



PRESS RELEASE

Yue Yuen Announces 2018 Annual Results

- Revenue for the year rose 6.3% to US\$9.70 billion, compared to US\$9.12 billion for last year
- Gross profit increased by 4.0% to US\$2,446.1 million, compared to US\$2,351.1 million for last year
- Recurring profit attributable to owners of the Company fell 35.0% to US\$325.7million
- Non-recurring loss amounted to US\$18.5million
- Profit attributable to owners of the Company fell 40.9% to US\$307.1 million. Basic earnings per share fell 40.3% to 18.84 US cents
- A final dividend of HK\$1.10 per share was proposed, amounting to a total dividend per share of HK\$1.50 for the year (inclusive of an interim dividend of HK\$0.40 per share), remaining stable as compared to previous year

(Hong Kong, March 22, 2019) – **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, 2018.

During the year under review, the Group recorded revenue of US\$9,695.3 million, representing an increase of 6.3%, compared with the previous year. Profit attributable to owners of the Company declined by 40.9% to US\$307.1 million, as compared to US\$519.2 million recorded for the previous year. Basic earnings per share declined by 40.3% to 18.84 US cents, compared with 31.55 US cents for previous year. The decline in Profit attributable to owners of the Company was mainly due to operating deleverage within the manufacturing business, a reduction of the non-recurring gain for the year, as well as higher finance costs during the year.

Excluding all items of non-recurring nature, the recurring profit for the year declined by 35.0% to US\$325.7 million, compared to a recurring profit of US\$500.8 million for the previous year. For the year ended December 31, 2018, the Group recognized a non-recurring loss of US\$18.5 million, which included a loss of US\$23.4 million on financial instruments. By contrast, for the year ended December 31, 2017, the Group recorded a non-recurring profit of US\$18.4 million.

The Board is pleased to propose a final dividend of HK\$1.10 per share for the year ended December 31, 2018 (2017: HK\$1.10 per share), amounting to a total ordinary dividend per share of HK\$1.50 for the year (2017: HK\$1.50 per share), inclusive of an interim dividend of HK\$0.40 per share (2017: interim dividend of HK\$0.40 per share).

Business Review

Revenue

In the year ended December 31, 2018, the revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) declined by 1.5% to US\$5,390.5 million, whereas the volume of shoes produced increased by 0.4% to 326.0 million pairs. The average selling price decreased by 2.0% to US\$16.53 per pair as compared with the previous year.

The Group’s total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US\$5,881.5 million during the year under review, a decrease of 3.5% as compared with the previous year.



Total Revenue by Product Category

	For the year ended December 31				
	2018		2017		% change
	<i>US\$ millions</i>	%	<i>US\$ millions</i>	%	
Athletic Shoes	4,267.7	44.0	4,203.8	46.1	1.5
Casual/Outdoor Shoes	1,031.0	10.6	1,192.2	13.1	(13.5)
Sports Sandals	91.8	1.0	78.8	0.8	16.5
Soles, Components & Others	491.0	5.1	617.5	6.8	(20.5)
Apparel Wholesale	392.1	4.0	253.7	2.8	54.6
Retail Sales – Shoes, Apparel & Leasing	3,421.7	35.3	2,775.4	30.4	23.3
Total Revenue	9,695.3	100.0	9,121.4	100.0	6.3

In the year ended December 31, 2018, the revenue attributable to Pou Sheng, the Group’s retail subsidiary, grew by 23.3% to US\$3,421.7 million, compared to US\$2,775.4 million in the previous year. In RMB terms (Pou Sheng’s reporting currency), revenue increased by 20.4% to RMB22,677.4 million, compared to RMB18,833.3 million in the previous year. As of December 31, 2018, Pou Sheng had 5,648 directly operated retail outlets and 3,551 stores operated by sub-distributors in the PRC.

Gross Profit

During the year under review, the Group’s gross profit increased by 4.0% to US\$2,446.1 million.

The gross profit margin of the Group’s manufacturing business decreased by 1.5 percentage points to 19.5% in 2018 (2017: 21.0%) caused by fluctuating order patterns and unfavorable product mix due to changing consumer demand, which resulted in operating deleverage and negatively impacted the gross profit.

In 2018, Pou Sheng’s gross profit margin decreased from 35.0% in the previous year to 33.5%, which was mainly due to a change of channel mix, increased discounts and clearance sales for emerging brands.

Selling & Distribution Expenses and Administrative Expenses

The Group’s total selling and distribution expenses for 2018 amounted to US\$1,160.1 million (2017: US\$986.2 million), equivalent to approximately 12.0% (2017: 10.8%) of revenue. The increase in selling and distribution expenses was in proportion with the strong growth of the Group’s distribution business, which has a higher ratio of selling and distribution expenses to revenue compared to the manufacturing business.

Administrative expenses for 2018 amounted to US\$658.3 million (2017: US\$635.8 million), equivalent to approximately 6.8% (2017: 7.0%) of revenue, remaining stable.

Non-recurring (Loss) Profit

For the year ended December 31, 2018, the Group recognized a non-recurring loss of US\$18.5 million, which included a loss of US\$23.4 million on financial instruments that was partly offset by one-off gains arising from the disposal of subsidiaries and associates. By contrast, for the year ended December 31, 2017, the Group recorded a non-recurring profit of US\$18.4 million, which included a fair value gain on derivative financial instruments and a one-off gain of US\$19.1 million on the disposal of subsidiaries and associates.

Share of Results from Associates and Joint Ventures (“Share of A& JV”)

In 2018, the share of results from associates and joint ventures was a combined profit of US\$39.5 million, compared to a combined profit of US\$64.6 million in the previous year.



Yue Yuen Industrial (Holdings) Limited

Prospects

The Group's manufacturing business continues to face a number of uncertainties and challenges, including intense competition and changing consumer demand, particularly shortening lead-times and increased seasonality. This will continue to affect operating deleveraging and margins. The Group also faces additional risk arising from the trade frictions between the United States and the PRC, which impacted consumer sentiment in both countries and could accelerate the pace of capacity migration from the PRC to Southeast Asia. The Group may also be affected by economic slowdowns or lower consumer spending, especially in the PRC and the United States. 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 overcome these long and short-term challenges in order to address the demand for shorter lead-times, limit the impact of order volatility, and safeguard its sustainable and steady growth. This includes investing in and implementing resource planning and data management systems such as SAP to make the Group's new automation processes more efficient, as well as in production workflow optimization, process re-engineering and other enhancements to the Group's manufacturing capabilities. The Group is also becoming more selective on the quality of orders rather than pure volume growth. The Group will continue to enhance its product and material development capability, to innovate on new products, and to explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, creating long-term synergies for the Group. We will also continue to leverage on our parent company, Pou Chen Group's status as the first Fair Labor Association (FLA) accredited footwear supplier globally, which resulted from the Group's efforts in the areas of labor rights and sustainability, to further progress these efforts and differentiate ourselves to customers.

For the retail 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. Pou Sheng's omni-channel retail strategy will also continue to benefit from the favorable environment being fostered by official government support for the popularization of sport. It will continue to invest in upgrading its store formats, opening new concept mega stores and integrating digital and physical 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, *"Our profitability in 2018, particularly on the manufacturing side, was impacted by a number of factors including volatile monthly revenues, lower order visibility, and operating deleverage. While these challenges will remain present in 2019, we are making material progress in countering them. We will continue to invest in next-generation manufacturing and retail innovation to maintain our status as the leading partner for global sportswear brands."*

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]).



Yue Yuen Industrial (Holdings) Limited

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, 2018

	For the year ended 31 December	
	2018 US\$'000	2017 US\$'000
Revenue	9,695,282	9,121,426
Cost of sales	(7,249,224)	(6,770,280)
Gross profit	2,446,058	2,351,146
(% of revenue)	25.23%	25.78%
Other income	120,856	126,340
Selling and distribution expenses	(1,160,057)	(986,160)
Administrative expenses	(658,291)	(635,759)
Other expenses	(249,975)	(256,935)
Finance costs	(80,551)	(45,309)
Share of results of associates	12,489	43,735
Share of results of joint ventures	26,991	20,851
Other gains and losses	(17,956)	17,391
Profit before taxation	439,564	635,300
Income tax expense	(98,448)	(85,967)
Profit for the year	341,116	549,333
(% of revenue)	3.52%	6.02%
Attributable to:		
Owners of the Company	307,116	519,226
(% of revenue)	3.17%	5.69%
Non-controlling interests	34,000	30,107
	341,116	549,333
<i>By Category</i>		
Recurring profit	325,658	500,829
(% of revenue)	3.36%	5.49%
Non-recurring (loss) profit	(18,542)	18,397
Profit attributable to owners of the Company	<u>307,116</u>	<u>519,226</u>
	<i>US cents</i>	<i>US cents</i>
Earnings per share		
- Basic	<u>18.84</u>	<u>31.55</u>
- Diluted	<u>18.70</u>	<u>31.40</u>