Yue Yuen Industrial (Holdings) Limited

PRESS RELEASE

Yue Yuen Announces 2019 Annual Results

- Revenue for the year crossed the US$10 billion mark, increasing 4.2% to US$10.1 billion, compared to US$9.7 billion for last year
- Gross profit increased by 2.7% to US$2,513.1 million, compared to US$2,446.1 million for last year
- Basic earnings per share decreased by 1.1% to 18.64 US cents compared with 18.84 US cents for the previous year
- A final dividend of HK$0.70 per share was proposed, amounting to a total dividend per share of HK$1.10 and 76% payout ratio for the year (inclusive of an interim dividend of HK$0.40 per share), upholding relatively steady level in dividend payment

(Hong Kong, March 24, 2020) – **Yue Yuen Industrial (Holdings) Limited** (together with its subsidiaries “the Group”, SEHK stock code: 551) today announced its audited consolidated results for the year ended December 31, 2019.

During the year under review, the Group recorded revenue of US$10,105.4 million, representing an increase of 4.2%, compared with the previous year. Profit attributable to owners of the Company declined by 2.1% to US$300.5 million, as compared to US$307.1 million recorded for the previous year. Basic earnings per share decreased by 1.1% to 18.64 US cents compared with 18.84 US cents for the previous year.

Excluding all items of non-recurring nature, the recurring profit for the year ended December 31, 2019 declined by 13.3% to US$282.3 million, compared to a recurring profit of US$325.7 million for the previous year. For the year ended December 31, 2019, the Group recognized a non-recurring profit of US$18.3 million, as compared with a non-recurring loss of US$18.5 million for the previous year.

The Board is pleased to propose a final dividend of HK$0.70 per share for the year ended December 31, 2019 (2018: HK$1.10 per share), amounting to a total dividend per share of HK$1.10 for the year (2018: HK$1.50 per share), inclusive of an interim dividend of HK$0.40 per share (2018: interim dividend of HK$0.40 per share).

Business Review

Revenue

In the year ended December 31, 2019, the revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) increased by 3.1% to US$5,557.9 million, compared with the previous year, whereas the volume of shoes shipped slightly decreased by 1.1% to 322.4 million pairs and the average selling price per pair increased by 4.3% to US$17.24 per pair, as compared with the previous year primarily due to the Group’s efforts to optimize customer and product portfolios.

The Group’s total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$6,000.6 million in 2019, representing an increase of 2.0% as compared to the previous year.

Total Revenue by Product Category

	For the year ended December 31				
	2019		2018		*change*
	US$ million	*%*	*US$ million*	*%*	*%*
Athletic Shoes	**4,541.6**	**44.9**	4,267.7	44.0	6.4
Casual/Outdoor Shoes	**906.2**	**9.0**	1,031.0	10.6	(12.1)
Sports Sandals	**110.1**	**1.1**	91.8	1.0	19.9
Soles, Components & Others	**442.7**	**4.4**	491.0	5.1	(9.8)
Apparel Wholesale (TCHC Group)	**171.8**	**1.7**	392.1	4.0	(56.2)
Retail Sales – Shoes, Apparel and Commissions from Concessionaire Sales	**3,933.0**	**38.9**	3,421.7	35.3	14.9
Total Revenue	**10,105.4**	**100.0**	9,695.3	100.0	4.2

In the year ended December 31, 2019, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 14.9% to US$3,933.0 million, compared to US$3,421.7 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 19.9% to RMB27,189.8 million, compared to RMB22,677.4 million in the previous year. As of December 31, 2019, Pou Sheng had 5,883 directly operated retail outlets and 3,950 stores operated by sub-distributors in China.

Gross Profit

In the year ended December 31, 2019, the Group's gross profit increased by 2.7% to US$2,513.1 million. This increase was mostly attributed to Pou Sheng, contributing to the higher revenue growth thanks to improved sell-through and the robust sporting goods market in China.

The gross profit margin of the Group's manufacturing business contracted by 1.0 percentage points to 18.5% as compared to that in the previous 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, growing demand for flexible production set-up such as dual-sourcing from different countries, as well as shifting production facilities among countries. It also related to the Group's investments in manufacturing optimization for its sustainable growth (including higher levels of automation and SAP ERP system implementation), which resulted in temporary low efficiencies at some of its production facilities.

Pou Sheng's gross profit margin during the year under review expanded to 34.1%, compared to 33.5% in the previous year, which was attributed to the improvement in product and channel mix, sell-through and discounts.

Selling & Distribution Expenses and Administrative Expenses

The Group's total selling and distribution expenses for 2019 amounted to US$1,222.1 million (2018: US$1,160.1 million), equivalent to approximately 12.1% (2018: 12.0%) of revenue.

Administrative expenses for 2019 amounted to US$682.7 million (2018: US$658.3 million), equivalent to approximately 6.8% (2018: 6.8%) of revenue, remaining stable.

Non-recurring Profit

For the year ended December 31, 2019, the Group recognized a non-recurring profit of US$18.3 million, which included a net gain of US$18.6 million from the disposal of Texas Clothing Holding Corp. and together with its subsidiaries (the "TCHC Group") and a net gain of US$8.4 million due to fair value changes on financial assets at fair value through profit or loss ("FVTPL"). By contrast, for the year ended December 31, 2018, the Company recognized a non-recurring loss of US$18.5 million, which included a net loss of US$23.4 million due to fair value changes on financial assets at FVTPL that were partly offset by one-off gains arising from the disposal of associates and subsidiaries.

Significant Investments and Material Acquisitions/Disposals

In 2019, the share of results from associates and joint ventures was a combined profit of US$52.0 million, compared to a combined profit of US$39.5 million in the corresponding period of last year.

During the year under review, the Group disposed of its entire interest in TCHC Group. The disposal is part of the Company's efforts to focus on its core business.

Prospects

Heading into 2020, the Group's manufacturing and retail businesses are facing a more diverse range of challenges. In addition to existing uncertainties already impacting the manufacturing business, particularly shifting international trade policies and rapidly changing consumer trends, the recent novel coronavirus (COVID-19) pandemic around the globe has significantly impacted the Group's operations and will negatively impact its revenue and results in the first half of 2020.

In China, the government's response to the pandemic resulted in the temporary shutdown of the Group's production facilities in China for several weeks following the Lunar New Year holiday. As of the reporting date, most of the Group's facilities have resumed production. In other countries, the Group's operations ranging from its production sites to its supply chain in China and other countries have also been adversely affected. It will take a period of time for the Group's production bases to return to normal levels.

For the retail business, the COVID-19 pandemic caused Pou Sheng to temporarily close most of its retail stores in China during the key Lunar New Year shopping season and throughout most of February. Given that the revenue of Pou Sheng is mainly derived from the sales of sportswear in brick-and-mortar retail stores, it is expected that the temporary store closures will have a significant impact on its revenue and results for the first half of 2020.

Other than this, the Group will continue to adjust its production according to market seasonality as well as diversified capacity allocation among different countries, which will, in the short term affect its operating efficiency. It is critical that the Group continues to demonstrate flexibility as one of its core competencies as changing consumer trends result in shorter lead times, increased seasonality, and higher product complexity.

The Group will continue to accelerate the pace of capacity migration to cost competitive regions as it responds to the addition of a 7.5% tariff (recently lowered from the original level of 15%) by the US on footwear exported from China, the uncertain global environment and increasing demand for flexibility. This includes shifting capacity from China to Southeast Asia, as well as shifting production facilitates between Southeast Asian countries, while being mindful of the labor supply situation in the countries where the Group operates, especially in Vietnam. The Group is actively monitoring the macroeconomic and geopolitical situation.

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 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.

Aside from the current short-term challenges, 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, which has been extended to include sports services content, will also continue to benefit from the Chinese government's supportive 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, "The short and long-term challenges we are facing means it is even more important for us to position ourselves as an indispensable strategic supplier and partner to global brands. Continued investment in innovation, digitalization, process re-engineering and automation is essential. This investment in our capability ensures that we can remain our irreplaceable merit in the market, while deepening our valued relationships with major sporting brands around the world."

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 as event management and sport services (listed as Pou Sheng International (Holdings) Limited [SEHK: 3813]).

For more information on Yue Yuen, visit www.yueyuen.com. For more information on Pou Sheng, visit en.pousheng.com.

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Yue Yuen Industrial (Holdings) Limited

Consolidated Income Statement

For the year ended December 31, 2019

	For the year ended 31 December			
	2019		2018	
	US$'000		*US$'000*	
Revenue	**10,105,387**		9,695,282	
Cost of sales	**(7,592,334)**		(7,249,224)	
Gross profit	**2,513,053**		2,446,058	
(% of revenue)		***24.87%***		*25.23%*
Other income	**127,313**		120,856	
Selling and distribution expenses	**(1,222,129)**		(1,160,057)	
Administrative expenses	**(682,665)**		(658,291)	
Other expenses	**(264,902)**		(249,975)	
Finance costs	**(92,122)**		(80,551)	
Share of results of associates	**26,999**		12,489	
Share of results of joint ventures	**24,996**		26,991	
Other gains and losses	**17,895**		(17,956)	
Profit before taxation	**448,438**		439,564	
Income tax expense	**(95,438)**		(98,448)	
Profit for the year	**353,000**		341,116	
(% of revenue)		***3.49%***		*3.52%*
Attributable to:				
Owners of the Company	**300,546**		307,116	
(% of revenue)		***2.97%***		*3.17%*
Non-controlling interests	**52,454**		34,000	
	353,000		341,116	
	US cents		*US cents*	
Earnings per share				
- Basic	**18.64**		18.84	
- Diluted	**18.60**		18.70	