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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, 2020

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2020. 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 loss attributable to owners of the Company for the three months ended March 31, 2020 was approximately US\$56.3 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, 2020 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, 2020

	For the three months ended March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	1,969,468	2,479,385
Cost of sales	<u>(1,553,572)</u>	<u>(1,854,676)</u>
Gross profit	415,896	624,709
Other income	38,705	34,648
Selling and distribution expenses	(234,161)	(313,889)
Administrative expenses	(184,994)	(158,912)
Other expenses	(53,957)	(62,361)
Finance costs	(20,721)	(24,526)
Share of results of associates	3,820	1,007
Share of results of joint ventures	1,080	3,703
Other gains and losses	<u>(20,198)</u>	<u>6,245</u>
(Loss) profit before taxation	(54,530)	110,624
Income tax expense	<u>(10,763)</u>	<u>(22,550)</u>
(Loss) profit for the period	<u><u>(65,293)</u></u>	<u><u>88,074</u></u>
Attributable to:		
Owners of the Company	(56,281)	75,494
Non-controlling interests	<u>(9,012)</u>	<u>12,580</u>
	<u><u>(65,293)</u></u>	<u><u>88,074</u></u>

Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2020

	For the three months ended March 31,	
	2020 (Unaudited) US\$'000	2019 (Unaudited) US\$'000
(Loss) profit for the period	<u>(65,293)</u>	<u>88,074</u>
Other comprehensive (expense) income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(10,902)	6,701
Share of other comprehensive expense of an associate	<u>(1,097)</u>	<u>(1,988)</u>
	<u>(11,999)</u>	<u>4,713</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	(19,235)	23,512
Share of other comprehensive (expense) income of associates and joint ventures	(7,147)	4,763
Reserve released upon disposal of an associate	<u>(270)</u>	<u>–</u>
	<u>(26,652)</u>	<u>28,275</u>
Other comprehensive (expense) income for the period	<u>(38,651)</u>	<u>32,988</u>
Total comprehensive (expense) income for the period	<u><u>(103,944)</u></u>	<u><u>121,062</u></u>
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(86,980)	99,616
Non-controlling interests	<u>(16,964)</u>	<u>21,446</u>
	<u><u>(103,944)</u></u>	<u><u>121,062</u></u>

Basis of preparation and principal accounting policies

The unaudited consolidated results for the three months ended March 31, 2020 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 and methods of computation used in the unaudited consolidated results for the three months ended March 31, 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2019.

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 mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group's unaudited consolidated results for the three months ended March 31, 2020. The adoption of these 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\$1,969.5 million in the three months ended March 31, 2020, representing a decrease of 20.6% compared to revenue of US\$2,479.4 million recorded in the same period of 2019. The loss attributable to owners of the Company was US\$56.3 million, compared to a profit attributable to owners of the Company of US\$75.5 million recorded in the same period of 2019. The fall in revenue and the loss attributable to owners of the Company was mostly attributed to the 2019 Novel Coronavirus ("COVID-19") pandemic, which significantly impacted the Group's operations.

During the period, the Group recorded a non-recurring loss of US\$20.2 million, which included a loss of US\$33.7 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL") that was partly offset by a one-off gain of US\$11.4 million on the partial disposal of an interest in a joint venture. In the same period of 2019, 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 instruments at FVTPL. Excluding all items of non-recurring in nature, the recurring loss attributable to owners of the Company amounted to US\$36.1 million.

Revenue

Total revenue attributable to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) during the period decreased by 8.9% to US\$1,169.4 million, whereas the volume of shoes shipped decreased by 12.5% to 71.5 million pairs. The decrease was mostly due to shipment delays amid lower operating efficiency at some of the Group's manufacturing facilities in China and other countries resulting from the COVID-19 pandemic. The pandemic delayed work resumption at the Group's factories in China after the Lunar New Year; it also adversely impacted its supply chain, resulting in a shortage of certain raw materials. This also led to additional production capacity adjustments in China and other countries. The average selling price increased by 4.1% to US\$16.36 per pair, as compared with the same 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 period was US\$1,261.4 million, representing a decrease of 9.6% as compared with the same period of last year.

Total Revenue by Product Category

	For the three months ended March 31,				change %
	2020		2019		
	US\$ million	%	US\$ million	%	
Athletic Shoes	1,034.9	52.5	1,017.2	41.0	1.7
Casual/Outdoor Shoes	104.1	5.3	229.9	9.3	(54.7)
Sports Sandals	30.4	1.5	36.7	1.5	(17.2)
Soles, Components & Others	92.0	4.7	111.5	4.5	(17.5)
Apparel Wholesale (TCHC Group)*	N/A	N/A	108.0	4.3	N/A
Retail Sales – Shoes, Apparel, Commissions from Concessionaire Sales and Others	708.1	36.0	976.1	39.4	(27.5)
Total Revenue	1,969.5	100.0	2,479.4	100.0	(20.6)

* TCHC Group was disposed on May 31, 2019

During the period, the revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 27.5% to US\$708.1 million, compared to US\$976.1 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first three months in 2020 decreased by 25.0% to RMB4,947.1 million, compared to RMB6,597.0 million in the same period of last year. The decrease was a result of various strict control measures implemented by the Chinese government to contain the spread of COVID-19, which resulted in the temporary closure of Pou Sheng's business offices and retail stores between Lunar New Year and mid-March 2020.

Gross Profit

During the period, the Group's gross profit decreased by 33.4% to US\$415.9 million. The gross profit of the manufacturing business decreased by 21.9% to US\$198.2 million whilst the gross profit margin contracted by 2.5 percentage points to 15.7%, as compared to the same period in 2019. The decrease in the gross profit margin for the manufacturing business was primarily due to the impact of COVID-19 on the Group's operations and adjustments made to its production capacity.

Selling & Distribution Expenses and Administrative Expenses

The Group's total selling and distribution expenses during the period amounted to US\$234.2 million (2019: US\$313.9 million), equivalent to approximately 11.9% (2019: 12.7%) of revenue.

Administrative expenses for the period were US\$185.0 million (2019: US\$158.9 million), equivalent to approximately 9.4% (2019: 6.4%) of revenue.

Share of Results of Associates and Joint Ventures

During the period, the share of results from associates and joint ventures was a combined profit of US\$4.9 million, compared to a combined profit of US\$4.7 million recorded in the same period of last year.

Outlook

The spread of COVID-19 to the US and Europe had severely dampened global consumer demand for athletic footwear, the chain effect of which is negatively affecting both footwear manufacturers and sports retailers. In addition, government lockdowns and other social distancing measures being imposed in various Southeast Asian countries to contain the COVID-19 pandemic is expected to further hinder the operating efficiency of the Group's manufacturing facilities in this region. This, together with uncertainty about demand, may result in temporary factory closures and further adjustments to the Group's production capacity.

There is still great uncertainty around how the COVID-19 pandemic may continue to impact orders and sales visibility for the Group's various business segments, which will inevitably impact its performance throughout the remainder of 2020. In view of the challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose cost control measures as appropriate. The Group will also focus on its cash flow management, including adopting a more prudent approach when evaluating capital expenditure projects in 2020.

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

Hong Kong, May 14, 2020

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. Hu Chia-Ho, Mr. Liu George Hong-Chih, Mr. Hu Dien Chien and Mr. Yu Huan-Chang.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen.

Website: www.yueyuen.com