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## **YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED**

**裕元工業(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00551)**

### **UNAUDITED CONSOLIDATED RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2024**

#### **Summary**

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2024. 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, 2024 was approximately US\$100.0 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, 2024 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, 2024

	For the three months ended March 31,	
	2024	2023
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	2,003,622	2,107,446
Cost of sales	<u>(1,500,477)</u>	<u>(1,609,823)</u>
Gross profit	503,145	497,623
Other income	37,051	36,114
Selling and distribution expenses	(216,132)	(241,625)
Administrative expenses	(138,852)	(142,668)
Other expenses	(39,585)	(63,504)
Finance costs	(17,093)	(22,656)
Share of results of associates	10,373	10,013
Share of results of joint ventures	5,808	3,707
Other gains and losses	<u>376</u>	<u>2,740</u>
Profit before taxation	145,091	79,744
Income tax expense	<u>(34,352)</u>	<u>(13,853)</u>
Profit for the period	<u>110,739</u>	<u>65,891</u>
Attributable to:		
Owners of the Company	99,965	50,844
Non-controlling interests	<u>10,774</u>	<u>15,047</u>
	<u>110,739</u>	<u>65,891</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2024

	<b>For the three months ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
	<b>US\$'000</b>	US\$'000
Profit for the period	<u>110,739</u>	<u>65,891</u>
<b>Other comprehensive (expense) income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value changes on equity instruments at fair value through other comprehensive income	(1,056)	917
Share of other comprehensive expense of associates	<u>(406)</u>	<u>(3,761)</u>
	<u>(1,462)</u>	<u>(2,844)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	(22,467)	10,146
Share of other comprehensive (expense) income of associates and joint ventures	(6,963)	1,183
Reserve released upon partial disposal of an associate	<u>705</u>	<u>–</u>
	<u>(28,725)</u>	<u>11,329</u>
Other comprehensive (expense) income for the period	<u>(30,187)</u>	<u>8,485</u>
Total comprehensive income for the period	<u><u>80,552</u></u>	<u><u>74,376</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	78,078	55,442
Non-controlling interests	<u>2,474</u>	<u>18,934</u>
	<u><u>80,552</u></u>	<u><u>74,376</u></u>

**Basis of preparation and principal accounting policies**

The Group's unaudited consolidated results for the three months ended March 31, 2024 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.

The accounting policies applied and methods of computation used in the Group's unaudited consolidated results for the three months ended March 31, 2024 are the same as those presented in the Group's annual consolidated financial statements for the year ended December 31, 2023.

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, 2024 for the preparation of the Group's unaudited consolidated results for the three months ended March 31, 2024. The adoption of the 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 first quarter of 2024, the Group's manufacturing business saw a decent recovery in its capacity utilization rate and footwear shipment volumes as its order book started to normalize, driven by the gradual recovery of the global footwear industry. Yue Yuen's effective cost-reduction and efficiency-improvement efforts, as well as a low base effect, supported a substantial growth in profit. At the same time, it continued to implement its highly agile capacity allocation strategy, while enhancing overall productivity to further support and expand its profitability.

Meanwhile, sales momentum at the Group's retail subsidiary, Pou Sheng International (Holdings) Limited ("Pou Sheng") softened due to weak store traffic in certain parts of mainland China, while contending with a high base led by the 'revenge spending' phenomenon that followed the reopening of physical sales channels in the same period of last year. Nevertheless, omni-channel sales remained relatively resilient as Pou Sheng pressed ahead with its digital transformation strategy amid a mixed operating environment. 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, 2024 (the "Period"), the Group recorded revenue of US\$2,003.6 million, representing a decrease of 4.9% compared to revenue of US\$2,107.4 million in the corresponding period of last year.

For the Period under review, the revenue attributable to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes and sports sandals) decreased slightly by 0.9% to US\$1,149.5 million, compared with the corresponding period of last year. The volume of shoes shipped during the Period increased by 9.1% to 58.8 million pairs amid a gradual recovery trend and a more normalized order book. The average selling price decreased by 9.2% to US\$19.55 per pair as compared with the corresponding period of last year, due to a high base effect and changes to its product mix, offsetting the recovery of shipment volumes.

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 49.7% of total revenue, followed by casual shoes and sports sandals, which accounted for 7.7% 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\$1,253.9 million, remaining stable as compared with the corresponding period of last year.

For the Period under review, the revenue attributable to Pou Sheng decreased by 12.0% to US\$749.7 million, compared to US\$852.4 million in the same period of last year. In RMB terms (Pou Sheng’s reporting currency), revenue decreased by 7.5% to RMB5,400.3 million, compared to RMB5,837.6 million in the corresponding period of last year as a result of the increasingly dynamic retail environment and a high base effect, despite the relatively resilient performance of its omni-channels.

### Total Revenue by Category

	For the three months ended March 31,				change %
	2024		2023		
	US\$ million	%	US\$ million	%	
Athletic/Outdoor Shoes	996.2	49.7	1,015.6	48.2	(1.9)
Casual Shoes & Sports Sandals	153.3	7.7	144.1	6.8	6.4
Soles, Components & Others	104.4	5.2	95.3	4.5	9.5
Pou Sheng*	749.7	37.4	852.4	40.5	(12.0)
<b>Total Revenue</b>	<b>2,003.6</b>	<b>100.0</b>	<b>2,107.4</b>	<b>100.0</b>	<b>(4.9)</b>

\* 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 increased by 1.1% to US\$503.1 million, with the gross profit of the manufacturing business increasing by 20.2% to US\$254.1 million mostly offset by a decrease in the gross profit of Pou Sheng. The gross profit margin of the manufacturing business increased by 3.5 percentage points to 20.3% as compared with the corresponding period of last year, which was mainly attributed to its significantly improved capacity utilization rate, as well as its flexible production scheduling, effective cost-reduction, and efficiency-improvement efforts.

The gross profit margin for Pou Sheng in the Period under review was maintained at 33.2% with an unfavorable channel mix being offset by well-managed discount controls. The magnitude of the decline in Pou Sheng’s gross profit was in line with the decline in revenue.

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

For the Period under review, the Group’s total selling and distribution expenses decreased by 10.6% to US\$216.1 million (2023: US\$241.6 million), equivalent to approximately 10.8% (2023: 11.5%) of revenue.

Administrative expenses decreased by 2.7% to US\$138.9 million (2023: US\$142.7 million), equivalent to approximately 6.9% (2023: 6.8%) of revenue.

Other income increased by 2.8% to US\$37.1 million (2023: US\$36.1 million), equivalent to approximately 1.9% (2023: 1.7%) of revenue. Other expenses decreased by 37.6% to US\$39.6 million (2023: US\$63.5 million), equivalent to approximately 2.0% (2023: 3.0%) of revenue. As a result, the Group's net operating expenses for the Period decreased by US\$54.2 million or 13.2%.

### **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\$16.2 million, compared to a combined profit of US\$13.7 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\$100.0 million, representing an increase of 96.9% as compared with that of US\$50.8 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\$0.4 million, as compared to the US\$2.7 million recognized in the corresponding period of last year. This included a one-off gain on the partial disposal of an associate totaling US\$12.6 million, which was mostly offset by a loss of US\$5.6 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL") and a combined impairment loss of US\$6.6 million on interests in a joint venture and an associate. 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\$99.6 million, representing an increase of 107.1% as compared with US\$48.1 million for the corresponding period of last year.

### **Outlook**

The Group is optimistic about the long-term prospects of its manufacturing business and is confident that the gradual recovery trend taking place in the industry, alongside improving order visibility, will allow the further normalization of its order book. However, the global footwear industry is expected to remain unsettled in the near term amidst an uncertain macroeconomic environment driven by persistent inflation, high interest rates, as well as regional conflicts and its impact on shipping lanes.

The Group will proactively monitor the situation and adopt a comprehensive plan to increase its manufacturing manpower and capacity to balance demand, its order pipeline and labor supply. The Group will further strengthen its operational resilience by enhancing efficiency and productivity, through its highly flexible and agile strategies, and by leveraging its core strengths, adaptability and competitive edges, as well as cost and expense controls, to safeguard its profitability, while focusing on maintaining a healthy cash flow and a solid financial position.

Yue Yuen 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. It will continue to exploit its strategy of prioritizing value growth, leveraging the ‘athleisure’ trend and its integrated product development capability that combines automation technology and research and development strength to seek more high value-added orders with a solid product mix.

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

Hong Kong, May 13, 2024

*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](http://www.yueyuen.com)*