Yue Yuen Industrial (Holdings) Limited

PRESS RELEASE

Yue Yuen Announces 2020 First Half Results

- Revenue for the first half of 2020 fell 19.4% to US$4.09 billion, compared to US$5.07 billion in the same period last year
- Gross profit fell 34.5% to US$0.83 billion compared to US$1.27 billion in the same period last year
- SG&A expenses reduced by 18.4% due partly to stringent cost control measures
- Other expenses surged by 48.6%, mostly attributable to the one-off charges on factory adjustments
- Non-recurring loss for the period amounted to US$13.1 million
- Loss attributable to owners of the Company amounted to US$136.8 million

(Hong Kong, August 13, 2020) – **Yue Yuen Industrial (Holdings) Limited** (together with its subsidiaries "the Group", SEHK stock code: 551) today announced its unaudited consolidated results for the six months ended June 30, 2020.

For the six months ended June 30, 2020, the Group recorded revenue of US$4,085.6 million, representing a decrease of 19.4%, compared with the corresponding period of last year. The loss attributable to owners of the Company was US$136.8 million, compared to a profit attributable to owners of the Company of US$165.9 million recorded for the corresponding period of last year. The basic loss per share for the first half of 2020 was 8.49 US cents, compared to the basic earnings per share of 10.28 US cents for the corresponding period of last year.

For the six months ended June 30, 2020, the Group recognized a non-recurring loss of US$13.1 million, which included a loss of US$21.9 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL"), as well as an impairment loss of US$9.0 million on the interest in an associate. These losses were partly offset by a one-off gain of US$15.7 million on the partial disposal of an interest in a joint venture. By contrast, for the six months ended June 30, 2019, the Group recognized a non-recurring profit of US$20.3 million, which included a net gain of US$19.1 million from the disposal of Texas Clothing Holding Corp. and together with its subsidiaries (the "TCHC Group"), and a gain of US$1.8 million due to fair value changes on financial instruments at FVTPL. Excluding all items of non-recurring nature, the recurring loss for the six months ended June 30, 2020 was US$123.6 million, compared to a recurring profit of US$145.6 million for the corresponding period of last year.

In addition to the analysis above, one-off charges on factory adjustments, together with the cost related to idle capacity in the manufacturing segment, also constituted a significant portion of the loss for the period under review.

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2020 (interim 2019: HK$0.40 per share). The Group aims to stabilize its operating cash flow to sustain its business operations and preserve a suitable level of cash holdings against the backdrop of the challenging business environment this year. While it is inclined to preserve cash in the short-term in view of the impact of the COVID-19 pandemic, the Group remains committed to upholding a relatively steady dividend level over the long-term.

Business Review

Revenue

In the six months ended June 30, 2020, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) decreased by 16.7% to US$2,240.8 million, compared with the corresponding period of last year. The volume of shoes shipped decreased by 20.4% to 129.9 million pairs. The decrease was mostly due to lower operating efficiency amid delayed shipments, and reduced and cancelled order books from customers in response to lower consumer demand resulting from the COVID-19 pandemic. The average selling price increased by 4.6% to US$17.25 per pair, as compared with the same period of last year, which was primarily due to changes in the Group's product portfolio.

Revenue attributed to the Group's manufacturing business (including footwear, as well as soles, components and others) was US$2,418.5 million during the period, representing a decrease of 17.5% as compared to the corresponding period of last year.

Total Revenue by Product Category

	For the six months ended June 30,				
	2020		2019		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic Shoes	**2,018.2**	**49.4**	2,101.5	41.4	(4.0)
Casual/Outdoor Shoes	**178.5**	**4.4**	530.3	10.5	(66.3)
Sports Sandals	**44.1**	**1.1**	59.1	1.2	(25.4)
Soles, Components & Others	**177.7**	**4.3**	239.9	4.7	(25.9)
Apparel Wholesale (TCHC Group)*	N/A	N/A	171.8	3.4	N/A
Retail Sales – Shoes, Apparel and Commissions from Concessionaire Sales	**1,667.1**	**40.8**	1,968.1	38.8	(15.3)
Total Revenue	**4,085.6**	**100.0**	5,070.7	100.0	(19.4)

** TCHC Group was disposed on May 31, 2019*

In the six months ended June 30, 2020, the revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 15.3% to US$1,667.1 million, compared to US$1,968.1 million in the corresponding period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first half of 2020 decreased by 12.2% to RMB11,740.2 million, compared to RMB13,371.6 million in the corresponding period of last year. As of June 30, 2020, Pou Sheng had 5,597 directly operated retail outlets and 3,839 stores operated by sub-distributors across the Greater China region.

Gross Profit

In the six months ended June 30, 2020, the Group's gross profit declined by 34.5% to US$833.1 million. The gross profit margin of the Group's manufacturing business contracted by 4.3 percentage points to 13.8% as compared to the corresponding period of last year. The decrease in the gross profit margin for the manufacturing business was primarily due to operating deleveraging as a result of the reduced capacity utilization and decrease in revenue.

Given the uncertainties surrounding the future development of the COVID-19 pandemic, the Group has and will continue to further fine-tune its production capacity and impose strict cost control measures, to pave the way to restore optimal operational efficiency.

Pou Sheng's gross profit margin declined to 30.0% in the six months ended June 30, 2020, compared to 34.5% in the same period of last year, which was mainly attributed to increased promotional activities, in order to motivate and revive consumer demands following the re-opening of the Group's B&M stores in China after COVID-19 lockdowns.

Selling & Distribution Expenses and Administrative Expenses

The Group's total selling and distribution expenses for the first half of 2020 declined to US$480.2 million (first half of 2019: US$622.9 million), equivalent to approximately 11.8% (first half of 2019: 12.3%) of revenue.

Administrative expenses for the first half of 2020 amounted to US$303.0 million (first half of 2019: US$337.2 million), equivalent to approximately 7.4% (first half of 2019: 6.6%) of revenue.

Other expenses for the first half of 2020 surged to US$191.1 million (first half of 2019: US$128.6 million), equivalent to approximately 4.7% (first half of 2019: 2.5%) of revenue. The increase was mostly attributable to one-off charges arising from factory adjustments on the manufacturing side.

The management will continue to look at ways to improve its efficiency and productivity to counter the significant cost pressures faced by the Group's manufacturing business, as well as the dynamic and uncertain environment faced by its retail business.

Share of Results of Associates and Joint Ventures

During the first half of 2020, the share of results from associates and joint ventures was a combined profit of US$8.4 million, compared to a combined profit of US$18.4 million in the corresponding period of last year.

Prospects

The impact of COVID-19 on the Group's manufacturing business will diminish, but will not disappear in the coming quarters. Global demand is likely to remain subdued and may be further impacted by the recurring waves of COVID-19 infections that force some economies back into lockdowns. There is still great uncertainty around how the COVID-19 pandemic may continue to impact the orders and sales visibility for the Group's manufacturing segment, which will inevitably impact the Group's performance throughout the remainder of 2020. It may take some time for the Group's production to return to normal levels.

There are some signs of retail spending recovering in some markets alongside the reopening of economies and stimulus programs initiated by governments around the globe. However, it is uncertain if this recovery will be sustained and evenly spread to markets in Europe and North America, although recovery may be supported by the resumption of sports leagues such as the NBA and Premier League.

Besides, escalating tensions between the United States and China, as well as the uncertain outcome of the U.S. Presidential election may add more uncertainties. The Group is actively monitoring the macroeconomic and geopolitical situation.

In view of the short-term challenges and uncertainties ahead, the Group will continue to proactively monitor the situation and impose strict cost control measures and focus on its cash flow management. The Group will continue to adopt a prudent approach to capital expenditure projects while embarking on the further fine-tuning of its production capacity during the rest of the year.

Yue Yuen Industrial (Holdings) Limited

Once the disruptions caused by COVID-19 have dissipated, the Group will resume its capital expenditure program to diversify capacity allocations between different countries and further accelerate the pace of capacity migration to cost-competitive regions. This will allow the Group to better meet customer demands for flexibility and specific country-of-origin requirements in response to continued U.S. trade tariffs. The Group will also continue to leverage on its core strengths, adaptability and competitive edges to overcome short-term challenges and safeguard its sustainable profitability. This includes investing in and implementing ERP data management systems, such as SAP, in Indonesia and other locations 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, and to create long-term synergies for its businesses in the future. Over the longer-term, it will continue to proactively adapt its production capacity to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility and faster turnaround time. This includes enabling more flexible set-ups and frequent line change-overs through process re-engineering, increased automation levels, and SAP ERP system implementation to optimize its ongoing smart manufacturing strategy.

Aside from the current short-term challenges, the Group remains optimistic about the long-term growth prospects of its retail business, given the increasing health awareness, higher sports participation rates and the growth of the 'athleisure' trend in the Greater China region. Pou Sheng's omni-channel strategy, including leveraging more sports services content, will continue to benefit from the Chinese government's supportive policies, as well as the more mature online shopping habits of Chinese consumers.

Mr. Lu Chin Chu, Chairman, commented, "The second half of 2020 will remain challenging with order visibility remaining low. While we are pausing our planned investments, where practical, to protect our cash flow, it does not mean our strategy has changed. We remain committed to meeting the needs of today's footwear consumers and 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 event management and sport services (listed as Pou Sheng International (Holdings) Limited [SEHK: 3813]).

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Yue Yuen Industrial (Holdings) Limited

Consolidated Income Statement

For the six months ended June 30, 2020

	For the six months ended June 30,			
	2020		2019	
	(unaudited)		(unaudited)	
	US$'000		US$'000	
Revenue	**4,085,633**		5,070,727	
Cost of sales	**(3,252,552)**		(3,798,090)	
Gross (loss) / profit	**833,081**		1,272,637	
(% of revenue)		***20.39%***		*25.10%*
Other income	**46,839**		60,874	
Selling and distribution expenses	**(480,227)**		(622,946)	
Administrative expenses	**(303,040)**		(337,194)	
Other expenses	**(191,137)**		(128,626)	
Finance costs	**(37,866)**		(48,811)	
Share of results of associates	**4,139**		9,772	
Share of results of joint ventures	**4,217**		8,677	
Other gains and losses	**(13,134)**		19,742	
(Loss) profit before taxation	**(137,128)**		234,125	
Income tax credit (expense)	**381**		(39,309)	
(Loss) profit for the period	**(136,747)**		194,816	
(% of revenue)		***-3.35%***		*3.84%*
Attributable to:				
Owners of the Company	**(136,758)**		165,877	
(% of revenue)		***-3.35%***		*3.27%*
Non-controlling interests	**11**		28,939	
	(136,747)		194,816	
	US cents		US cents	
(Loss) earnings per share				
- Basic	**(8.49)**		10.28	
- Diluted	**(8.49)**		10.24	