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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, 2019

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the nine months ended September 30, 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 nine months ended September 30, 2019 was approximately US\$229.4 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, 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 nine months ended September 30, 2019

	For the nine months ended September 30,	
	2019	2018
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	7,519,624	7,151,884
Cost of sales	<u>(5,652,648)</u>	<u>(5,364,801)</u>
Gross profit	1,866,976	1,787,083
Other income	92,222	86,931
Selling and distribution expenses	(906,499)	(853,641)
Administrative expenses	(505,868)	(480,558)
Other expenses	(201,259)	(189,608)
Finance costs	(70,386)	(57,809)
Share of results of associates	20,318	12,549
Share of results of joint ventures	17,317	20,654
Other gains and losses	<u>16,534</u>	<u>(31,642)</u>
Profit before taxation	329,355	293,959
Income tax expense	<u>(60,054)</u>	<u>(65,035)</u>
Profit for the period	<u><u>269,301</u></u>	<u><u>228,924</u></u>
Attributable to:		
Owners of the Company	229,437	204,565
Non-controlling interests	<u>39,864</u>	<u>24,359</u>
	<u><u>269,301</u></u>	<u><u>228,924</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2019

	For the nine months ended September 30,	
	2019	2018
	(unaudited)	(unaudited)
	US\$'000	US\$'000
Profit for the period	<u>269,301</u>	<u>228,924</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	8,429	(20,002)
Remeasurement of defined benefit obligations, net of tax	–	(1,019)
Share of other comprehensive expense of associates	(1,000)	–
Gain on revaluation of properties, transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	–	9,096
	<u>7,429</u>	<u>(11,925)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	(42,993)	(49,270)
Share of other comprehensive expense of associates and joint ventures	(5,354)	(15,196)
Reserve released upon disposal of subsidiaries	(380)	–
Reserve released upon deemed disposal of an associate	(40)	–
Reserve released upon disposal of associates and a joint venture	–	(1,836)
	<u>(48,767)</u>	<u>(66,302)</u>
Other comprehensive expense for the period	<u>(41,338)</u>	<u>(78,227)</u>
Total comprehensive income for the period	<u><u>227,963</u></u>	<u><u>150,697</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	205,861	145,310
Non-controlling interests	22,102	5,387
	<u><u>227,963</u></u>	<u><u>150,697</u></u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2019. Of these, HKFRS 16 “Leases” is relevant to the Group’s unaudited consolidated results for the nine months ended September 30, 2019. Details of the impacts and changes in accounting policies of application on HKFRS 16 “Leases” are discussed in Note 2 of the interim report for the six months ended June 30, 2019. The adoption of other new and amendments to HKFRSs does not have material impact on the Group’s results and financial positions for the current or prior periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded revenue of US\$7,519.6 million in the nine months ended September 30, 2019, representing an increase of 5.1% compared to revenue of US\$7,151.9 million recorded in the same period in 2018. Profit attributable to owners of the Company increased by 12.1% to US\$229.4 million, compared to US\$204.6 million recorded in the same period in 2018.

During the period, the Group recorded a non-recurring profit attributable to owners of the Company of US\$17.1 million, which included a gain of US\$19.1 million from the disposal of a subsidiary and a net loss of US\$1.0 million due to fair value changes on financial assets at fair value through profit or loss (“FVTPL”). In the same period of 2018, the Group recorded a non-recurring loss of US\$31.6 million, which included a net loss of US\$34.5 million on fair value changes on financial assets at FVTPL that was partly offset by a one-off gain arising from the disposal of associates and subsidiaries. Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company amounted to US\$212.4 million, representing a decrease of 10.1% 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 4.0% to US\$4,086.7 million, whereas the volume of shoes increased by 1.4% to 239.7 million pairs and average selling price increased by 2.6% to US\$17.05 per pair, as compared with the same period of last year primarily due to product portfolios optimization.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) during the period was US\$4,437.3 million, representing an increase of 2.9%, as compared with the same period of last year.

Total Revenue by Product Category

	For the nine months ended September 30,				
	2019		2018		change
	US\$ millions	%	US\$ millions	%	%
Athletic Shoes	3,242.4	43.1	3,089.0	43.2	5.0
Casual/Outdoor Shoes	766.1	10.2	782.3	10.9	(2.1)
Sports Sandals	78.2	1.0	58.6	0.8	33.4
Soles, Components & Others	350.6	4.7	382.4	5.4	(8.3)
Apparel Wholesale (TCHC Group)	171.8	2.3	292.2	4.1	(41.2)
Retail Sales – Shoes, Apparel & Leasing	2,910.5	38.7	2,547.4	35.6	14.3
Total Revenue	7,519.6	100.0	7,151.9	100.0	5.1

During the period, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 14.3% to US\$2,910.5 million, compared to US\$2,547.4 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first nine months in 2019 increased by 20.2% to RMB19,996.0 million, compared to RMB16,636.1 million in the same period of last year.

Gross Profit

During the period, the Group's gross profit increased by 4.5% to US\$1,867.0 million. This increase was mostly attributed to the strong growth momentum for sportswear sales globally, with Pou Sheng also contributing to the higher growth thanks to the improvement in sell-through as well as the healthy sporting goods market in China.

The gross profit of the manufacturing business decreased by 2.7% to US\$807.6 million whilst the gross profit margin contracted by 1.1 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 a combination of increased product complexity resulting from the current ‘retro fashion’ trend, growing demand for flexible production set-up such as dual-sourcing, as well as 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.

Selling & Distribution Expenses and Administrative Expenses

The Group’s total selling and distribution expenses during the period amounted to US\$906.5 million (2018: US\$853.6 million), equivalent to approximately 12.1% (2018: 11.9%) of revenue, remaining stable.

Administrative expenses for the period were US\$505.9 million (2018: US\$480.6 million), equivalent to approximately 6.7% (2018: 6.7%) of revenue.

Share of Results from Associates and Joint Ventures

During the period, the share of results from associates and joint ventures was a combined profit of US\$37.6 million, compared to a combined profit of US\$33.2 million recorded in the same period of last year.

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

Hong Kong, November 13, 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. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

Website: www.yueyuen.com