Yue Yuen Industrial (Holdings) Limited

PRESS RELEASE

Yue Yuen Announces Results for the First Nine Months of 2020

- Revenue in the first nine months of 2020 fell 19.1% to US$6,086.7 million, compared to the corresponding period of last year
- The Group's gross profit margin, while improving sequentially quarter on quarter, contracted by 4.2 percentage points to 20.6%
- Other expenses surged by 36.1%, which was mostly attributed to the one-off charges of approximately US$105 million from factory adjustments
- Non-recurring loss for the period amounted to US$12.1 million
- Loss attributable to owners of the Company was US$154.1 million

(Hong Kong, November 12, 2020) – **Yue Yuen Industrial (Holdings) Limited** (together with its subsidiaries "the Group", SEHK stock code: 551) today announced its unaudited consolidated results for the nine-month period ended September 30, 2020.

Revenue Analysis

The Group recorded revenue of US$6,086.7 million in the nine months ended September 30, 2020, representing a decrease of 19.1% compared with the corresponding period of last year. The fall in revenue was mostly attributed to the 2019 Novel Coronavirus ("COVID-19") pandemic.

Total revenue attributable to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) during the period decreased by 21.8% to US$3,196.9 million, whereas the volume of shoes shipped decreased by 25.4% to 178.8 million pairs. The decrease was mostly due to delayed shipments, reduced and cancelled order books from customers in response to lower consumer demand resulting from the COVID-19 pandemic, and seasonality with the third quarter traditionally being a low season period for the Group's manufacturing business. However, the Group saw some improvement in utilization and efficiency at a number of manufacturing facilities, as well as less shipment delays, during the third quarter of 2020, compared to the second quarter of 2020, with customers still demanding high flexibility.

The average selling price increased by 4.9% to US$17.88 per pair in the nine months ended September 30, 2020, as compared with the same period of last year, which was primarily due to changes in the Group's product portfolio.

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$3,467.4 million, representing a decrease of 21.9%, as compared with the same period of last year.

Total Revenue by Product Category

	For the nine months ended September 30,				
	2020		2019		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic Shoes	**2,841.9**	**46.7**	3,242.4	43.1	(12.4)
Casual/Outdoor Shoes & Sports Sandals	**355.0**	**5.8**	844.3	11.2	(58.0)
Soles, Components & Others	**270.5**	**4.5**	350.6	4.7	(22.8)
Apparel Wholesale (TCHC Group)*	**N/A**	**N/A**	171.8	2.3	N/A
Retail Sales – Shoes, Apparel, Commissions from Concessionaire Sales and Others	**2,619.3**	**43.0**	2,910.5	38.7	(10.0)
Total Revenue	**6,086.7**	**100.0**	7,519.6	100.0	(19.1)

** Texas Clothing Holding Corp. and its subsidiaries (the "TCHC Group") was disposed on May 31, 2019*

The revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 10.0% to US$2,619.3 million during the nine months ended September 30, 2020, compared to US$2,910.5 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first nine months in 2020 decreased by 8.3% to RMB18,341.3 million, compared to RMB19,996.0 million in the same period of last year. The decrease was a result of various control measures implemented by the Chinese government to contain the spread of COVID-19, which resulted in the temporary closure of Pou Sheng's brick and mortar stores between Lunar New Year and mid-March 2020.

However, the stabilization of Pou Sheng's revenue in recent quarters was supported by a steady recovery in offline sales and decent growth from omni-channels, as retail activity in China progressively returned to normal. As part of its omni-channel strategy, Pou Sheng scaled up its digital fulfilment capacity, as well as the accessibility and content of its omni-channels, including launching and upgrading its WeChat stores during the period, to drive online sales and mitigate the impact of the COVID-19 pandemic. Improved efficiency in integrating inventory and logistics further supported sell-through.

Gross Profit

During the period, the Group's gross profit decreased by 32.7% to US$1,255.9 million. The gross profit of the manufacturing business decreased by 42.3% to US$466.3 million whilst the gross profit margin contracted by 4.7 percentage points to 13.5%, as compared to the same period in 2019. The decrease in the gross profit margin for the manufacturing business was primarily due to operating deleveraging as a result of reduced capacity utilization and decrease in revenue.

The gross profit margin for Pou Sheng during the period contracted by 4.1 percentage points to 30.1% as compared to the same period in 2019, which was mainly attributed to increased promotional activities. Gross profit margins for both of the Group's manufacturing and retail segments saw sequential improvement during the third quarter of 2020, as compared to the prior quarter.

Selling & Distribution Expenses and Administrative Expenses
The Group's total selling and distribution expenses during the period amounted to US$734.6 million (2019: US$906.5 million), equivalent to approximately 12.1% (2019: 12.1%) of revenue.

Administrative expenses for the period were US$438.2 million (2019: US$505.9 million), equivalent to approximately 7.2% (2019: 6.7%) of revenue.

Recurring Loss/Profit Attributable to Owners of the Company
The loss attributable to owners of the Company was US$154.1 million, compared to a profit attributable to owners of the Company of US$229.4 million recorded in the same period in 2019. The uncertainty and low visibility on customer demand during the period also resulted in temporary factory closures and adjustments to production capacity. The one-off charges from factory adjustments, together with the costs related to idle capacity in the manufacturing segment, constituted a significant portion of the loss for the period.

During the period, the Group recorded a non-recurring loss of US$12.1 million, which included a loss of US$21.0 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. In the same period of 2019, the Group recognized a non-recurring profit of US$17.1 million, which included a net gain of US$19.1 million from the disposal of the TCHC Group, and a net loss of US$1.0 million due to fair value changes on financial instruments at FVTPL. Excluding all items of non-recurring in nature, the recurring loss for the nine months ended September 30, 2020 was US$141.9 million, compared to a recurring profit attributable to owners of the Company at US$212.4 million in the same period of last year.

Share of Results of Associates and Joint Ventures
During the period, the share of results of associates and joint ventures was a combined profit of US$32.7 million, compared to a combined profit of US$37.6 million recorded in the same period of last year.

Outlook
Global demand is likely to remain subdued as a new wave of COVID-19 infections hit markets in Europe and North America. Despite this, the Group is seeing some signs of improvement in the fourth quarter of 2020, as global retail spending slowly recovers, although the volatile sentiment may impact future visibility.

In view of the short-term challenges and uncertainties ahead, the Group will continue to proactively monitor the situation, 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 optimizing its production capacity to embrace a gradual demand recovery during the rest of the year.

Yue Yuen Industrial (Holdings) Limited

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 nine months ended September 30, 2020

		For the nine months ended September 30,			
		2020		2019	
		(unaudited)		(unaudited)	
		US$'000		*US$'000*	
Revenue		**6,086,664**		7,519,624	
Cost of sales		**(4,830,800)**		(5,652,648)	
Gross profit		**1,255,864**		1,866,976	
	(% of revenue)		***20.63%***		*24.83%*
Other income		**80,187**		92,222	
Selling and distribution expenses		**(734,613)**		(906,499)	
Administrative expenses		**(438,159)**		(505,868)	
Other expenses		**(273,985)**		(201,259)	
Finance costs		**(52,622)**		(70,386)	
Share of results of associates		**18,670**		20,318	
Share of results of joint ventures		**14,016**		17,317	
Other gains and losses		**(12,088)**		16,534	
(Loss) profit before taxation		**(142,730)**		329,355	
Income tax expense		**(3,380)**		(60,054)	
(Loss) profit for the period		**(146,110)**		269,301	
	(% of revenue)		***-2.40%***		*3.58%*
Attributable to:					
Owners of the Company		**(154,051)**		229,437	
	(% of revenue)		***-2.53%***		*3.05%*
Non-controlling interests		**7,941**		39,864	
		(146,110)		269,301	