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Earnings Release 2016

1.1. - 31.3. (unaudited)

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# SNOWBIRD AG

## EARNINGS RELEASE FOR THE FIRST QUARTER 2016 ENDED 31 MARCH 2016



### Letter to the shareholders

Dear shareholders,

I am happy to present the key financial information for the first quarter of 2016.

The sales revenue for the first three months amounted to EUR 28.1 million, a decrease of 17.3% as compared to the corresponding period due mainly to zero sales orders from our overseas customers. However, domestic sales continued to record strong growth as a result of continuing marketing efforts and supports from our customers.

Gross profit for the three months decreased by 66.4% to EUR 4.3 million. Also the gross profit margin saw a significant decrease from 34.3% to 15.5% as compared to the corresponding period due to high raw material price occurred at the previous purchasing cycle and lower selling prices due to the depressed market conditions. Based on the management experience and previous industry cycle, it is expected that the current situation will continue until the next quarter. It is expected that the situation will become brighter in the second half of the year due to peak season.

The Group recorded loss after tax is EUR 0.75 million in the first quarter as compared to the profit after tax of EUR 8.2 million in the corresponding period as a result of the poor sales performance, poor profit margin and higher finance costs pertaining to the bond raised in September 2015.

Our mission is to successfully develop the Snowbird Group in the future. Together with the employees, the management will continue to emphasize on innovation, value added product development and continuous improvement in production efficiency and to concentrate its effort to expand both, domestic and international markets profitably. Barring unforeseen circumstances, the management expects that Group to recur our previous glory.

I would like to express my appreciation towards the support and contribution from our shareholders, employees and all other stakeholders.

Yours sincerely,

YAN Zhaorui  
Chief Executive Officer (CEO)

**COMBINED MANAGEMENT INFORMATION OF SNOWBIRD GROUP AND SNOWBIRD AG**

**1. FUNDAMENTAL INFORMATION ABOUT THE GROUP**

**1.1 Business activities**

Snowbird Group is mainly engaged in the processing of down and manufacturing of down products with its operating subsidiaries based in the People's Republic of China ("PRC"). Its current business can be divided into four segments: (i) down, (ii) down clothing, (iii) down bedding and (iv) non-down Original Equipment Manufacturers ("OEM") clothing.

**1.2 Results of operations of the Group**

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
REVENUE	28,114	34,014	-17.3%
COST OF SALES	(23,751)	(21,036)	12.9%
GROSS PROFIT	4,363	12,978	-66.4%
OTHER INCOME	56	514	-89.1%
SELLING AND DISTRIBUTION EXPENSES	(411)	(297)	38.5%
GENERAL AND ADMINISTRATIVE EXPENSES	(2,007)	(2,129)	-5.7%
FINANCE COSTS	(2,189)	(164)	1334.8%
(LOSS)/PROFIT BEFORE TAXATION	(188)	10,902	n.m.
INCOME TAX EXPENSE	(565)	(2,738)	-79.3%
(LOSS)/PROFIT AFTER TAXATION	(753)	8,164	n.m.
OTHER COMPREHENSIVE (LOSS)/INCOME	(5,312)	15,916	n.m.
TOTAL COMPREHENSIVE (LOSS)/INCOME	(6,065)	24,080	n.m.

\* n.m. = not meaningful

**Revenues**

***Sales analysis by product***

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
Down	20,074	16,606	20.9%
Down clothing	4,483	9,760	-54.1%
Down bedding	505	351	43.8%
OEM clothing	3,052	7,297	-58.2%
	28,114	34,014	-17.3%

**1Q2016 as compared to 1Q2015**

Revenue decreased by 17.3% in 1Q2016 as compared to 1Q2015. Sales of down clothing, our second largest revenue driver, decreased by 54.1% due to the poorer demand from overseas. Despite of the decrease in average selling price of down by 34.5% in 1Q2016 compared to 1Q2015, down had recorded strong growth rate of 20.9% as a result of increased marketing efforts and strong demand from customers. OEM clothing, which traditionally takes place in the first half of the year, decreased by 58.2% as a result of our domestic customers' lower demand. Sales of down bedding in 1Q2016 increased by 43.8% compared to 1Q2015 as a result of increased marketing effort and strong demand from domestic customers.

***Sales analysis by geographical area***

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
Domestic (China)	28,114	24,064	16.8%
Export	-	9,950	-100.0%
	<b>28,114</b>	<b>34,014</b>	<b>-17.3%</b>

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
<b>Domestic (China)</b>			
Down	20,074	16,416	22.3%
Down clothing	4,483	-	n.m.
Down bedding	505	351	43.8%
OEM clothing	3,052	7,297	-58.2%
	<b>28,114</b>	<b>24,064</b>	<b>16.8%</b>
<b>Export</b>			
Down	-	190	-100.0%
Down clothing	-	9,760	-100.0%
	<b>-</b>	<b>9,950</b>	<b>-100.0%</b>
	<b>28,114</b>	<b>34,014</b>	<b>-17.3%</b>

**1Q2016 as compared to 1Q2015**

The increase in domestic sales of down bedding continued to record a remarkable growth of 43.8% in 1Q2016 as compared to 1Q2015 also as a result of increased marketing effort and strong demand from domestic customers.

We did not receive any sales order from our overseas customers during the current quarter. Therefore the management had shifted their focus and efforts towards developing domestic markets.

**Cost of sales**

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
Raw materials	21,307	16,389	30.0%
Direct labour	1,315	3,607	-63.5%
Manufacturing overhead	860	901	-4.6%
Export levy	-	101	-100.0%
Sales supplement taxes	269	38	625.3%
	<b>23,751</b>	<b>21,036</b>	<b>12.9%</b>

**1Q2016 as compared to 1Q2015**

Cost of sales increased by 12.9% despite of the decrease in sales by 17.3% due to high raw material price occurred at the previous purchasing cycle. Raw materials remain the dominating cost component and accounted for 89.7% and 77.9% of total cost of sales for 1Q2016 and 1Q2015 respectively. As a result of the highly automated down washing and separating processes for our down products, direct labour and manufacturing overhead remain low. Direct labor decreased by 63.5% in 1Q2016 as compared to 1Q2015 due to the decreased sales of down clothing as its production is labour intensive.

**Gross profit and gross profit margin**

**Gross Profit**

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
Down	2,769	7,283	-62.0%
Down clothing	852	3,169	-73.1%
Down bedding	232	205	13.7%
OEM clothing	510	2,321	-78.0%
	<b>4,363</b>	<b>12,978</b>	<b>-66.4%</b>

**Gross Profit Margin**

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Down	13.8%	35.6%	-21.8%
Down clothing	19.0%	32.5%	-13.5%
Down bedding	46.2%	58.4%	-12.2%
OEM clothing	16.7%	31.8%	-15.1%
Total gross profit margin	<b>15.5%</b>	<b>34.3%</b>	<b>-18.8%</b>

**1Q2016 as compared to 1Q2015**

Gross profit contribution decreased across all products except for down bedding due to high raw material price occurred at the previous purchasing cycle and lower selling price due to the depressed market conditions.

Overall gross profit margin decreased from 34.3% to 15.5%. All of our products have recorded a significant decrease in the gross profit margin due to above factors.

**Administrative and other expenses**

	<b>1Q2016</b>	<b>1Q2015</b>	<b>Changes</b>
	<b>EUR'000</b>	<b>EUR'000</b>	<b>%</b>
Salaries and related costs	1,055	1,481	-28.8%
Depreciation	121	66	83.8%
Amortisation of intangible assets	-	1	-3.9%
Amortisation of land use rights	26	27	-4.9%
Exchange losses	310	48	343.3%
Others	495	506	-2.6%
	<b>2,007</b>	<b>2,129</b>	<b>-10.4%</b>

**1Q2016 as compared to 1Q2015**

General and administrative expenses decreased by 10.4% mainly due to the decrease in salaries and related costs. Depreciation increased by 83.8% as a result of the depreciation on the additions in office equipment and furniture and fittings in the newly completed office building. Exchange losses increased by 343.3% as a result of euro's foreign exchange remained strong against the Renminbi ("RMB").

**Finance costs**

	<b>1Q2016</b>	<b>1Q2015</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Interest expenses	1,673	164
Average bank borrowings	50,131	10,666
Average interest rate	13.3%	6.3%

**2. OUTLOOK****2.1 Market development and sector trends**

Snowbird is targeting domestic and international markets. The favorable recent trends affecting Snowbird's business and the down industry in which it operates include:

**Rising industry**

The down and down products industry in China has been on rising strong trend. Market size for down, down garments and down bedding is expected to grow at compound annual growth rate ("CAGR") of 5.06%, 8.57% and 12.72% respectively from 2016 to 2020. (Source: Respect Marketing Research Inc. 2016).

**Rise in popularity of down bedding in China**

According to the China Feather & Down Industrial Association, in developed countries, almost every person has one duvet; the popularization rate of duvet in Japan, US and Europe is 104%, 86.7% and 89.3% respectively while in China it is less than 1%. Rising popularity of down bedding has created huge potential for Snowbird's down bedding products. (Source: Respect Marketing Research Inc. 2016).

**2.2 Earnings, net assets and financial position of the Group**

Barring unforeseen circumstances, with reference to the expected market development and the sector trends, the Management Board expects for 2016 to achieve a similar level of revenues as in 2015 and growth in net assets and the financial position.

**2.3 Future development of Snowbird AG**

Since Snowbird AG is the holding company of the Snowbird Group and the main business operations are performed in the People's Republic of China (PRC), the future development of Snowbird AG depends not simply on macroeconomic developments, but also on the development of the operational entities in the PRC.

# SNOWBIRD AG

## EARNINGS RELEASE FOR THE FIRST QUARTER 2016 ENDED 31 MARCH 2016



### 2.4 Overall statement of future business development

Since Snowbird's products are mainly targeting the domestic market, the economic development of the PRC is of central importance for the company's future development. Although annual growth in China's Gross Domestic Product recently slipped to 7%, the accompanying increase in income, ongoing urbanisation, higher productivity and the growth of added value are continuing. The company assumes that consumer spending will be the main growth driver in the future. Chinese consumers are becoming increasingly quality-conscious and fashion trends as well as brand awareness are becoming more significant for purchasing decisions. Snowbird therefore sees good prospects for raising its share in the market for down clothing and fashion and down bedding products in the coming years.

Hamburg, 31 May 2016

Snowbird AG

The Management Board

YAN Zhaorui (CEO)

QIU Duoxiang (COO)