	2022	2021
	US$'000	*US$'000*
0 to 30 days	**276,970**	532,598
31 to 90 days	**93,393**	105,896
Over 90 days	**56,567**	10,033
	426,930	648,527

11. FINANCIAL GUARANTEE CONTRACTS

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

	2022	2021
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**22,500**	27,771
– amount utilized	**13,572**	10,594
(ii) an associate		
– amount guaranteed	**20,700**	16,200
– amount utilized	**7,349**	15,750

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 associate, 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, 2022 and 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. It has long-standing relations and a reputation for serving leading international brands, including Nike, adidas, Asics, New Balance, Timberland and Salomon at the highest level. The Group's production capacity located across the globe is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary Pou Sheng International (Holdings) Limited ("Pou Sheng").

In 2022, the Group proved its resilience and delivered solid results within an exceptional and unpredictable industry environment. Durable global demand for its high-end footwear products and a low-base effect stemming from disruptions to its Vietnam operations in the third quarter of 2021 supported the high growth momentum of its manufacturing business throughout most of 2022. Momentum decelerated in the last quarter of 2022 as global demand softened amid high inventory loads, and thus hindered the Group's order visibility and capacity utilization in the short term.

The Group retained its highly agile capacity allocation strategy amid the uncertain and volatile environment. It continued to oversee accelerated pricing growth during the year as it prioritized quality growth and higher value-added orders by leveraging the ongoing 'athleisure' and premiumization trends, while further optimizing production allocation. Furthermore, economies of scale helped push up operating leverage, which together with stringent cost control measures supported a decent improvement in the profitability of the Group's manufacturing business during 2022.

The Group's retail subsidiary Pou Sheng faced an immensely challenging operating environment in 2022. Despite starting off the year strongly, escalating control measures across mainland China later in the year led to a severe decline in retail store traffic and softer consumer sentiment, especially at higher-end shopping venues in higher-tier cities where Pou Sheng operates. Pressures from the pandemic also impacted logistics and last-mile delivery in some instances. Encouragingly, sales at the end of December recovered sequentially with improving store traffic flows in selective regions, despite a bumpy path of re-openings during the last two months of the year. Pou Sheng continued to accelerate its digital transformation to offset its sluggish in-store performance, further strengthening its online channels including its public and private traffic domains. It intensified its collaboration with brand partners to enhance inventory integration, support membership growth and create more seamless customer experiences. It also continued to progress its retail refinement strategy and further streamline and upgrade its brick-and-mortar network to contain costs and enhance efficiency, paving the way for its future recovery. For more details on the financials and strategies of the Group's retail business, please refer to the annual results announcement of Pou Sheng.

As a responsible leader in the footwear industry, Yue Yuen is a member of the World Federation of the Sporting Goods Industry ("WFSGI") and supports the principles of the WFSGI Code of Conduct, while also advocating for the United Nations Global Compact ("UNGC") and key Sustainable Development Goals ("SDGs"). The Group remains committed to sustainability, ethical conduct and its corporate values. Whenever making important business decisions, the Group considers the interests of all stakeholders, 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.

The Group's efforts on sustainable manufacturing have been recognized by a number of distinguished external parties in 2022. Yue Yuen was designated as one of the 'Climate Leaders in Asia-Pacific' in 2022 by the Financial Times and Statista; its CDP Climate Change Score was also upgraded to 'B' (Management) level; and it maintained its resilient 'BBB' MSCI ESG rating, reflecting its efforts and that of its parent company, Pou Chen Corporation ("Pou Chen"), in setting targets and taking action to enhance sustainability, good working relationships and corporate governance.

As a people-oriented business, the Group abides by its Code of Conduct and is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. Its parent company Pou Chen has continued to receive accreditation by the Fair Labor Association ("FLA"). It also places the health, safety and welfare of all employees as a top priority, fostering human rights in its workplace and fair compensation. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social and governance, please refer to the 2022 Environmental, Social and Governance Report of the Company.

Results of Operations

In the year ended December 31, 2022, the Group recorded revenue of US$8,970.2 million, representing an increase of 5.1% compared with the previous year, with the mostly solid growth of its manufacturing business being partially offset by weak retail sales in mainland China amidst volatile retail sentiment due to pandemic outbreaks and control measures during the year. The profit attributable to owners of the Company was US$296.3 million, an increase of 157.5% compared to a profit attributable to owners of the Company of US$115.1 million recorded for the previous year. The profit attributable to owners of the manufacturing business increased by 257.0% to US$288.1 million, while the profit attributable to owners of Pou Sheng decreased by 75.0% to RMB89.2 million. Basic earnings per share for the year under review was 18.41 US cents, as compared to 7.15 US cents for the previous year.

Revenue Analysis

In the year ended December 31, 2022, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) increased by 28.2% to US$5,706.6 million, compared with the previous year. The volume of shoes shipped during the year was 272.7 million pairs, representing an increase of 14.4% which was attributed to solid global demand for its footwear products, together with a low-base effect following disruptions to its Vietnam operations in the third quarter of the previous year. The average selling price increased by a robust 12.0% to US$20.93 per pair, 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 orders.

The Group's athletic/outdoor shoes category accounted for 85.7% of footwear manufacturing revenue in the year ended December 31, 2022. Casual shoes and sports sandals accounted for 14.3% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 54.5% of total revenue, followed by casual shoes and sports sandals, which accounted for 9.1% 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 year ended December 31, 2022 was US$6,203.1 million, representing an increase of 26.2% as compared with the previous year.

In the year ended December 31, 2022, revenue attributed to Pou Sheng declined by 23.5% to US$2,767.1 million, compared to US$3,619.3 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue decreased by 20.2% to RMB18,638.0 million, compared to RMB23,350.2 million in the previous year, despite a strong start to the year 2022 and the solid performance of its Pan-WeChat Ecosphere. The decline was mainly attributed to soft consumer sentiment and volatile foot traffic in the shopping venues and cities where Pou Sheng operates following control measures introduced by local governments across mainland China. As of December 31, 2022, Pou Sheng had 4,093 directly operated retail outlets and 3,200 sub-distributors stores across the Greater China region, representing an overall net closure of 1,124 stores as compared with the 2021 year-end. The net closure is in line with Pou Sheng's retail refinement strategy that focuses on streamlining and refining store networks to enhance efficiency. It has also leveraged its operational expertise, adopting a more holistic approach and prioritizing selective high-quality openings with business partners. As a result, the contribution of quality larger-format stores (above 300 m^2) to Pou Sheng's directly-operated store count rose to 18.6% (2021: 16.2%).

Total Revenue by Category

	For the year ended December 31,				
	2022		2021		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes	**4,890.5**	**54.5**	3,762.2	44.1	30.0
Casual Shoes & Sports Sandals	**816.1**	**9.1**	688.3	8.1	18.6
Soles, Components & Others	**496.5**	**5.5**	463.5	5.4	7.1
Pou Sheng*	**2,767.1**	**30.9**	3,619.3	42.4	(23.5)
Total Revenue	**8,970.2**	**100.0**	8,533.3	100.0	5.1

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

Manufacturing orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. Reducing lead times in response to the fast fashion trend remains at the core of many customers' long-term success, with an increasing number of orders requesting shorter lead times of between 30-45 days. Nevertheless, the short-term priorities of some customers are capacity stability and product availability, as well as on-time delivery, alongside uncertainties in the short term.

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

Production Review

In 2022, the Group's manufacturing business shipped a total of 272.7 million pairs of shoes, an increase of 14.4% compared to the 238.3 million pairs shipped in the previous year. The average selling price per pair was US$20.93, a marked increase of 12.0% as compared to US$18.68 for the previous year, led by resilient demand in high-value orders.

In terms of production allocation, Vietnam, Indonesia and mainland China continued to be the Group's main production locations by shoe volume in 2022, representing 38%, 46%, and 10% of total shoe shipments, respectively.

Cost Review

With respect to the cost of goods sold for the Group's manufacturing business in 2022, total main material costs were US$2,368.2 million (2021: US$1,824.4 million). Direct labor costs and production overheads were US$2,690.6 million (2021: US$2,327.8 million). The total cost of goods sold by the Group's manufacturing business was US$5,058.8 million (2021: US$4,152.2 million). For the Group's retail business, Pou Sheng, stock costs were US$1,774.2 million in 2022 (2021: US$2,332.9 million).

In the year ended December 31, 2022, the Group's gross profit increased by 4.3% to US$2,137.2 million. The overall gross profit margin decreased by 0.2 percentage points to 23.8%.

The gross profit of the manufacturing business increased by 50.2% to US$1,144.3 million. The gross profit margin of the manufacturing business expanded to 18.4%, an increase of 2.9 percentage points as compared with the previous year, with the gross profit margin improving sequentially on a quarter-on-quarter basis in the first three quarters of the year and maintaining a solid trend in the final quarter when headwinds impacted the Group's capacity utilization due to softer demand. The increase in the full-year gross profit margin of the manufacturing business for 2022 was attributed to improved capacity utilization and production efficiency for most of the year, better operating leverage brought by a recovery in sales scale, a low-base effect following disruptions to its Vietnam operations in the third quarter of 2021, stringent cost control measures, as well as agile balancing of demand and capacity. The foreign exchange trend was also favorable, benefiting part of the Group's local production costs in Southeast Asia during the second half of year 2022.

Cost of Goods Sold Analysis – Manufacturing Business

	For the year ended December 31,				
	2022		2021		*change*
	US$ million	*%*	*US$ million*	*%*	*%*
Main Material Costs	**2,368.2**	**46.8**	1,824.4	43.9	29.8
Direct Labor Costs & Production Overheads	**2,690.6**	**53.2**	2,327.8	56.1	15.6
Total Cost of Goods Sold	**5,058.8**	**100.0**	4,152.2	100.0	21.8

Pou Sheng's gross profit margin increased by 0.4 percentage points to 35.9% in 2022 as compared to the previous year. The resilient year-on-year performance was mainly attributed to an enhanced channel mix within the current volatile retail environment.

The Group's total selling and distribution expenses for 2022 amounted to US$988.5 million (2021: US$1,189.5 million), equivalent to approximately 11.0% (2021: 13.9%) of revenue. Administrative expenses for 2022 were US$609.1 million (2021: US$611.9 million), equivalent to approximately 6.8% (2021: 7.2%) of revenue. Following the Group's efforts in cost control and efficiency enhancement, the expenses to revenue ratios stated above decreased as compared with the previous year.

Other income for 2022 decreased by 6.3% to US$131.3 million (2021: US$140.1 million), equivalent to approximately 1.5% (2021: 1.6%) of revenue. Other expenses increased by 12.7% to US$254.1 million (2021: US$225.4 million), equivalent to approximately 2.8% (2021: 2.6%) of revenue.

Recurring Profit Attributable to Owners of the Company

In the year ended December 31, 2022, the Group recognized a non-recurring profit attributable to owners of the Company of US$4.5 million, due to a gain of US$8.9 million on 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, largely offset by a loss due to fair value changes on investment properties. In 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 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.

Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the year ended December 31, 2022 increased substantially by 363.1% to US$291.9 million, compared to a recurring profit attributable to owners of the Company of US$63.0 million for the previous year.

Product Development

In the year ended December 31, 2022, the Group spent US$189.7 million (2021: US$185.4 million) on product development, including investments in sampling and digital prototyping, technological and process engineering, as well as production efficiency enhancements. For each of the major brand customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes and lead times, formulate new techniques to produce high-quality footwear, and 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$907.9 million in 2022 (2021: US$463.1 million). Free cash flow amounted to US$703.6 million (2021: US$177.1 million). During the year under review, net cash used in investing and financing activities amounted to US$92.3 million (2021: US$96.8 million) and US$627.3 million (2021: US$431.3 million) respectively. Overall net increase in cash and cash equivalents amounted to US$188.3 million (2021: net decrease US$65.0 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at December 31, 2022, the Group had bank balances and cash of US$1,018.3 million* (December 31, 2021: US$838.0 million) and total bank borrowings of US$1,434.9 million (December 31, 2021: US$1,717.1 million). The Group's gearing ratio (total bank borrowings to total equity) was 30.9% (December 31, 2021: 37.3%). As at December 31, 2022, the Group had net borrowing of US$416.7 million (December 31, 2021: US$879.1 million) and a net gearing ratio (net bank borrowings to total equity) of 9.0% (December 31, 2021: 19.1%). As at December 31, 2022, the Group had current assets of US$4,143.5 million (December 31, 2021: US$4,519.4 million) and current liabilities of US$2,003.3 million (December 31, 2021: US$2,468.5 million). The current ratio was 2.1 as at December 31, 2022 (December 31, 2021: 1.8).

* *Ending bank balances and cash as at December 31, 2022 included bank deposits with original maturity over three months which amounted to US$23.5 million.*

Funding and Capital Structure

The Group principally meets its current and future working capital, capital expenditure and other investment requirements through a combination of funding sources, including cash flows from operations and bank borrowings. With regard to the choice of debt versus equity financing, which would thus affect its capital structure, the Group will consider the impact on its weighted average cost of capital and its leverage ratio, etc., with an aim of lowering the weighted average cost of capital while maintaining its gearing ratio at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the maturity profile of loans, most of the bank loans for the Group's manufacturing business were long-term committed facilities that partly meet the funding needs of its capital expenditures and long-term investments. Short-term revolving loan facilities were also utilized regularly for daily working capital purposes, especially for the Group's retail business. At present, the Group maintains an abundant level of bank facilities to meet its working capital needs. As of December 31, 2022, around 80.4% of the Group's total bank borrowings were long-term bank loans while around 64.7% 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 2022, the Group's overall capital expenditure reached US$204.3 million (2021: US$286.0 million). The capital expenditure for the Group's manufacturing business was US$158.0 million (2021: US$215.9 million), as it adopted a disciplined approach to push forward with its capital expenditure program targeting the strategic expansion and optimization of its manufacturing capacity under an uncertain macro environment backdrop.

As for investments in its retail business Pou Sheng, capital expenditure declined to US$46.3 million in 2022 (2021: US$70.1 million), in line with its channel optimization strategy. Pou Sheng continued its selective and prudent approach of strategically opening and upgrading experience-driven retail stores that provide a better shopping experience and enhance store productivity, as well as investing in the further optimization of both its online and physical networks to capture growth opportunities in the Greater China region.

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

There were no significant investments held during 2022 and as at the date of this announcement.

Apart from investments for operation purposes, which may be made in the ordinary and usual course of business, the Group may explore potential opportunities to invest for its sustainable growth, and may have plans for making material investments or acquiring capital assets in the future.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group did not have material acquisitions or disposals of subsidiaries, associates and joint ventures during 2022 and as at the date of this announcement.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and an associate, the detail of which can be seen in Note 41 to the consolidated financial statements in the 2022 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.

Share of Results of Associates and Joint Ventures

In 2022, the share of results of associates and joint ventures was a combined profit of US$62.6 million, compared to a combined profit of US$11.8 million in the previous year.

Dividends

The Board has resolved to declare a final dividend of HK$0.70 per share (2021: HK$0.20 per share) for shareholders whose names appear on the register of members of the Company on Friday, June 2, 2023. The final dividend shall be paid on Wednesday, June 21, 2023.

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

Employees

As at December 31, 2022, the Group had approximately 310,000 employees employed across all regions in which it operates, a decrease of 2.3% as compared to approximately 317,200 employees employed as at December 31, 2021. 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 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 remains optimistic about the prospects of its manufacturing business in the long term. However, many headwinds are impacting the global macroeconomic environment, including inflation, rising interest rates and other uncertainties. This is continuing to result in soft global demand and low visibility that combined together with high inventory levels will weigh on the near-term performance of the Group's manufacturing business. With the short-term demand outlook for footwear remaining cloudy and the magnitude of order recovery uncertain, the Group will continue to actively manage its supply chain and its manufacturing capacity to balance demand, its order pipeline and labor supply to control risk. It will sustain its efficiency and productivity, as well as the highest level of flexibility and agility, by leveraging its core strengths, adaptability, and competitive edges to overcome any short-term disruptions and safeguard its profitability.

The Group will also strengthen its mid-term capacity allocation strategy of continuing to diversify its manufacturing capacity in regions such as Indonesia and other potential countries where labor supply and infrastructure are supportive of sustainable growth once demand recovers. It will continue to exploit its strategy of prioritizing value growth, leveraging the 'athleisure' and premiumization trends to seek more high value-added orders with a better product mix.

The Group will continue to pursue its long-term digital transformation strategy with an aim of achieving operational excellence through digital lean management, having rolled out a new wave of SAP ERP implementation coupled with the implementation of other real-time data applications and remote monitoring systems. It will also continue to 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, eco-friendliness, more efficient turnaround times, on-time delivery and end-to-end capabilities. This includes enabling digital prototyping and production simulations, 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 Operational Control Procedures ("OCP") and Distributed Resource Scheduler ("DRS") to optimize its ongoing eco-intelligent and smart manufacturing strategy.

Following the easing of control measures and benefiting from an earlier Chinese New Year, the Group's retail business, Pou Sheng, has seen sound recovery momentum and improved in-store traffic and purchase intent in certain regions. The Group is cautiously optimistic about a recovery of Pou Sheng, despite the likelihood of short-term volatility in consumer confidence. The prospects of the sports industry remain bright. It will continue to refine its growth strategies and pursue its own digital transformation by further strengthening and diversifying its omni-channels, as well as elevating digitally-enabled physical stores. It is actively expanding its strategic alliance with its brand partners, many of whom are long-term customers of the Group's manufacturing business, in ways that support inventory integration, loyalty and membership growth, increase in-season sales, and accelerate the sales cycle to ensure better profitability and operating efficiency. 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, 2022, 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 1,500,000 shares in the Company at a total consideration of approximately HK$18,516,000 (equivalent to approximately US$2,366,000).

CORPORATE GOVERNANCE

During the year ended December 31, 2022, 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. Chan Lu Min, Mr. Lin Cheng-Tien and Mr. Chen Chia-Shen will retire by rotation and except for Mr. Chen Chia-Shen, who has informed the Company that he will not offer himself for re-election and will therefore retire as a Director upon conclusion of the forthcoming annual general meeting of the Company ("2023 AGM") due to his other commitments, Mr. Chan Lu Min and Mr. Lin Cheng-Tien, being eligible, will offer themselves for re-election at the 2023 AGM.

In accordance with Bye-law 86(2) of the Bye-laws, Mr. Shih Chih-Hung who was appointed as an executive director and the chief financial officer of the Company shall hold office until 2023 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 2023 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2022 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, 2022.

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, 2022 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, 2022, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2022 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, 2023. 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 2023 AGM will be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on May 25, 2023 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 2023 AGM

For determining the entitlement of the shareholders of the Company to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Friday, May 19, 2023 to Thursday, May 25, 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Thursday, May 18, 2023 in order to be eligible to attend and vote at the 2023 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 Friday, June 2, 2023 to Tuesday, June 6, 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Thursday, June 1, 2023 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, 2023

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. 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.

Website: www.yueyuen.com