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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, 2023

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the nine months ended September 30, 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 nine months ended September 30, 2023 was approximately US$137.7 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, 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 nine months ended September 30, 2023

	For the nine months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Revenue	**5,986,621**	6,971,820
Cost of sales	**(4,577,038)**	(5,313,880)
Gross profit	**1,409,583**	1,657,940
Other income	**99,065**	89,384
Selling and distribution expenses	**(680,417)**	(773,014)
Administrative expenses	**(421,173)**	(447,234)
Other expenses	**(175,132)**	(189,342)
Finance costs	**(64,969)**	(45,764)
Share of results of associates	**35,571**	41,320
Share of results of joint ventures	**11,809**	12,880
Other gains and losses	**3,658**	7,247
Profit before taxation	**217,995**	353,417
Income tax expense	**(56,290)**	(81,134)
Profit for the period	**161,705**	272,283
Attributable to:		
Owners of the Company	**137,676**	270,120
Non-controlling interests	**24,029**	2,163
	161,705	272,283

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2023

	For the nine months ended September 30,	
	2023	2022
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Profit for the period	**161,705**	272,283
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity instruments at fair value through other comprehensive income	**(1,336)**	(12,174)
Share of other comprehensive expense of associates	**(13,182)**	(2,424)
Remeasurement of defined benefit obligations, net of tax	**–**	485
	(14,518)	(14,113)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(61,790)**	(143,970)
Share of other comprehensive expense of associates and joint ventures	**(6,764)**	(25,538)
	(68,554)	(169,508)
Other comprehensive expense for the period	**(83,072)**	(183,621)
Total comprehensive income for the period	**78,633**	88,662
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	**78,102**	140,884
Non-controlling interests	**531**	(52,222)
	78,633	88,662

Basis of preparation and principal accounting policies

The Group's unaudited consolidated results for the nine months ended September 30, 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 Group's unaudited consolidated results for the nine months ended September 30, 2023 are the same as those presented in the Group's annual consolidated 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 nine months ended September 30, 2023. Of these, amendments to Hong Kong Accounting Standard ("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 nine months ended September 30, 2023. Details of the impacts and changes in accounting policies on application of amendments to HKAS 12 are discussed in Note 2 of the interim report of the Company for the six months ended June 30, 2023. 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

In the third quarter of 2023, the global demand for footwear remained subdued amid the concerning macroeconomic environment. Despite the global footwear industry expecting to see some signs of emerging from the current inventory destocking cycle, conservative ordering activity and low season effects resulted in below-average order fill rates that continued to impact the short-term performance of the Group's manufacturing business. Nevertheless, the various cost-reduction and efficiency-improvement measures carried out by the Group year-to-date have helped to partially offset the effects of operating deleverage, and its manufacturing business proved its ongoing resilience with a sequential improvement in profitability in the third quarter.

Despite the ongoing uncertainties in the economy, the fundamental strengths of the Group's manufacturing business remain intact. To combat the short-term pressures, the Group continued to implement its highly agile capacity allocation strategy and flexibly adjusted its manpower to match demand. It also implemented strict cost control measures while enhancing productivity where possible to safeguard the profitability of its manufacturing business.

Sales momentum at the Group's retail subsidiary, Pou Sheng International (Holdings) Limited ("Pou Sheng") softened sequentially during the third quarter of 2023 due to volatile store traffic in several parts of mainland China, with the base from the corresponding period of last year also turning higher. Nevertheless, omni-channel sales, particularly those transacted through private domain channels, remained resilient as Pou Sheng pressed ahead with its digital transformation alongside its ongoing retail refinement strategy. For more financial details of the Group's retail business, please refer to the results announcement of Pou Sheng.

Revenue Analysis

For the nine months ended September 30, 2023 (the "Period"), the Group recorded revenue of US$5,986.6 million, representing a decline of 14.1% compared to revenue of US$6,971.8 million in the same period of 2022, mostly due to the weak performance of its manufacturing business resulting from soft global demand for footwear amid the ongoing industry-wide inventory digestion cycle, offsetting the recovery of Pou Sheng.

For the Period under review, revenue attributable to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) decreased by 20.4% to US$3,494.5 million, compared with the corresponding period of last year. The volume of shoes shipped during the Period decreased by 24.5% to 160.9 million pairs due to soft global demand and a high base effect. The average selling price increased by 5.3% to US$21.71 per pair as compared with the corresponding period of last year, with relatively resilient demand for the Group's high-end footwear helping offset the impact of a volatile base period.

The Group's athletic/outdoor shoes category accounted for 86.7% of footwear manufacturing revenue in the Period under review. Casual shoes and sports sandals accounted for 13.3% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 50.6% of total revenue, followed by casual shoes and sports sandals, which accounted for 7.8% 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 Period under review, was US$3,792.8 million, representing a decrease of 20.9% as compared with the corresponding period of last year.

For the Period under review, the revenue attributable to Pou Sheng increased by 0.7% to US$2,193.8 million, compared to US$2,178.4 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 7.3% to RMB15,443.7 million, compared to RMB14,393.6 million in the corresponding period of last year, supported by an overall recovery of the sales environment and foot traffic at its retail stores across mainland China, the resilient performance of its omni-channels, particularly its Pan-WeChat Ecosphere, as well as a low base effect.

Total Revenue by Category

	For the nine months ended September 30,				
	2023		2022		change
	US$ million	**%**	*US$ million*	%	%
Athletic/Outdoor Shoes	**3,030.1**	**50.6**	3,750.3	53.8	(19.2)
Casual Shoes & Sports Sandals	**464.4**	**7.8**	638.8	9.2	(27.3)
Soles, Components & Others	**298.3**	**5.0**	404.3	5.8	(26.2)
Pou Sheng*	**2,193.8**	**36.6**	2,178.4	31.2	0.7
Total Revenue	**5,986.6**	**100.0**	6,971.8	100.0	(14.1)

* *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 Period under review, the Group's gross profit decreased by 15.0% to US$1,409.6 million led by the decline in revenue, while the gross profit of the manufacturing business decreased by 21.6% to US$683.9 million. The gross profit margin of the manufacturing business remained largely stable, decreasing by 0.2 percentage points to 18.0% as compared to the corresponding period of 2022, which was mainly attributed to the effectiveness of the Group's cost-reduction and efficiency-improvement efforts, flexible production scheduling, and the dynamic optimization of manpower versus demand, all of which helped to offset most of the negative impact of the reduced capacity utilization rate resulting from weaker demand.

Despite well-managed discount control, the gross profit margin for Pou Sheng decreased by 2.9 percentage points to 33.1% in the Period under review, as compared to the corresponding period of 2022, due to a negative channel mix.

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

For the Period under review, the Group's total selling and distribution expenses amounted to US$680.4 million (2022: US$773.0 million), equivalent to approximately 11.4% (2022: 11.1%) of revenue.

Administrative expenses were US$421.2 million (2022: US$447.2 million), equivalent to approximately 7.0% (2022: 6.4%) of revenue.

Other income increased by 10.8% to US$99.1 million (2022: US$89.4 million), equivalent to approximately 1.7% (2022: 1.3%) of revenue. Other expenses decreased by 7.5% to US$175.1 million (2022: US$189.3 million), equivalent to approximately 2.9% (2022: 2.7%) of revenue. During the Period, the Group made necessary adjustments to its manufacturing business to combat volatile capacity utilization and as part of its long-term capacity allocation plan. The related severance expenses amounted to approximately US$30.5 million.

Share of Results of Associates and Joint Ventures

For the Period under review, the share of results of associates and joint ventures was a combined profit of US$47.4 million, compared to a combined profit of US$54.2 million recorded in the corresponding period of last year.

Profit Attributable to Owners of the Company

For the Period under review, the profit attributable to owners of the Company amounted to US$137.7 million, representing a decrease of 49.0% as compared with that of US$270.1 million recorded in the corresponding period of last year.

For the Period under review, the Group recognized a non-recurring profit attributable to owners of the Company of US$3.6 million, representing a decrease of 52.0% as compared to the US$7.6 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 and no gain on disposal during the Period under review, unlike in the corresponding period of last year. As a result, excluding all items non-recurring in nature, the recurring profit attributable to owners of the Company for the Period under review was US$134.0 million, representing a decrease of 49.0% as compared with US$262.5 million for the corresponding period of last year.

Outlook

The Group is optimistic about the long-term prospects of its manufacturing business, and confident that a gradual recovery trend will emerge in the industry. However, order visibility remains cloudy and the global footwear industry is expected to remain volatile and conservative in the near term, which is attributed to brands being at different points along the destocking cycle and the uncertain macroeconomic outlook being driven by persistent inflation and elevated interest rates.

The Group will proactively monitor the situation and dynamically allocate its manufacturing capacity to balance demand, its order pipeline and labor supply, while lifting its hiring freeze and restarting its production capacity expansion plan at an appropriate time.

The Group will continue to strengthen its resilience by enhancing efficiency and productivity through its flexibility and agility strategies. It will also continue to leverage its core strengths, adaptability and competitive edges to safeguard its profitability, while remaining focused on cost control and cash flow management to ensure the healthiness of its financial position.

While the Group has adopted a disciplined approach to capital expenditure in the short term, it remains committed to its mid to long-term capacity allocation strategy, including diversifying its manufacturing capacity in regions such as Indonesia and India where labor supply and infrastructure are supportive of sustainable growth. The Group will continue to prioritize value growth and leverage the 'athleisure' and premiumization trends to seek more higher value-added orders with a better product mix.

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

Hong Kong, November 13, 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 Dr. Yang Ju-Huei.

Website: www.yueyuen.com