

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

For business continuation and compliance with the Listing Rules, the Company and certain subsidiaries have entered into various agreements with the relevant connected parties to set out, among other things, the Caps for the Continuing Connected Transactions anticipated to take place between 1 January 2021 and 31 December 2023.

As the highest applicable percentage ratio in respect of the Caps of the Continuing Connected Transactions is more than 5%, such agreements and Caps for the Continuing Connected Transactions are required to be made conditional on the approval of the Independent Shareholders at the SGM. A circular containing, among other things, (i) further information about the Continuing Connected Transactions and the Caps; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions; (iii) the recommendation from the Independent Board Committee in respect of the Continuing Connected Transactions; and (iv) a notice convening the SGM is expected to be despatched to the Shareholders on or before 10 November 2020 as additional time is required for finalization of certain information to be included in the circular.

* *for identification purposes only*

I. INTRODUCTION

For business continuation and compliance with the Listing Rules, the Company and certain subsidiaries have on 8 October 2020 (after trading hours of the Stock Exchange) entered into various agreements with the relevant connected parties to set out, among other things, the Caps for the Continuing Connected Transactions anticipated to take place between 1 January 2021 and 31 December 2023. As the highest applicable percentage ratio in respect of the Caps of the Continuing Connected Transactions is more than 5%, such agreements and Caps for the Continuing Connected Transactions are conditional on the approval of the Independent Shareholders at the SGM.

A summary of the Continuing Connected Transactions is set out below.

(A) Transactions between PCC Group and the Group

PCC Services Agreement

Under the PCC Services Agreement, PCC agreed to provide research and development, know-how, technical, marketing and consultancy services, source raw materials, materials, components, machinery and other goods, recruit staff in relation to the production and sale of the Group's products and provide general administration support services.

The parties have entered into the Seventh Supplemental PCC Services Agreement to, among other matters, amend and extend the term for three years to 31 December 2023.

PCC Connected Sales Agreement

Under the PCC Connected Sales Agreement, members of the Group agreed to sell leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools and provide consultancy and guidance services to the PCC Group.

The parties have entered into the Sixth Supplemental PCC Connected Sales Agreement to, among other matters, amend and extend the term for three years to 31 December 2023.

PCC Connected Purchases Agreement

Under the PCC Connected Purchases Agreement, members of the Group agreed to purchase from the PCC Group raw materials, moulds, shoe-related products and manufacturing equipment and production tools for production needs.

The parties have entered into the Sixth Supplemental PCC Connected Purchases Agreement to, among other matters, amend and extend the term for three years to 31 December 2023.

(B) Transactions between Godalming Group and the Group

Godalming Tenancy Agreement

Under the Godalming Tenancy Agreement, subsidiaries of Godalming agreed to lease to members of the Group and a joint venture of the Company certain premises in the PRC for production and logistics purposes, including shoe and sole factory buildings, office, warehouses, auxiliaries and dormitories for workers.

The parties have entered into the Seventh Supplemental Godalming Tenancy Agreement to, among other matters, amend and extend the term for three years to 31 December 2023.

II. BUSINESS OF THE GROUP

The Company is an investment holding company. Through its subsidiaries, the Group engages in two main businesses focusing on sporting goods and services. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

III. PCC SERVICES AGREEMENT

On 22 February 1997, the Company and PCC entered into the PCC Services Agreement. Since then the parties have entered into various supplemental agreements to amend and extend the terms of the agreement. The parties have on 8 October 2020 entered into the Seventh Supplemental PCC Services Agreement to further extend the term for three years to 31 December 2023.

A summary of the principal terms of the agreement is set out below.

Dates

PCC Services Agreement:	22 February 1997 (as amended and extended to 31 December 2023)
Third Supplemental PCC Services Agreement:	25 August 2011
Fourth Supplemental PCC Services Agreement:	15 September 2014
Fifth Supplemental PCC Services Agreement:	21 October 2014
Sixth Supplemental PCC Services Agreement:	13 October 2017
Seventh Supplemental PCC Services Agreement:	8 October 2020

Parties

The Company for itself and on behalf of each member of the Group and PCC.

PCC is a controlling shareholder of the Company, indirectly owning or controlling approximately 51.11% of the Company's issued share capital and PCC, through its subsidiaries, is principally engaged in the (i) manufacturing of shoes; (ii) retail of sporting goods and brand licensing business; and (iii) other businesses including real estate development and hotel operation.

Terms

The services agreed upon in the PCC Services Agreement include, inter alia, PCC providing research and development, know-how, technical, marketing and consultancy services, sourcing of raw materials, materials, components, machinery and other goods, recruitment of staff in relation to the production and sale of the Group's products and provision of general administration support services. The services may be provided by or through any member of the PCC Group, but PCC remains fully liable for the provision of these services. The obligations of the Company under the agreement may be performed through other members of the Group but PCC's only recourse under the agreement is to the Company itself.

The term of the PCC Services Agreement was extended by various supplemental agreements. The Seventh Supplemental PCC Services Agreement extends the term for another three years to 31 December 2023 and amends the scope of the services agreed upon to include provision of consultancy services and general administration support services.

Services fees and payment terms

The Company will pay to PCC the following fees in respect of:

- i. the Group's products developed through the research and development, know-how and technical services provided by the PCC Group and sold by the Group, not more than 0.5% of the net invoiced amounts of such products paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 30 days after the end of relevant month of the invoice date;
- ii. raw materials, materials, components, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, not more than 1% of the merchandise cost invoiced to the PCC Group paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date; and
- iii. raw materials, materials, components, machinery and other goods sourced by the PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, not more than 0.5% of the cost of merchandise invoiced to the Group paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date.

The above services fees payable under the agreement are in the ordinary and usual course of business of the Group relating to the use of services provided by PCC and on normal commercial terms.

Reimbursement of costs and expenses and payment terms

The Company is also obliged to reimburse PCC in respect of the following costs and expenses:

- i. in respect of the purchase of raw materials, materials, components, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, the Company will reimburse the cost of merchandise paid by the PCC Group to the suppliers according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date; and
- ii. in respect of all the reasonable expenses and other related costs directly incurred or charged by the PCC Group in the provision of services of research and development, sourcing of raw materials, materials, components, machinery and other goods, marketing, consultancy, recruitment services relating to the production and sale of the Group's products and general administration support services, the Company shall pay to PCC, in advance, an amount equivalent to PCC's estimate of the relevant monthly expenses and costs and any differences between such estimate and actual expenses and costs, in respect of which PCC shall render statements of account, shall be settled between PCC and the Company within 45 days after the end of relevant month.

Reimbursement of the costs and expenses under the agreement is made on normal commercial terms (i.e. based on the actual costs and expenses incurred) and such costs and expenses are incurred as part of the ordinary and usual course of business of the Group relating to the use of services provided by PCC.

Internal control measures

The Group will implement the following procedures over the monitoring of pricing basis of the services received from the PCC Group and reimbursement of costs and expenses:

- (i) the sales and costing units of the Group will review the sales and costs invoices to assess whether the invoices qualify for service fees payable to PCC and if so, the pre-agreed service fee percentage is applied to the invoices properly; the sales and costing units of the Group will also review the costs and expenses as submitted by the PCC Group;
- (ii) the accounting department of the Group will periodically review the service fees paid to the PCC Group to ensure that the correct amount of service fees as agreed under the PCC Services Agreement are paid to the PCC Group; the accounting department of the Group will also review the reimbursement of the costs and expenses incurred by the PCC Group to ensure that any additional balance is settled between the Company and PCC; and
- (iii) the Group will periodically gather market information with regard to similar services for its analysis.

Historical transaction amounts

According to the audited consolidated financial statements of the Group for the year ended 31 December 2018, the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2020, the relevant transaction amounts are:

Financial year end			2020
31 December (except 2020)	2018	2019	(six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>388,887</u>	<u>361,304</u>	<u>138,393</u>

IV. PCC CONNECTED SALES AGREEMENT

Since 1988, the Group has sold semi-finished shoe products to PCC. On 4 July 1996, PCC became a substantial shareholder of the Company, and these transactions have since then become connected party transactions. These continuing connected transactions were approved by Independent Shareholders at a shareholders' meeting on 11 September 1996. On 9 January 2007, the parties formalised the arrangements between them by entering into the PCC Connected Sales Agreement, which was approved by the Independent Shareholders.

A summary of the principal terms of the agreement is set out below.

Dates

PCC Connected Sales Agreement:	9 January 2007 (as amended and extended to 31 December 2023)
Second Supplemental PCC Connected Sales Agreement:	25 August 2011
Third Supplemental PCC Connected Sales Agreement:	15 September 2014
Fourth Supplemental PCC Connected Sales Agreement:	21 October 2014
Fifth Supplemental PCC Connected Sales Agreement:	13 October 2017
Sixth Supplemental PCC Connected Sales Agreement:	8 October 2020

Parties

The PCC Group and the Group.

Terms

Under the PCC Connected Sales Agreement, the PCC Group may place orders or make requests with the Group. The PCC Group is required to specify the terms of purchase in each order or request. The Group is required to manufacture and supply leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools and provide consultancy and guidance services to the PCC Group as may be ordered/requested by the PCC Group on the terms of each order/request accepted by the Group.

The Sixth Supplemental PCC Connected Sales Agreement extends the term for another three years to 31 December 2023 and amends the scope of PCC Connected Sales Agreement to include provision of consultancy and guidance services.

Pricing basis

The selling price for the products supplied and fees for the services provided under the agreement shall be calculated as follows:

- i. for manufacture and supply of leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools, the prices shall be no less favourable to the Group than those made available by the Group to independent third parties. In general, the management of the Group reviews and monitors the terms and prices offered to the PCC Group by comparing with the terms and prices offered to independent third parties for comparable products with similar features and quantities, in order to ensure that the terms and prices shall be no less favourable to the Group than those made available by the Group to independent third parties. For manufacture and supply of moulds, the prices shall be set based on standard price lists as agreed with independent third parties for the production of moulds; and
- ii. for provision of consultancy and guidance services, all the reasonable expenses and other related costs directly incurred by the Company in the provision of consultancy and guidance services, the PCC Group shall pay to the Company an amount equivalent to the Company's estimate of the relevant monthly expenses and costs. Any differences between such estimate and actual expenses and costs shall be adjusted and settled between PCC and the Company in the next invoice.

Internal control measures

The Group will implement the following procedures over the monitoring of the pricing basis of the sales and the services to the PCC Group:

- i. for manufacture and supply of leather, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools, the sales and costing units of the Group are required to submit costs and transaction records relating to the sale transactions of products with identical or similar features to independent third parties for internal assessment and evaluation by the accounting department of the Group;

- ii. for manufacture and supply of moulds, the sales and costing units of the Group will check and approve the prices which are set based on standard price lists as agreed with independent third parties. The accounting department of the Group will periodically check the internal approval documents to ensure the prices are properly approved by the sales and costing units of the Group; and
- iii. the accounting department of the Group will check the correctness of monthly expenses and costs for the provision of consultancy and guidance services under the agreement.

Payment terms

For products supplied, payment shall be made according to the payment terms set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date). If the payment term is not specified, payment shall be made within 45 days after the end of relevant month of the invoice date.

For services provided, payment shall be made within 45 days after the end of relevant month of the invoice date. Any differences between estimate and actual expenses and costs shall be adjusted and settled between PCC and the Company in the next invoice.

Historical transaction amounts

According to the audited consolidated financial statements of the Group for the year ended 31 December 2018, the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2020, the relevant transaction amounts are:

Financial year end	2020		
31 December (except 2020)	2018	2019	(six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>3,449</u>	<u>3,627</u>	<u>1,597</u>

V. PCC CONNECTED PURCHASES AGREEMENT

Since 1988, the Group has purchased raw materials, production tools and shoe-related products for its production needs from PCC. On 4 July 1996, PCC became a substantial shareholder of the Company, and these transactions have since then become connected party transactions. These continuing connected purchase transactions were approved by Independent Shareholders at shareholders' meeting on 11 September 1996 and 27 March 1997 respectively. These purchase transactions have been conducted at price(s) based on open market rates and are no less favourable to the Group than those available from independent third parties. On 9 January 2007, the parties formalised the arrangements between them by entering into the PCC Connected Purchases Agreement, which was approved by the Independent Shareholders.

A summary of the principal terms of the agreement is set out below.

Dates

PCC Connected Purchases Agreement:	9 January 2007 (as amended and extended to 31 December 2023)
Second Supplemental PCC Connected Purchases Agreement:	25 August 2011
Third Supplemental PCC Connected Purchases Agreement:	15 September 2014
Fourth Supplemental PCC Connected Purchases Agreement:	21 October 2014
Fifth Supplemental PCC Connected Purchases Agreement:	13 October 2017
Sixth Supplemental PCC Connected Purchases Agreement:	8 October 2020

Parties

The Group and the PCC Group.

Terms

Under the PCC Connected Purchases Agreement, the Group may place orders for raw materials, shoe-related products, moulds and manufacturing equipment and production tools with the PCC Group. The Group is required to specify the terms of purchase in each order. The PCC Group is required to supply its own products of raw materials, shoe-related products or manufacturing equipment or tools ordered by the Group on the terms of each order accepted by the PCC Group. The Group is free to place an order with any supplier (including independent third parties) that it may choose.

The PCC Connected Purchases Agreement was in force for a period of three years from 1 October 2005. The parties entered into various supplemental agreements to extend the term. The parties have entered into the Sixth Supplemental PCC Connected Purchases Agreement to further extend the term for three years to 31 December 2023.

Pricing basis

The amount agreed to be charged by the PCC Group shall be calculated as follows:

- (a) on terms no less favourable to the Group than those available from independent third parties, the management of the Group will determine the terms by comparing with those offered by independent third parties for products with similar features and quantities.
- (b) for purchase of products exclusively from the PCC Group, the management of the Group will compare the price and/or gross profit margin offered by the PCC Group to independent third parties on products with similar features to ensure the terms of purchase are no less favourable to the Group.

Internal control measures

The Group will implement the following procedures over the monitoring of the pricing basis of the purchase from the PCC Group:

- i. the procurement unit of the Group will obtain quotations which may be in written or oral form from at least two independent third parties for products in similar quantities and features to determine whether the price and terms offered by the PCC Group are fair and reasonable and comparable to those offered by independent third parties. The procurement unit of the Group will then compare the price and payment terms offered by the PCC Group against the quotations offered by independent third parties to ensure the products are charged no less favourable to the Group than those available from independent third parties;

- ii. for purchase of products exclusively from the PCC Group, the procurement unit of the Group will obtain the sales invoices and/or gross profit margin analysis from the PCC Group for products with similar features offered by the PCC Group to independent third parties to determine whether the price and terms offered by the PCC Group are fair and reasonable. The procurement unit of the Group will then compare the price and/or gross profit margin offered by the PCC Group to independent third parties to ensure the products are charged no less favourable to the Group;
- iii. the manager-in-charge of the procurement unit of the Group will approve the purchase from the PCC Group as proposed by the procurement unit after the above comparison and evaluation procedures are made; and
- iv. a monthly report on the purchases from the PCC Group will be submitted to the management for monitoring purposes.

Payment terms

Payment shall be made according to the payment terms as set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date). If no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date.

Historical transaction amounts

According to the audited consolidated financial statements of the Group for the year ended 31 December 2018, the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2020, the relevant transaction amounts are:

Financial year end	2020		
31 December (except 2020)	2018	2019	(six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>1,150</u>	<u>1,139</u>	<u>624</u>

VI. GODALMING TENANCY AGREEMENT

On 8 June 1992, Yue Yuen International entered into the Godalming Tenancy Agreement with subsidiaries of Godalming. The original agreement was supplemented with three supplemental memoranda all dated 13 June 1997 to cover additional premises and tenants who are wholly-owned subsidiaries and a joint venture of the Company. The original agreement as supplemented was renewed and varied by various supplemental agreements.

A summary of the principal terms of the agreement is set out below.

Dates

Godalming Tenancy Agreement:	8 June 1992 (as amended and extended to 31 December 2023)
Three supplemental memoranda:	13 June 1997
Third Supplemental Godalming Tenancy Agreement:	25 August 2011
Fourth Supplemental Godalming Tenancy Agreement:	15 September 2014
Fifth Supplemental Godalming Tenancy Agreement:	21 October 2014
Sixth Supplemental Godalming Tenancy Agreement:	13 October 2017
Seventh Supplemental Godalming Tenancy Agreement:	8 October 2020

Parties

Tenants:	subsidiaries and a joint venture of the Company
Landlords:	wholly-owned subsidiaries of Godalming

Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of certain persons including Ms. Tsai. Godalming's principal business activity is property investment in the PRC.

Premises

- i. Yue Yuen Industrial Estate, Gaobu, Gaobu Town, Dongguan, Guangdong Province, PRC
- ii. Pou Yuen Industrial Estate, Dichong, Gaobu Town, Dongguan, Guangdong Province, PRC
- iii. Level 1 to Level 6, Block 11, Cui Jing Garden, Mingzhu Road, Qianshan, Zhuhai, Guangdong Province, PRC

The premises above are leased to the Group as from time to time required by the Group. These premises are leased to the Group for production and logistics purposes, including shoe and sole factory buildings, office, warehouses, auxiliaries and dormitories for workers.

Terms

The rentals on the premises paid to Godalming are based on the open market rates, which are referenced to valuations performed by an independent professional valuer on 31 August 2020. The parties have entered into the Seventh Supplemental Godalming Tenancy Agreement to further extend the term for three years to 31 December 2023.

Pricing basis

The current monthly rentals on the premises shall not be higher than the prevailing market rent as valued by an independent professional valuer.

Payment terms

On or before the last day of each calendar month.

Historical transaction amounts

According to the audited consolidated financial statements of the Group for the year ended 31 December 2018, the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2020, the relevant transaction amounts are:

Financial year end 31 December (except 2020)	2018	2019	2020 (six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>1,921</u>	<u>1,930</u>	<u>984</u>

VII. REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions have been taking place for a long period of time and are essential for the continued operation and growth of the business of the Group. Without them, the Group would have to conduct these transactions with other business partners. This will involve identifying companies and renegotiating all terms of the transactions. Accordingly, the Directors (excluding the independent non-executive Directors who will form their views after considering the advice of the Independent Financial Adviser) believe that the terms of the Continuing Connected Transactions for the three years ending 31 December 2023 are fair and reasonable and the Continuing Connected Transactions are in the interest of and are beneficial to the Group and Shareholders as a whole; and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms or on terms no less favourable to members of the Group than terms available to or from independent third parties.

VIII. CONNECTED PERSONS, ANNUAL CAPS AND SPECIAL GENERAL MEETING

PCC indirectly owns or controls approximately 51.11% of the Company's issued share capital. Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of certain persons including Ms. Tsai. PCC and Godalming are therefore connected persons of the Company within the meaning of the Listing Rules.

For purposes of compliance with the Listing Rules, in terms of future annual review of the Continuing Connected Transactions, the auditor of the Company will be asked to confirm whether the Continuing Connected Transactions have been conducted within the Caps. Based on historical amounts and estimated future business needs, the proposed Caps for each group of connected transactions in the three years ending 31 December 2023 are set out below.

Connected Group	1 January 2021 to 31 December 2021 (US\$'000)	1 January 2022 to 31 December 2022 (US\$'000)	1 January 2023 to 31 December 2023 (US\$'000)
PCC			
Seventh Supplemental PCC Services Agreement	409,357	429,825	451,316
Sixth Supplemental PCC Connected Sales Agreement	8,147	8,480	8,829
Sixth Supplemental PCC Connected Purchases Agreement	1,916	2,012	2,113
Sub-total ^(Note 1) :	419,420	440,317	462,258
Godalming ^(Note 2)			
Seventh Supplemental Godalming Tenancy Agreement ^(Note 3)	2,260	1,760	1,760
Sub-total ^{(Note 1) (Note 2)} :	2,260	1,760	1,760
Total:	421,680	442,077	464,018

Note 1: Each of the Continuing Connected Transactions in each connected group will be subject to the sub-total for such connected group

Note 2: The transaction amount between Godalming and a joint venture of the Company is not included in the proposed annual cap of the Seventh Supplemental Godalming Tenancy Agreement

Note 3: The Seventh Supplemental Godalming Tenancy Agreement does not fulfil the recognition criteria of a lease and no rights-of-use assets will be recognized by the Group according to Hong Kong Financial Reporting Standard 16 “Leases” issued by the Hong Kong Institute of Certified Public Accountants, thus the entering into of the Seventh Supplemental Godalming Tenancy Agreement and the transactions contemplated thereunder will be regarded as a continuing connected transaction under Chapter 14A of the Listing Rules and the annual caps under the Seventh Supplemental Godalming Tenancy Agreement are set as the aggregate annual rentals for the premises under the Seventh Supplemental Godalming Tenancy Agreement.

The aggregate historical values of the relevant Continuing Connected Transactions which actually took place in each of the two years ended 31 December 2019 and the six months ended 30 June 2020 were approximately US\$395,407,000, US\$368,000,000 and US\$141,598,000 respectively. Under Rule 14A.82 of the Listing Rules, the Continuing Connected Transactions have been aggregated and have not been considered on an individual agreement basis for the purposes of ascertaining the disclosure and independent shareholders' approval requirements under the Listing Rules. For the purpose of continuing compliance with the Listing Rules, each of these Continuing Connected Transactions will be subject to aggregate annual caps under their respective connected group. The consideration under each of the Continuing Connected Transactions has been and will be satisfied from internal resources of the Group. The Directors (excluding the independent non-executive Directors who will form their views after considering the advice of the Independent Financial Adviser) believe that the terms of the Continuing Connected Transactions for the three years ending 31 December 2023 and the Caps are fair and reasonable; and the Continuing Connected Transactions are in the interest of and are beneficial to the Group and Shareholders as a whole, and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms or on terms no less favourable to members of the Group than terms available to or from independent third parties.

IX. GENERAL

An Independent Board Committee has been constituted to make a recommendation to the Independent Shareholders in respect of the resolutions to approve the Continuing Connected Transactions. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Continuing Connected Transactions (including the proposed Caps) are fair and reasonable so far as the Shareholders are concerned. Each of PCC, Godalming, Ms. Tsai and their respective Associates (to the extent they hold Shares) will abstain from voting on the resolutions to approve the relevant Continuing Connected Transactions Agreements (including the proposed Caps) at the SGM.

Ms. Tsai has abstained from voting on the resolutions approving the Continuing Connected Transactions at the Board meeting held to consider the Continuing Connected Transactions.

In accordance with the requirements of Rule 14A.55 of the Listing Rules, the independent non-executive Directors will review the Continuing Connected Transactions and confirm in the Company's annual report that the transactions have been entered into:

- a) in the ordinary and usual course of business of the Group;
- b) on normal commercial terms or better; and
- c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

A circular containing, among other things, (i) further information about the Continuing Connected Transactions and the Caps, (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions; (iii) the recommendation from the Independent Board Committee in respect of the Continuing Connected Transactions; and (iv) a notice convening the SGM which will be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on 26 November 2020 will be despatched to the Shareholders on or before 10 November 2020 as additional time is required for finalization of certain information to be included in the circular.

X. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 20 November 2020 to Thursday, 26 November 2020, both dates inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 19 November 2020 in order to establish the identity of the shareholders who are entitled to attend and vote at the SGM ("Entitlement to SGM"). The record date for the Entitlement to SGM will be Friday, 20 November 2020.

XI. DEFINITIONS

The following terms are used in this Announcement with the meanings assigned to them below:

“Associate”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Caps”	the respective annual caps for the Continuing Connected Transactions
“Company”	Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose securities are listed on the main board of the Stock Exchange
“Continuing Connected Transactions”	the transactions carried out under the following agreements: PCC Services Agreement, PCC Connected Sales Agreement, PCC Connected Purchases Agreement and Godalming Tenancy Agreement
“Continuing Connected Transactions Agreements”	The respective agreements for the Continuing Connected Transactions in respect of each of the three years ending 31 December 2023
“Director(s)”	director(s) of the Company
“Godalming”	Godalming Industries Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of certain persons including Ms. Tsai
“Godalming Group”	Godalming and its subsidiaries
“Godalming Tenancy Agreement”	the tenancy agreement dated 8 June 1992 entered into between Yue Yuen International and subsidiaries of Godalming for the rental of certain premises in the PRC for production and logistics purposes, as amended and supplemented
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	a board committee comprising the independent non-executive Directors constituted to make recommendations to the Independent Shareholders in respect of the terms of the Continuing Connected Transactions (including their respective Caps)
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Continuing Connected Transactions
“Independent Shareholders”	the Shareholders other than PCC, Godalming, Ms. Tsai and their respective Associates, who, if they hold Shares, are required to abstain from voting on the Continuing Connected Transactions at the SGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Tsai”	Ms. Tsai Pei Chun, Patty, an executive Director and the managing Director
“PCC”	Pou Chen Corporation, a company with its shares listed and traded on the Taiwan Stock Exchange Corporation and a controlling shareholder of the Company
“PCC Connected Purchases Agreement”	the agreement dated 9 January 2007 entered into between the Group and the PCC Group for the purchase of raw materials, moulds, shoe-related products and manufacturing equipment and production tools for production needs, as amended and supplemented
“PCC Connected Sales Agreement”	the agreement dated 9 January 2007 entered into between the Group and the PCC Group for the sale of leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools and provision of consultancy and guidance services to the PCC Group, as amended and supplemented

“PCC Group”	PCC and its subsidiaries and Associates other than members of the Group
“PCC Services Agreement”	the services agreement dated 22 February 1997 entered into between the Company and PCC for the provision of research and development, know-how, technical, marketing and consultancy services, sourcing of raw materials, materials, components, machinery and other goods, recruitment of staff in relation to the production and sale of the Group’s products and provision of general administrative support services, as amended and supplemented
“PRC”	The People’s Republic of China
“Seventh Supplemental Godalming Tenancy Agreement”	the agreement dated 8 October 2020 entered into between subsidiaries of Godalming as landlords and subsidiaries and a joint venture of the Company as tenants supplemental to the Godalming Tenancy Agreement
“Seventh Supplemental PCC Services Agreement”	the agreement dated 8 October 2020 entered into between the Company and PCC supplemental to the PCC Services Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and approve the Continuing Connected Transactions (including the relevant Caps)
“Sixth Supplemental PCC Connected Purchases Agreement”	the agreement dated 8 October 2020 entered into between the Group and the PCC Group supplemental to the PCC Connected Purchases Agreement
“Sixth Supplemental PCC Connected Sales Agreement”	the agreement dated 8 October 2020 entered into between the Group and the PCC Group supplemental to the PCC Connected Sales Agreement
“Share(s)”	share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	the lawful currency of the United States
“Yue Yuen International”	Yue Yuen International Limited, a previous wholly-owned subsidiary of the Company

Unless other specified in this announcement, translations of US\$ into HK\$ are made in this announcement, for illustration only, at the rate of US\$1.00 to HK\$7.80. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at that rate or at any other rate.

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

Hong Kong, 8 October 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