Yue Yuen Industrial (Holdings) Limited

**PRESS RELEASE**

# Yue Yuen Announces 2019 First Half Results

- Revenue for the first half of 2019 rose 6.3% to US$5.07 billion, compared to US$4.77 billion in the same period last year
- Gross profit rose 6.8% to US$1.27 billion compared to US$1.19 billion for last year
- Profit Attributable to Owners of the Company grew 10.5% to US$165.9 million. Basic earnings per share grew 12.5% to 10.28 US cents
- An interim dividend of HK$0.40 per share was declared

(Hong Kong, August 13, 2019) – **Yue Yuen Industrial (Holdings) Limited** (together with its subsidiaries "the Group", stock code: 551) today announced its unaudited consolidated results for the six months ended June 30, 2019.

For the six months ended June 30, 2019, the Group recorded revenue of US$5,070.7 million, representing an increase of 6.3%, compared to the corresponding period of last year. Profit attributable to owners of the Group grew by 10.5% to US$165.9 million, as compared to US$150.1 million recorded for the corresponding period of last year. Basic earnings per share for the first half of 2019 grew by 12.5% to 10.28 US cents, compared with 9.14 US cents for the corresponding period of last year.

Excluding all items of non-recurring nature, the recurring profit for the six months ended June 30, 2019 declined by 11.8% to US$145.6 million, compared to a recurring profit of US$165.0 million for the corresponding period of last year. For the six months ended June 30, 2019, the Group recognized a non-recurring profit of US$20.3 million, as compared with a non-recurring loss of US$14.9 million in the same period of last year.

The Board is pleased to declare an interim dividend of HK$0.40 per share for the six months ended June 30, 2019 (interim 2018: HK$0.40 per share).

## Business Review

### Revenue

In the six months ended June 30, 2019, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) increased by 5.0% to US$2,690.9 million, compared with the corresponding period of last year, whereas the volume of shoes increased by 2.7% to 163.2 million pairs and the average selling price per pair increased by 2.2% US$16.49 per pair, as compared with the corresponding period of last year.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) during the first half of 2019 was US$2,930.8 million, representing an increase of 3.7% as compared to the corresponding period of last year.

**Total Revenue by Product Category**

| | For the six months ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2019** | | 2018 | | *change* |
| | ***US$ millions*** | ***%*** | *US$ millions* | *%* | *%* |
| Athletic Shoes | **2,101.5** | **41.4** | 1,996.7 | 41.9 | 5.2 |
| Casual/Outdoor Shoes | **530.3** | **10.5** | 522.3 | 11.0 | 1.5 |
| Sports Sandals | **59.1** | **1.2** | 44.6 | 0.9 | 32.5 |
| Soles, Components & Others | **239.9** | **4.7** | 261.5 | 5.5 | (8.3) |
| Apparel Wholesale (TCHC Group) | **171.8** | **3.4** | 191.5 | 4.0 | (10.3) |
| Retail Sales – Shoes, Apparel & Leasing | **1,968.1** | **38.8** | 1,752.8 | 36.7 | 12.3 |
| **Total Revenue** | **5,070.7** | **100.0** | 4,769.4 | 100.0 | 6.3 |

In the six months ended June 30, 2019, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 12.3% to US$1,968.1 million, compared to US$1,752.8 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first half of 2019 increased by 19.4% to RMB13,371.6 million, compared to RMB11,202.0 million in the corresponding period of last year. As of June 30, 2019, Pou Sheng had 5,895 directly operated retail outlets and 3,756 stores operated by sub-distributors in the PRC.

**Gross Profit**

In the six months ended June 30, 2019, the Group's gross profit increased by 6.8% to US$1,272.6 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 margin of the Group's manufacturing business contracted by 0.7 percentage points to 18.1%, as compared to the corresponding period of last year. The decrease in the gross profit margin for the manufacturing business was primarily due to a combination of increased product complexity resulting from the current 'retro fashion' trend and shifting production facilities among countries. It also resulted from challenges arising from the Group's investments in manufacturing optimization for its sustainable growth (including higher levels of automation and the debut of SAP ERP implementation), which resulted in temporary low efficiencies at some of its production facilities.

Given the uncertainties in the global trade environment, particularly the United States government's plans to implement a 10% tariff on US$300 billion of exports from the PRC that could target footwear, the Group has and will continue to 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 optimal operational efficiency.

Pou Sheng's gross profit margin expanded to 34.5% in the six months ended June 30, 2019, compared to 33.5% in the same period of last year, which was attributed to the improvement in sell-through and discounts.

**Selling & Distribution Expenses and Administrative Expenses**

The Group's total selling and distribution expenses for the first half of 2019 amounted to US$622.9 million (first half of 2018: US$582.6 million), equivalent to approximately 12.3% (first half of 2018: 12.2%) of revenue, remaining stable.

Administrative expenses for the first half of 2019 amounted to US$337.2 million (first half of 2018: US$309.1 million), equivalent to approximately 6.6% (first half of 2018: 6.5%) of revenue.

**Non-recurring (Loss) Profit**

For the six months ended June 30, 2019, the Group recognized a non-recurring profit of US$20.3 million, which included a gain of US$19.1 million from the disposal of TCHC Group and a net gain of US$1.8 million due to fair value changes on financial assets at fair value through profit or loss ("FVTPL"). By contrast, for the six months ended June 30, 2018, the Company recognized a non-recurring loss of US$14.9 million, which included a fair value loss of US$22.5 million on financial assets at FVTPL that was partly offset by a one-off gain arising from the disposal of associates and subsidiaries.

**Share of Results from Associates and Joint Ventures ("Share of A& JV")**

During the first half of 2019, the share of results from associates and joint ventures recorded a combined profit of US$18.4 million, compared to a combined profit of US$20.0 million in the corresponding period of last year.

**Significant Investments and Material Acquisitions/Disposals**

During the current interim period, the Group has disposed of its entire interests in TCHC Group. The disposal is a part of the Company's efforts to remain focused on its core business. The Group recognized a gain, net of transaction expenses, of approximately US$19.1 million from the disposal in the first six months ended June 30, 2019.

**Prospects**

The Group's manufacturing business continues to face a number of uncertainties and challenges, including changes to international trade policies, changing consumer demands such as shorter lead time, increased seasonality, and increasing product complexity. The Group also expects its operating efficiency to be impacted in the short-term as it seeks to demonstrate one of its core competencies – flexibility – by addressing the changing sourcing strategies of its branded customers, including adjustments to country of origin and dual sourcing.

The US government's plans to implement a 10% tariff on US$300 billion of exports from the PRC, which will include footwear, could further accelerate the pace of capacity migration from the PRC to Southeast Asia. Continued uncertainty about both countries' future trade policies may also impact consumer sentiment. There are also signs of slowing economic growth, particularly in some parts of the PRC's economy, although as of June 30, 2019, retail confidence and consumption were still robust. In the US, the downside risks to economic growth are increasing and may impact the retail sector. The Group is actively monitoring the macroeconomic and geopolitical situation.

The Group will continue to migrate its manufacturing capacity from the PRC to Southeast Asia, while being mindful of the labor supply situation in countries where we operate, especially in Vietnam. The Group will continue to leverage on its core strengths and competitive edges to overcome these short-term challenges and safeguard its sustainable and steady growth. This includes investing in and implementing ERP data management systems such as SAP to improve the efficiency of the Group's business processes. The Group is also becoming more selective about the quality of its customers and orders, which may impact volume growth. The Group will continue to enhance its product development and innovation capabilities and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, creating long-term synergies for its businesses.

Yue Yuen Industrial (Holdings) Limited

For the retail business, the Group remains optimistic about the long-term growth prospects for sportswear retailing, given increasing health awareness, higher sports participation rates and the growth of 'athleisure' trend in the Greater China region. Pou Sheng's omni-channel strategy will also continue to benefit from PRC government policies. It will continue to invest in upgrading its store formats, opening new concept mega stores and integrating digital and physical channels and inventories to reinforce the consumer experience and stimulate higher-margin sales, while also addressing dynamic consumer shopping habits.

Mr. Lu Chin Chu, Chairman, commented, "Our ongoing investments in manufacturing excellence and retail innovation is continuing to progress well. We will continue to leverage our competencies to address the changing sourcing strategies of our branded customers and mitigate the uncertainties. Despite the difficult environment in the short-term, we are confident that our investments will safeguard our status as the leading partner for global sportswear brands."

**About Yue Yuen Industrial (Holdings) Limited**

Yue Yuen (SEHK: 0551) is a global leader in the manufacture of athletic and casual/outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is the world's largest and is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. In addition, the Group puts workplace safety and sustainability at the core of its commitments.

The Group also operates one of the largest and integrated sportswear retail networks in the Greater China region, as well event management and sport services (listed as Pou Sheng International (Holdings) Limited [SEHK: 3813]).


| For investor enquiries | For Media enquiries |
|---|---|
| Olivia Wang<br>Investor Relations Director<br>Tel: 2370 5122<br>Fax: 2370 5108<br>Email: olivia.wang@yueyuen.com | Matthew Schultz<br>Think Alliance Group<br>Tel: 3798 5321<br>Fax: 3975 2800<br>Email: yueyuen@think-alliance.com<br><br>Henry Chow<br>Think Alliance Group<br>Tel: 3798 5322<br>Fax: 3975 2800<br>Email: yueyuen@think-alliance.com |

Yue Yuen Industrial (Holdings) Limited

**Consolidated Income Statement**

For the six months ended June 30, 2019

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **(unaudited)** | | (unaudited) | |
| | **US$'000** | | US$'000 | |
| Revenue | **5,070,727** | | 4,769,353 | |
| Cost of sales | **(3,798,090)** | | (3,578,123) | |
| Gross profit | **1,272,637** | | 1,191,230 | |
| *(% of revenue)* | | ***25.10%*** | | *24.98%* |
| Other income | **60,874** | | 67,684 | |
| Selling and distribution expenses | **(622,946)** | | (582,606) | |
| Administrative expenses | **(337,194)** | | (309,060) | |
| Other expenses | **(128,626)** | | (122,594) | |
| Finance costs | **(48,811)** | | (35,937) | |
| Share of results of associates | **9,772** | | 8,296 | |
| Share of results of joint ventures | **8,677** | | 11,712 | |
| Other gains and losses | **19,742** | | (14,918) | |
| Profit before taxation | **234,125** | | 213,807 | |
| Income tax expense | **(39,309)** | | (44,080) | |
| Profit for the period | **194,816** | | 169,727 | |
| *(% of revenue)* | | ***3.84%*** | | *3.56%* |
| Attributable to: | | | | |
| Owners of the Company | **165,877** | | 150,094 | |
| *(% of revenue)* | | ***3.27%*** | | *3.15%* |
| Non-controlling interests | **28,939** | | 19,633 | |
| | **194,816** | | 169,727 | |
| | **US cents** | | US cents | |
| Earnings per share | | | | |
| - Basic | **10.28** | | 9.14 | |
| - Diluted | **10.24** | | 9.10 | |