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YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

DISCLOSEABLE TRANSACTION – DISPOSAL OF ISSUED SHARE CAPITAL IN TEXAS CLOTHING HOLDING CORP. BY WAY OF MERGER

THE DISPOSAL

The Board announces that on May 7, 2019, the Seller, TCHC, the Merger Sub, the Buyer, the Buyer Guarantor and the Company entered into the Merger Agreement, pursuant to which (a) the parties have agreed, among others, to effect the merger of the Merger Sub with and into TCHC in accordance with the provisions of Delaware Law; (b) the Buyer Guarantor and, following the Closing, TCHC have agreed to guarantee in favour of the Seller the due, full and punctual payment of the monetary obligations of the Buyer under the Merger Agreement; and (c) the Company has agreed to guarantee in favour of the Buyer the due, full and punctual payment of the monetary obligations of the Seller under the Merger Agreement. Pursuant to the Merger Agreement, the Sale Shares shall be converted into the right to receive the Merger Price, as may be adjusted pursuant to the Merger Agreement.

Immediately after the Closing, the TCHC Group will cease to be subsidiaries of the Company and the financial results of the TCHC Group will no longer be consolidated into the Group's financial statements.

LISTING RULES IMPLICATIONS

As one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but is less than 25%, the transaction contemplated under the Merger Agreement constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements pursuant to Rule 14.06(2) of the Listing Rules.

* For identification purpose only

THE MERGER AGREEMENT

The Board announces that on May 7, 2019, the Seller, TCHC, the Merger Sub, the Buyer, the Buyer Guarantor and the Company entered into the Merger Agreement, pursuant to which (a) the parties have agreed to effect the merger of the Merger Sub with and into TCHC in accordance with the provisions of Delaware Law; (b) the Buyer Guarantor and, following the Closing, TCHC have agreed to guarantee in favour of the Seller the due, full and punctual payment of the monetary obligations of the Buyer under the Merger Agreement; and (c) the Company has agreed to guarantee in favour of the Buyer the due, full and punctual payment of the monetary obligations of the Seller under the Merger Agreement. Pursuant to the Merger Agreement, the Sale Shares shall be converted into the right to receive the Merger Price, as may be adjusted pursuant to the Merger Agreement.

Set out below is a summary of some of the principal terms of the Merger Agreement.

Date: May 7, 2019

| | | |
|----------|-------------------|----------------------------------|
| Parties: | Seller: | Grand Wealth Group Limited |
| | Buyer: | Buyer under the Merger Agreement |
| | TCHC: | Texas Clothing Holding Corp. |
| | Merger Sub: | Kinston Merger Sub, Inc. |
| | Buyer Guarantor: | Holding company of the Buyer |
| | Seller Guarantor: | the Company |

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Buyer, Merger Sub, Buyer Guarantor and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons.

The Merger

Pursuant to the Merger Agreement, the parties have agreed to effect the merger of the Merger Sub with and into TCHC in accordance with the provisions of Delaware Law, which involves a disposal of the Sale Shares, representing all issued share capital of TCHC held by the Seller, to the Buyer for the Merger Price. Prior to entering into the Merger Agreement, the Seller held 99.99% issued share capital of TCHC and TCHC redeemed certain issued share capital from one minority shareholder. Prior to the effectiveness of the Merger, TCHC will attempt to redeem one share owned by the one remaining minority shareholder. If TCHC is unsuccessful in its efforts to redeem this

share, TCHC may effect a reverse stock split pursuant to Delaware Law pursuant to which the minority share would be cancelled in exchange for payment of the fair value of the remaining share. As such, it is anticipated that as at the Closing Date, the Seller will hold all issued share capital of TCHC.

Subject to the terms and conditions of the Merger Agreement and in accordance with the Delaware Law, at the Effective Time (a) Merger Sub will be merged with and into TCHC; (b) the separate existence of the Merger Sub will cease; and (c) TCHC will be the surviving corporation in the Merger and shall continue to exist as the surviving corporation under its present name pursuant to the provisions of the Delaware Law.

From and after the Effective Time, all property, rights, privileges, immunities, powers, franchises, licenses and authority of TCHC and Merger Sub will vest in TCHC as the surviving corporation, and all debts, liabilities, obligations, restrictions and duties of each of TCHC and Merger Sub will become the debts, liabilities, obligations, restrictions and duties of TCHC as the surviving corporation.

Merger Price

The Merger Price consists of the Purchase Price and the Earnout Amount.

Purchase Price

The Purchase Price before adjustment is US\$230 million (equivalent to approximately HK\$1,794 million), which was determined after arm's length negotiations between the Buyer and the Seller with reference to the multiples of the comparable companies traded in the US market and the valuations for the precedent transactions globally.

A closing statement will be provided by TCHC to the Buyer not later than 3 Business Days prior to the Closing Date to determine the estimated purchase price (the “**Estimated Purchase Price**”), which is calculated based on the Purchase Price before adjustment, subject to estimated adjustments for working capital, estimated indebtedness of TCHC as of the Closing Date, estimated transaction expenses (but only to the extent not taken into account as a deduction in the calculation of estimated adjustment for working capital) and the bonus payable to TCHC's Chief Executive Officer. Such closing statement will be finalised within 90 days after the Closing Date with reference to the books and records of TCHC to confirm the final Purchase Price (the “**Final Purchase Price**”).

The Estimated Purchase Price will be paid at the Closing (and over a period of four years after the Closing in respect of (a)(ii) and (iii) below) in the following manner:

- (a) to the Seller and the minority shareholder of TCHC, if any at Closing (collectively referred to as the “**Sellers**”), pro rata in proportion to the number of shares held by them respectively

- (i) an amount equal to the Estimated Purchase Price minus (y) the Adjustment Escrow Amount (as defined below) and the Indemnification Escrow Amount (as defined below), minus (z) US\$16 million;
 - (ii) US\$16 million (the “**Deferred Cash Payments**”) in cash out of which US\$15 million will be paid over thirty-six months after Closing Date and US\$1 million will be paid on the third anniversary of the Closing Date. Out of the said US\$1 million, the Buyer shall have the right to withhold up to US\$0.14 million pursuant to the Merger Agreement, which is subject to set off for certain claims, if any, and is expected to be released by the fourth anniversary of the Closing Date;
 - (iii) US\$0.86 million in cash on the fourth anniversary of the Closing Date, which payment serves as an adjustment to the working capital amount and is subject to set off for certain claims;
- (b) to the escrow agent
- (i) US\$1.15 million (equivalent to approximately HK\$8.97 million) (the “**Indemnification Escrow Amount**”) for the purpose of indemnifying the Buyer and Merger Sub and other permitted indemnified parties from and against any claims or losses pursuant to the Merger Agreement, which amount will be released on the first anniversary of the Closing Date; and
 - (ii) US\$1 million (equivalent to approximately HK\$7.8 million) (the “**Adjustment Escrow Amount**”) for the purpose of covering any adjustments necessary to the Estimated Purchase Price due to the difference between the Estimated Purchase Price and the Final Purchase Price.

Earnout Amount

Following the Closing, the Buyer shall pay or cause TCHC (as the surviving corporation) to pay to the Sellers the Earnout Amount, which is calculated with reference to the gross sales of certain products bearing the Hagggar tradename, Hagggar trademark or any Hagggar diffusion trademark that includes the word “Hagggar” with respect to the period from January 1, 2021 to December 31, 2023, pursuant to terms set out in the Merger Agreement.

In addition, in the event either Buyer or TCHC is involved in a transaction that results in a change of control in either of them prior to December 31, 2023, immediately prior to such transaction, Buyer shall pay to Sellers an amount equal to the sum of (a) any earned but unpaid Earnout Amount due to Sellers with respect to any calendar year ended on or before the date of the consummation of such transaction and (b) the Accelerated Earnout Amount. In no event shall the aggregate amounts paid as the Earnout Amount and

Accelerated Earnout Amount exceed US\$24.15 million. As such, the maximum total amount which may be received by the Sellers will not exceed the sum of the Purchase Price (which takes into account the working capital adjustment, the indebtedness and other adjustments), and the Earnout Amount and/or, if there is a change of control transaction as described above, the Accelerated Earnout Amount, which is expected to be approximately US\$150 million in the aggregate.

Conditions Precedent

- (a) **Conditions to each party's obligations:** The obligation of each party to the Merger Agreement to effect the Closing is subject to the satisfaction (or waiver by each party) on or prior to the Closing of the following Conditions:
 - (i) all applicable waiting periods under the applicable antitrust law shall have expired or been terminated and the parties shall have received all authorizations, consents and approvals of applicable government authorities; and
 - (ii) there shall not be any judgment, order, decree, stipulation, injunction or charge from any governmental authority in effect preventing consummation of any of the transactions in relation to the Merger, and no legal action shall be pending before any governmental authority wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would prevent consummation of any of the transactions in relation to the Merger, or cause it to be rescinded.
- (b) **Conditions to the obligations of the Buyer and Merger Sub:** The obligations of the Buyer and Merger Sub to effect the Closing is subject to the satisfaction (or waiver by Buyer) on or prior to the Closing of, among others, the following Conditions:
 - (i) (1) the representations and warranties of TCHC and the Seller (other than fundamental representations) that are not qualified by materiality, material adverse effect on TCHC Group or similar qualifiers will have been true and correct in all material respects as of the date of the Merger Agreement (or such specific date as specified in the Merger Agreement); and (2) the representations and warranties of TCHC and the Seller which are fundamental and/or are qualified by the materiality, material adverse effect on TCHC Group or similar qualifiers will be true and correct in all respects as of the date of the Merger Agreement (or such specific date as specified in the Merger Agreement);
 - (ii) (1) the representations and warranties of TCHC and the Seller (other than fundamental representations) will be true and correct (without giving effect to any materiality, in all material respects or material adverse effect on the Seller or on TCHC Group) as of the Closing Date (or such specific date as

specified in the Merger Agreement), except where the failure of such representations to be true and correct as of the Closing Date or such specified date, as applicable, would not, individually or in the aggregate, constitute a material adverse effect on the Seller or on TCHC Group; and (2) the representations and warranties of TCHC and the Seller which are fundamental will be true and correct in all respects as of the Closing Date (or such specific date as specified in the Merger Agreement);

- (iii) the Seller and TCHC shall have performed and complied in all material respects with the agreements and covenants as required by the Merger Agreement prior to or at the Closing; and
 - (iv) since the date of the Merger Agreement, there shall not be any material adverse effect on the business, financial condition or results of operations of TCHC Group.
- (c) **Conditions to the obligations of the Seller and TCHC:** The obligations of TCHC and the Seller to effect the Closing are subject to the satisfaction (or waiver by TCHC or Seller, as applicable) on or prior to the Closing of, among others, the following Conditions:
- (i) the fundamental representations given by the Buyer and Merger Sub shall be true and correct as of the date of the Merger Agreement and as of the Closing Date (or such earlier date specified in the Merger Agreement) and all other representations and warranties given by the Buyer shall be true and correct in all respects (without giving effect to any materiality, in all material respects or material adverse effect of the Buyer) as of the date of the Merger Agreement and as of the Closing Date (or such earlier date as specified in the Merger Agreement), except where the failure to be so true and correct has not had and would not have a material adverse effect on the Buyer; and
 - (ii) the Buyer and Merger Sub shall have performed and complied in all material respects with the agreements and covenants as required by the Merger Agreement prior to or at the Closing.

Provisions of guarantees

Pursuant to the Merger Agreement, the Buyer Guarantor and, following the Closing, TCHC have agreed to guarantee in favour of the Seller the due, full and punctual payment of the monetary obligations of the Buyer under the Merger Agreement and the Company has agreed to guarantee in favour of the Buyer the due, full and punctual payment of the monetary obligations of the Seller under the Merger Agreement.

Closing

Pursuant to the Merger Agreement, Closing will take place on May 31, 2019, provided that all of the Conditions have been satisfied (or waived, if applicable) (other than those Conditions that by their nature are to be satisfied by action taken at the Closing). If the Conditions have not been satisfied (or waived, if applicable) on May 31, 2019, then the Closing shall take place on the second Business Day following the date on which the last of the Conditions have been satisfied (or waived, if applicable), or at such other date as the Seller and Buyer may agree in writing.

Immediately upon Closing, TCHC Group will cease to be subsidiaries of the Company and the financial results of TCHC Group will no longer be consolidated into the Group's financial statements.

INFORMATION OF THE BUYER, THE MERGER SUB AND THE BUYER GUARANTOR

The Buyer is a limited liability company organized in the State of Delaware of the United States and is principally engaged in the investment holding business.

The Merger Sub is a corporation organized in the State of Delaware of the United States and is a newly formed entity for the purpose of effecting the Merger, which has not commenced any business of its own as at the date of this announcement.

The Buyer Guarantor is a limited liability company organized in the State of Delaware of the United States and is principally engaged in the design , sale and marketing of fashion products to retailers in the United States.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Buyer, the Merger Sub, the Buyer Guarantor and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons.

INFORMATION OF TCHC

TCHC is a corporation incorporated in the State of Delaware of the United States. The TCHC Group is principally engaged in the design, imports and sales of apparel in the United States.

Set out below is the audited consolidated financial information of TCHC Group for the two financial years ended 31 December 2018 as extracted from the audited consolidated financial statements of TCHC which are prepared under the US Accounting Standards:

| | For the year ended 31 December | |
|----------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| | <i>US\$ million</i> | <i>US\$ million</i> |
| | (audited) | (audited) |
| Revenue | 395.02 | 353.01 |
| Net profit before taxation | 23.19 | 18.06 |
| Net profit after taxation | 17.08 | 15.00 |

The audited net asset value of the TCHC as at 31 December 2018 was approximately US\$93.28 million (equivalent to approximately HK\$727.58 million).

Up to the Closing Date, the estimated net proceeds arising from the Disposal is approximately US\$106 million (equivalent to approximately HK\$827 million), which will be used for general working capital of the Group.

REASONS FOR AND BENEFITS OF THE MERGER

The Company is an investment holding company. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

The Directors are of the view that the Merger, which involves the Disposal, would benefit the Group by realising its investment in the TCHC and the Disposal is a part of the Company's efforts to remain focused on its core business. The Group is expected to recognize a gain, net of transaction expenses, of approximately US\$3 million from the Disposal based on estimated financial information of TCHC Group on Closing Date. The Shareholders and potential investors of the Company should note that the actual financial effects of the Disposal to the Company may be different from the information disclosed in this announcement and can only be determined based on the financial position of TCHC Group on the Closing Date and is subject to valuation of the Earnout Amount and audit.

The Directors consider that the Merger Agreement is on normal commercial terms, and its terms are fair and reasonable and that the Disposal is in the interests of the Company and the Shareholders as a whole.

GENERAL

As one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements pursuant to Rule 14.06(2) of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

| | |
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| “Accelerated Earnout Amount” | in the event Buyer or TCHC is involved in a transaction resulting a change of control in either Buyer or TCHC (i) prior to January 1, 2022, an amount equal to US\$23.1 million; (ii) on or after January 1, 2022, but prior to January 1, 2023, an amount equal to US\$16.8 million; and (iii) on or after January 1, 2023, but prior to January 1, 2024, an amount equal to US\$9.1 million |
| “Board” | the board of the Directors |
| “Business Day” | any day that is not a Saturday, Sunday or other day on which commercial banking institutions in Dallas, Texas are authorized or required to close |
| “Buyer” | Buyer under the Merger Agreement, a company organized in the State of Delaware of the United States |
| “Buyer Guarantor” | a holding company of the Buyer organized in the State of Delaware of the United States |
| “Company” | Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose securities are listed on main board of the Stock Exchange |
| “Condition(s)” | the condition(s) precedent to the Merger Agreement as set out in the section headed “Conditions Precedent” in this announcement |
| “Closing” | the closing of the Merger |
| “Closing Date” | the date of the Closing |
| “connected person(s)” | has the meaning as ascribed thereto under the Listing Rules |

| | |
|--------------------|---|
| “Delaware Law” | the General Corporation Law of the State of Delaware (as amended from time to time) |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the disposal of the Sale Shares by the Seller to the Buyer pursuant to the Merger Agreement |
| “Earnout Amount” | part of the Merger Price, with details set out in the paragraph headed “Merger Price – Earnout Amount” in this announcement |
| “Effective Time” | such time as the certificate of merger having been executed by TCHC, the Buyer and Merger Sub and has been duly filed with the Secretary of State of Delaware or at such later date or time as may be agreed by the Buyer and Seller in writing and specified in the said certificate of merger in accordance with the Delaware Law |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Merger” | the merger of Merger Sub with and into TCHC pursuant to the terms of the Merger Agreement and in accordance with Delaware Law |
| “Merger Agreement” | the agreement and plan of merger dated May 7 2019 entered into among the Seller, TCHC, the Merger Sub, the Buyer, the Buyer Guarantor and the Company in relation to the Merger |
| “Merger Price” | the total amount of consideration in connection with the Merger, including the Purchase Price and the Earnout Amount |
| “Merger Sub” | Kinston Merger Sub, Inc., a corporation organized in State of Delaware of the United States |

| | |
|---------------------------|---|
| “Purchase Price” | part of the Merger Price, with details set out in the paragraph headed “Merger Price – Purchase Price” in this announcement |
| “Sale Shares” | all issued and outstanding shares of the share capital of TCHC held by the Seller |
| “Seller” | Grand Wealth Group Limited, a company incorporated in British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company |
| “Share(s)” | ordinary share(s) of HK\$0.25 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “TCHC” | Texas Clothing Holding Corp., a corporation incorporated in the State of Delaware of the United States |
| “TCHC Group” | TCHC and its subsidiaries |
| “United States” | United States of America |
| “US Accounting Standards” | generally accepted accounting principles in the United States in effect from time to time in the United States as set forth in pronouncements of the Financial Accounting Standards Board (and its predecessors) and the American Institute of Certified Public Accountants |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “US\$” | United States dollars, the lawful currency of the United States |
| “%” | per cent. |

For illustration purposes only, the exchange rate of US\$1 = HK\$7.8 has been adopted for translating US\$ into HK\$ in this announcement.

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

Hong Kong, May 7, 2019

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Huang Ming Fu, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

Website: www.yueyuen.com