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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, 2019

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2019. 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, 2019 was approximately US\$75.5 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, 2019 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, 2019

	For the three months ended March 31,	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	2,479,385	2,287,391
Cost of sales	<u>(1,854,676)</u>	<u>(1,710,035)</u>
Gross profit	624,709	577,356
Other income	34,648	38,779
Selling and distribution expenses	(313,889)	(288,375)
Administrative expenses	(158,912)	(143,913)
Other expenses	(62,361)	(58,321)
Finance costs	(24,526)	(16,346)
Share of results of associates	1,007	3,510
Share of results of joint ventures	3,703	11,790
Other gains and losses	<u>6,245</u>	<u>4,660</u>
Profit before taxation	110,624	129,140
Income tax expense	<u>(22,550)</u>	<u>(23,853)</u>
Profit for the period	<u><u>88,074</u></u>	<u><u>105,287</u></u>
Attributable to:		
Owners of the Company	75,494	95,441
Non-controlling interests	<u>12,580</u>	<u>9,846</u>
	<u><u>88,074</u></u>	<u><u>105,287</u></u>

Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2019

	For the three months ended March 31,	
	2019 (Unaudited) US\$'000	2018 (Unaudited) US\$'000
Profit for the period	<u>88,074</u>	<u>105,287</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	6,701	(11,988)
Share of other comprehensive expense of associates	(1,988)	–
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	–	5,878
	<u>4,713</u>	<u>(6,110)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	23,512	43,517
Share of other comprehensive income of associates and joint ventures	4,763	3,587
Reserve released upon disposal of an associate	–	(902)
	<u>28,275</u>	<u>46,202</u>
Other comprehensive income for the period	<u>32,988</u>	<u>40,092</u>
Total comprehensive income for the period	<u><u>121,062</u></u>	<u><u>145,379</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	99,616	119,036
Non-controlling interests	21,446	26,343
	<u><u>121,062</u></u>	<u><u>145,379</u></u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the three months ended March 31, 2019 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 and methods of computation used in the unaudited consolidated results for the three months ended March 31, 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2018.

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 mandatory effective for the annual period beginning on or after January 1, 2019 for the preparation of the Group’s unaudited consolidated results for the three months ended March 31, 2019. Of these, HKFRS 16 “Leases” is relevant to the Company’s unaudited consolidated results for the three months ended March 31, 2019. The adoption of these new and amendments to HKFRSs does not have material impact on the Group’s results and financial positions for the current or prior periods. Details of the impacts and changes in accounting policies are discussed in Note 2 of the annual report for the year ended December 31, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded revenue of US\$2,479.4 million in the three months ended March 31, 2019, representing an increase of 8.4% compared to revenue of US\$2,287.4 million recorded in the same period in 2018.

Profit attributable to owners of the Company decreased by 20.9% to US\$75.5 million, compared to US\$95.4 million recorded in the same period in 2018. It was mainly due to a reduction of the share of results from associates and joint ventures, as well as higher finance costs during the period.

During the period, a non-recurring profit totaling US\$6.2 million was recognized, which included a gain of US\$5.9 million due to fair value changes on financial assets at fair value through profit or loss (“FVTPL”). Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company amounted to US\$69.2 million, representing a decrease of 23.7% compared to the same period in 2018.

Revenue

Total revenue attributable to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) during the period increased by 6.4% to US\$1,283.8 million, whereas the volume of shoes produced increased by 6.7% to 81.7 million pairs and the average selling price remained stable at US\$15.72 per pair, as compared with the same period of last year. As a result, the Group’s revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) during the period was US\$1,395.3 million, representing an increase of 5.0%.

Total Revenue by Product Category

	For the 3 months ended March 31,				
	2019		2018		% change
	US\$ millions	%	US\$ millions	%	
Athletic Shoes	1,017.2	41.0	938.0	41.0	
Casual/Outdoor Shoes	229.9	9.3	241.4	10.5	(4.8)
Sports Sandals	36.7	1.5	27.0	1.2	35.9
Soles, Components & Others	111.5	4.5	123.0	5.4	(9.3)
Apparel Wholesale (TCHC Group)	108.0	4.3	99.5	4.4	8.5
Retail Sales – shoes, apparel & leasing	976.1	39.4	858.5	37.5	13.7
Total Revenue	2,479.4	100.0	2,287.4	100.0	8.4

During the period, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 13.7% to US\$976.1 million, compared to US\$858.5 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first three months in 2019 increased by 19.9% to RMB6,597.0 million, compared to RMB5,502.9 million in the same period of last year.

Gross Profit

During the period, the Group's gross profit increased by 8.2% to US\$624.7 million. This increase was mostly attributed to the strong growth momentum for sportswear sales globally, with Pou Sheng also contributing to the higher revenue growth thanks to the healthy sporting goods market in China. The gross profit of the manufacturing business increased by 2.3% to US\$253.7 million whilst the gross profit margin contracted by 0.5 percentage points to 18.2%, as compared to the same period in 2018. The decrease in gross profit margin for the manufacturing business was primarily due to fluctuating order patterns resulting from changing consumer demand, as well as challenges arising from the investments in manufacturing optimization for sustainable growth, including higher level of automation and the debut of SAP ERP implementation, which resulted in temporary inefficiencies at some of its production facilities. Additionally, given the uncertainties in the global trade environment, we have and will further adjust production allocation by country in response to the changing sourcing strategies of some brand customers. These measures will require some time and resources to reach best operational efficiency.

The gross profit margin for the Group excluding Pou Sheng (i.e. the manufacturing business and TCHC Group) during the period was 19.6%.

Selling & Distribution Expenses and Administrative Expenses

The Group's total selling and distribution expenses during the period amounted to US\$313.9 million (2018: US\$288.4 million), equivalent to approximately 12.7% (2018: 12.6%) of revenue, remaining stable.

Administrative expenses for the period were US\$158.9 million (2018: US\$143.9 million), equivalent to approximately 6.4% (2018: 6.3%) of revenue.

Non-recurring Profit

During the period, the Group recorded a non-recurring profit of US\$6.2 million, which included a gain of US\$5.9 million due to fair value changes on financial assets at FVTPL and a gain of US\$0.3 million on the deemed disposal of an associate. In the same period of 2018, the Group recorded a non-recurring profit of US\$4.7 million, which included a one-off gain of US\$4.3 million on the disposal of an associate and a fair value gain of US\$0.2 million on financial assets at FVTPL.

Share of Results from Associates and Joint Ventures (“Share of A& JV”)

During the period, the share of results from associates and joint ventures was a combined profit of US\$4.7 million, compared to a combined profit of US\$15.3 million recorded in the same period of last year.

Disposal of the Texas Clothing Holding Corp.

The Board announced that on May 7, 2019, the Group entered into an agreement with an independent third party to dispose all of its interest in the Texas Clothing Holding Corp. and its subsidiaries (TCHC Group). The maximum total amount which may be received by the Group from the transaction will not exceed approximately US\$150.0 million. Immediately after the closing of the disposal, TCHC Group will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's financial statements.

Based on the audited accounts, revenue of the TCHC Group was US\$395.0 million, approximately 4.1% of the Group's consolidated revenue for the year ended December 31, 2018. The net profit after taxation for the TCHC Group was US\$17.1 million, approximately 5.0% of the Group's net profit for the year ended December 31, 2018.

The disposal is a part of the Company's efforts to remain focused on its core business. The Group is expected to recognize a gain, net of transaction expenses, of approximately US\$3.0 million from the disposal based on the estimated financial information of TCHC Group on the closing date. Up to the closing date, the estimated net proceeds arising from the disposal is approximately US\$106.0 million, which will be used for the general working capital of the Group. The shareholders and potential investors of the Company should note that the actual financial effects of the disposal to the Company may be different from the information disclosed in this announcement and can only be determined based on the financial position of TCHC Group on the closing date and is subject to valuation of the earnout amount and audit.

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

Hong Kong, May 14, 2019

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. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Huang Ming Fu, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

Website: www.yueyuen.com