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, 2023

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2023. 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, 2023 was approximately US$50.8 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, 2023 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, 2023

	For the three months ended March 31,	
	2023	2022
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Revenue	**2,107,446**	2,394,369
Cost of sales	**(1,609,823)**	(1,826,084)
Gross profit	**497,623**	568,285
Other income	**36,114**	29,980
Selling and distribution expenses	**(241,625)**	(290,225)
Administrative expenses	**(142,668)**	(142,955)
Other expenses	**(63,504)**	(51,961)
Finance costs	**(22,656)**	(12,149)
Share of results of associates	**10,013**	11,025
Share of results of joint ventures	**3,707**	2,428
Other gains and losses	**2,740**	6,490
Profit before taxation	**79,744**	120,918
Income tax expense	**(13,853)**	(23,800)
Profit for the period	**65,891**	97,118
Attributable to:		
Owners of the Company	**50,844**	88,576
Non-controlling interests	**15,047**	8,542
	65,891	97,118

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2023

	For the three months ended March 31,	
	2023	2022
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Profit for the period	**65,891**	97,118
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	**917**	(4,509)
Share of other comprehensive (expense) income of associates	**(3,761)**	6,837
	(2,844)	2,328
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**10,146**	2,554
Share of other comprehensive income (expense) of associates and joint ventures	**1,183**	(4,865)
	11,329	(2,311)
Other comprehensive income for the period	**8,485**	17
Total comprehensive income for the period	**74,376**	97,135
Total comprehensive income for the period attributable to:		
Owners of the Company	**55,442**	87,391
Non-controlling interests	**18,934**	9,744
	74,376	97,135

Basis of preparation and principal accounting policies

The unaudited consolidated results for the three months ended March 31, 2023 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 new and 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, 2023 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2022.

In the current period, the Group has applied, for the first time, certain new and 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, 2023 for the preparation of the Group's unaudited consolidated results for the three months ended March 31, 2023. Of these, amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction are relevant to the Group's unaudited consolidated results for the three months ended March 31, 2023. Upon the application of the amendments, the Group recognized a deferred tax asset associated with the lease liabilities amounting to approximately US$112 million and approximately US$82 million at January 1, 2022 and December 31, 2022 respectively and a deferred tax liability associated with the right-of-use assets amounting to approximately US$107 million and approximately US$77 million at January 1, 2022 and December 31, 2022 respectively. There is no effect on the opening balance of retained profits at January 1, 2022 and January 1, 2023. Details of the changes in accounting policies are discussed in Note 2 to the consolidated financial statements in the 2022 annual report of the Company. Other than that, the adoption of the new and amendments to HKFRSs does not have material impact on the Group's unaudited consolidated results and financial positions for the current or prior periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's manufacturing business faced pressure in the first quarter of 2023, although the underlying fundamentals of the business remained intact. The global macroeconomic outlook and other uncertainties pushed down the short-term demand for global footwear products. A weak order book impacted the capacity utilization rate and operating efficiency of the manufacturing business, resulting in operating deleverage that affected its profitability. As it works through these short-term impacts, the Group continued to optimize its production allocation, agilely balancing its capacity and demand to safeguard its ongoing profitability.

The Group's retail subsidiary, Pou Sheng International (Holdings) Limited ("Pou Sheng") continued its recovery momentum with shopping mall footfall and in-store traffic recovering gradually following the lifting of all control measures in mainland China. It also benefited from a low base effect stemming from the escalation of lockdowns in late March last year. At the same time, Pou Sheng continued to progress its retail refinement strategy and efficiency enhancements, accelerate its digital transformation, and further strengthen its omni-channel integration and upgrades, forging a seamless shopping experience. For more financial details of the Group's retail business, please refer to the results announcement of Pou Sheng.

Revenue Analysis

In the three months ended March 31, 2023, the Group recorded revenue of US$2,107.4 million, representing a decline of 12.0% compared to revenue of US$2,394.4 million in the same period of 2022, due to weakness in its manufacturing business resulting from softer global demand for footwear amid relatively high inventory levels across the industry.

For the three months ended March 31, 2023, the revenue attributable to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) decreased by 16.8% to US$1,159.7 million, compared with the corresponding period of last year. The volume of shoes shipped during the period decreased by 24.0% to 53.9 million pairs due to soft global demand and a high base effect. The average selling price increased by 9.6% to US$21.53 per pair as compared with the corresponding period of last year, led by relatively resilient demand for the Group's high-end footwear.

The Group's athletic/outdoor shoes category accounted for 87.6% of footwear manufacturing revenue in the three months ended March 31, 2023. Casual shoes and sports sandals accounted for 12.4% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 48.2% of total revenue, followed by casual shoes and sports sandals, which accounted for 6.8% 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 three months ended March 31, 2023, was US$1,255.0 million, representing a decrease of 18.1% as compared with the corresponding period of last year.

For the three months ended March 31, 2023, the revenue attributable to Pou Sheng slightly decreased by 1.2% to US$852.4 million, compared to US$862.5 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 6.5% to RMB5,837.6 million, compared to RMB5,480.6 million in the corresponding period of last year, supported by a sequential recovery of purchasing intent and foot traffic across mainland China.

Total Revenue by Category

	For the three months ended March 31,				
	2023		2022		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes	**1,015.6**	**48.2**	1,185.5	49.5	(14.3)
Casual Shoes & Sports Sandals	**144.1**	**6.8**	208.7	8.7	(31.0)
Soles, Components & Others	**95.3**	**4.5**	137.7	5.8	(30.8)
Pou Sheng*	**852.4**	**40.5**	862.5	36.0	(1.2)
Total Revenue	**2,107.4**	**100.0**	2,394.4	100.0	(12.0)

* *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 three months ended March 31, 2023, the Group's gross profit decreased by 12.4% to US$497.6 million led by the decline in revenue, while the gross profit of the manufacturing business decreased by 19.4% to US$211.4 million. The gross profit margin of the manufacturing business fell to 16.8%, representing just a slight decline of 0.3 percentage points as compared to the corresponding period in 2022, which was mostly attributed to the negative impact of the reduced capacity utilization rate resulting from weaker demand, which was largely offset by the Group's efforts in cost-reduction and efficiency-improvement, as well as flexible production scheduling.

The gross profit margin for Pou Sheng decreased by 1.9 percentage points to 33.6%, as compared to the corresponding period of 2022, attributed to discounted clearance of aging inventory.

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

For the three months ended March 31, 2023, the Group's total selling and distribution expenses amounted to US$241.6 million (2022: US$290.2 million), equivalent to approximately 11.5% (2022: 12.1%) of revenue.

Administrative expenses were US$142.7 million (2022: US$143.0 million), equivalent to approximately 6.8% (2022: 6.0%) of revenue.

Other income increased by 20.3% to US$36.1 million (2022: US$30.0 million), equivalent to approximately 1.7% (2022: 1.3%) of revenue. Other expenses increased by 22.1% to US$63.5 million (2022: US$52.0 million), equivalent to approximately 3.0% (2022: 2.2%) of revenue.

Share of Results of Associates and Joint Ventures

For the three months ended March 31, 2023, the share of results of associates and joint ventures was a combined profit of US$13.7 million, compared to a combined profit of US$13.4 million recorded in the corresponding period of last year.

Profit Attributable to Owners of the Company

For the three months ended March 31, 2023, the profit attributable to owners of the Company amounted to US$50.8 million, representing a decrease of 42.6% as compared with that of US$88.6 million recorded in the corresponding period of last year. The recurring profit attributable to owners of the Company was US$48.1 million, representing a decrease of 41.4% as compared with US$82.1 million for the corresponding period of last year.

For the three months ended March 31, 2023, the Group recognized a non-recurring profit attributable to owners of the Company of US$2.7 million, representing a decrease of 58.5% as compared to the US$6.5 million recognized in the same period of 2022. The decrease was mainly due to the decline in gains on fair value changes on financial instruments at fair value through profit or loss.

Outlook

The Group remains optimistic about the long-term prospects of its manufacturing business. However, current macroeconomic headwinds and high inventory levels across the industry will continue to weigh on order visibility and global demand for footwear in the near term. The Group will continue to proactively monitor the situation and dynamically allocate 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 safeguard its profitability. The Group will also focus on cost control and cash flow management to ensure the healthiness of its liquidity and financial position.

The Group remains committed to its mid to long-term capacity allocation strategy of diversifying its manufacturing capacity in regions such as Indonesia and India where labor supply and infrastructure are supportive of sustainable growth. 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.

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

Hong Kong, May 10, 2023

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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