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 NINE MONTHS ENDED SEPTEMBER 30, 2020

Summary

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the nine months ended September 30, 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 nine months ended September 30, 2020 was approximately US$154.1 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 nine months ended September 30, 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 nine months ended September 30, 2020

	For the nine months ended September 30, 2020 (unaudited) *US$'000*	For the nine months ended September 30, 2019 (unaudited) *US$'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
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
Attributable to:		
Owners of the Company	**(154,051)**	229,437
Non-controlling interests	**7,941**	39,864
	(146,110)	269,301

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2020

	For the nine months ended September 30,	
	2020	2019
	(unaudited)	(unaudited)
	US$'000	*US$'000*
(Loss) profit for the period	**(146,110)**	269,301
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	**(4,690)**	8,429
Remeasurement of defined obligations, net of tax	**(4,868)**	–
Share of other comprehensive expense of associates	**(2,111)**	(1,000)
	(11,669)	7,429
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**29,130**	(42,993)
Share of other comprehensive income (expense) of associates and joint ventures	**6,370**	(5,354)
Reserve released upon partial disposal of a joint venture	**(4,246)**	–
Reserve released upon disposal of an associate	**(270)**	–
Reserve released upon deregistration of a subsidiary	**(53)**	–
Reserve released upon disposal of subsidiaries	**–**	(380)
Reserve released upon deemed disposal of an associate	**–**	(40)
	30,931	(48,767)
Other comprehensive income (expense) for the period	**19,262**	(41,338)
Total comprehensive (expense) income for the period	**(126,848)**	227,963
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(146,550)**	205,861
Non-controlling interests	**19,702**	22,102
	(126,848)	227,963

Basis of preparation and principal accounting policies

The unaudited consolidated results for the nine months ended September 30, 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.

Other than changes in accounting polices resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies applied and methods of computation used in the unaudited consolidated results for the nine months ended September 30, 2020 are the same as those presented in 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, the Amendments to References to the Conceptual Framework in HKFRS Standards and certain amendments to 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 nine months ended September 30, 2020. The adoption of the Amendments to References to the Conceptual Framework in HKFRS Standards and the 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

Business Overview

The Group continued to face headwinds from the 2019 Novel Coronavirus ("COVID-19") pandemic during the first nine months of 2020. Global consumer sentiment and supply chain efficiency remained depressed due to lockdowns and other social distancing measures. This unprecedented situation is still hindering the visibility and efficiency of the Group's manufacturing and retail segments, although the later saw significant sequential improvements as China's economy started to recover from the second quarter of 2020. On the manufacturing side, demand was drastically impacted during the first nine months of 2020, leading to delayed shipments, as well as reduced and cancelled order books from international brands, which resulted in low utilization and productivity at various manufacturing facilities of the Group. 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.

In reaction to the challenging operating environment, the Group made further adjustments to its capacity and strengthened its flexibility for fast-changing customer demand. Aside from the closure of its factories in Hubei, China in the first half of 2020, the Group made temporary adjustments to its manufacturing capacity in Southeast Asia in response to the ongoing uncertainty and low visibility on customer demand. These steps, that were taken to optimize capacity, led to a surge in one-off charges of approximately US$105 million during the first nine months of 2020.

The Group's retail subsidiary Pou Sheng International (Holdings) Limited ("Pou Sheng") proved to be more resilient during the first nine months of 2020 with efficient online and offline initiatives driving a recovery in sales and operating efficiency, especially in recent quarters. 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. For more financial details of the Group's retail business, please refer to the results announcement of Pou Sheng.

In addition to the above measures in the manufacturing and retail segments, the Group adopted a more prudent approach when evaluating capital expenditure projects during the first nine months of 2020 to safeguard its cash flow, while imposing cost control measures and monitoring working capital efficiencies, to safeguard its cash flow and financial position.

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 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. The average selling price increased by 4.9% to US$17.88 per pair, 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.

	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*

During the period, the revenue attributable to Pou Sheng, the Group's retail subsidiary, decreased by 10.0% to US$2,619.3 million, 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, Pou Sheng's revenue stabilized in recent quarters, supported by a steady recovery in offline sales and decent growth from omni-channels, as retail activity in China progressively returned to normal.

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, 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 during the period 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 of 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.

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

Hong Kong, November 12, 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