Yue Yuen Industrial (Holdings) Limited

PRESS RELEASE

Yue Yuen Announces 2018 First Half Results

- Revenue for the first half of 2018 rose 7.2% to US$4.77 billion, compared to US$4.45 billion in the same period last year
- Gross profit rose 5.3% to US$1.19 billion compared to US$1.13 billion for last year
- Recurring profit attributable to owners of the Company fell 31.5% to US$165.0 million
- Non-recurring loss amounted to US$14.9 million
- Profit Attributable to Owners of the Company fell 41.9% to US$150.1 million. Basic earnings per share fell 41.8% to US9.14 cents.
- An interim dividend of HK$0.40 per share was declared

(Hong Kong, August 10, 2018) – **Yue Yuen Industrial (Holdings) Limited** (together with its subsidiaries "the Group", stock code: 551) today announced its unaudited consolidated results for the six months ended June 30, 2018.

During the first half of 2018, the Group recorded revenue of US$4,769.4 million, representing an increase of 7.2%, compared to the same period in 2017. Profit attributable to owners of the Group declined by 41.9% to US$150.1 million, as compared to US$258.5 million recorded for the corresponding period of last year. Basic earnings per share for the first half of 2018 declined by 41.8% to US9.14 cents as compared with US15.71 cents for the corresponding period of last year.

Excluding all items of non-recurring nature, the recurring profit for the six months ended June 30, 2018, declined by 31.5% to US$165.0 million, compared to a recurring profit of US$240.9 million for the corresponding period of last year. For the six months ended June 30, 2017, the Company recognized a non-recurring profit of US$17.6 million, which included a fair value gain of US$9.4 million on derivative financial instruments and a one-off gain of US$9.8 million on the disposal of associates. By contrast, during the first half of 2018, the Group recorded a non-recurring loss of US$14.9 million, included a fair value loss of US$22.5 million on derivative financial instruments that was partly offset by one-off gains arising from disposal of associates and subsidiaries.

The Board is pleased to declare an interim dividend of HK$0.40 per share for the six months ended June 30, 2018 (interim 2017: HK$0.40 per share).

Business Review

Revenue

In the six months ended June 30, 2018, the revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) declined 4.5% to US$2,563.6 million, compared with the corresponding period of last year, with the volume of shoes produced and the average selling price per pair decreasing by 2.5% to 158.9 million pairs and by 2.0% to US$16.14 per pair, respectively, as compared with the corresponding period of last year. As a result, the Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) and the apparel wholesale business (Texas Clothing Group, "TCG") during the first half of 2018 was US$3,016.6 million, a decrease of 1.7%.

Total Revenue by Product Category

	For the six months ended June 30				
	2018		2017		
	US$ millions	*%*	*US$ millions*	*%*	*% change*
Athletic Shoes	1,996.7	41.9	2,071.5	46.6	(3.6)
Casual/Outdoor Shoes	522.3	11.0	569.0	12.8	(8.2)
Sports Sandals	44.6	0.9	44.7	1.0	(0.2)
Soles, Components & Others	261.5	5.5	304.9	6.8	(14.2)
Apparel Wholesale	191.5	4.0	78.5	1.8	143.9
Retail Sales – Shoes, Apparel & Leasing	1,752.8	36.7	1,379.6	31.0	27.1
Total Revenue	4,769.4	100.0	4,448.2	100.0	7.2

During the first half of 2018, the revenue attributable to Pou Sheng, the Group's retail subsidiary, grew by 27.1% to US$1,752.8 million, compared to US$1,379.6 million in the previous financial year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 17.7% to RMB11,202.0 million, compared to RMB9,515.1 million in the corresponding period of last year.

Gross Profit

The gross profit for the manufacturing business in the first half of 2018 decreased by 14.9% to US$530.0 million due to fluctuating order patterns and unfavorable product mix, which resulted in operating deleverage and negatively impacted the gross profit margin for the manufacturing business.

Pou Sheng's gross profit margin decreased from 34.6% in the same period of last year to 33.5% in the first half of 2018, mainly due to channel mix changes and increased discounts and clearance sales for emerging brands.

Selling & distribution expenses and administrative expenses

The Group's total selling and distribution expenses for the first half of 2018 amounted to US$582.6 million (first half of 2017: US$467.5 million), equivalent to approximately 12.2% (first half of 2017: 10.5%) of revenue. The increase in selling and distribution expenses was attributable mainly to the Group's distribution business (i.e. Pou Sheng and the apparel wholesale business), which has a higher ratio of selling and distribution expenses to revenue compared to the manufacturing business.

Administrative expenses for the first half of 2018 were US$309.1 million (first half of 2017: US$304.3 million), equivalent to approximately 6.5% (first half of 2017: 6.8%) of revenue, remaining stable.

Fair value changes on derivative financial instruments

During the first half of 2018, the Group recorded a fair value loss of US$22.5 million due to fair value changes on derivative financial instruments, compared to a fair value gain of US$9.4 million during the corresponding period of last year.

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Share of results from Associates and Joint Ventures ("Share of A& JV")
During the first half of 2018, the share of results from associates and joint ventures recorded a combined profit of US$20.0 million, compared to a combined profit of US$26.7 million in the corresponding period of last year.

Prospects
The Group's manufacturing business continues to face a number of uncertainties and challenges, including intense competition and changing customer order patterns, particularly shortening lead-times and increased seasonality. This will continue to affect operating deleveraging and margins. Other risks include stronger-than-expected wage inflation, raw material price volatility and foreign exchange movements. Although economic growth and consumer sentiment in most major economies, including the United States, the PRC and the Eurozone remains robust, this could be threatened by increasing trade frictions and the implementation of additional trade tariffs. The Group is actively monitoring the macroeconomic and geopolitical situation.

Looking forward, the Group will continue to leverage on its core strengths and competitive edges to hedge against these long and short-term challenges in order to address the demand for shorter lead-times, limit the impact of monthly order volatility, and safeguard its sustainable and steady growth. This includes investing in automation, technology, production workflow optimization, process re-engineering and other enhancements to its manufacturing capabilities.

For the distribution business, apart from the apparel wholesale business, 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. The Group will continue to invest heavily in upgrading its store formats and integrating digital channels to reinforce the consumer experience and stimulate higher-margin sales, while also fulfilling the ever-changing shopping habits of end consumers.

Mr. Lu Chin Chu, Chairman, commented, "*We faced unprecedented headwinds during the first half of the year, which resulted in more volatile monthly revenues, much lower order visibility, as well as operating deleverage within the manufacturing business. To address these ongoing challenges, we will continue increasing automation levels, investing in new technology and enhancing operational efficiency to provide our. brand customers with end-to-end solutions, while safeguarding our solid long-term profitability and returns to shareholders.*"

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.

Yue Yuen Industrial (Holdings) Limited

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Yue Yuen Industrial (Holdings) Limited

Consolidated Income Statement
For the six months ended June 30, 2018

	For the six months ended 30 June			
	2018		**2017**	
	(unaudited)		**(unaudited)**	
	US$'000		US$'000	
Revenue	4,769,353		4,448,172	
Cost of sales	(3,578,123)		(3,316,793)	
Gross profit	1,191,230		1,131,379	
(% of revenue)		*24.98%*		25.43%
Other income	67,684		58,434	
Selling and distribution expenses	(582,606)		(467,520)	
Administrative expenses	(309,060)		(304,331)	
Impairment losses on financial assets, net of reversal	(2,497)		(375)	
Other expenses	(120,097)		(127,753)	
Finance costs	(35,937)		(17,908)	
Share of results of associates	8,296		21,482	
Share of results of joint ventures	11,712		5,233	
Other Gains and Losses	(14,918)		17,349	
Profit before taxation	213,807		315,990	
Income tax expense	(44,080)		(36,440)	
Profit for the period	169,727		279,550	
(% of revenue)		*3.56%*		6.28%
Attributable to:				
Owners of the Company	150,094		258,525	
(% of revenue)		*3.15%*		*5.81%*
Non-controlling interests	19,633		21,025	
	169,727		279,550	

By Category				
Recurring profit	165,012		240,938	
(% of revenue)		*3.46%*		*5.42%*
Non-recurring (loss) profit	(14,918)		17,587	
Profit attributable to owners of the Company	150,094		258,525	

	US cents	US cents
Earnings per share		
- Basic	9.14	15.71
- Diluted	9.10	15.68