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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)

CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions have been taking place for a long period of time in the ordinary and usual course of business of the Group. As the existing caps in respect of the Continuing Connected Transactions will expire on December 31, 2023, the Company has on October 6, 2023 (after trading hours), entered into the Supplemental Agreements with PCC to, among other things, renew the Caps and extend the duration for the Continuing Connected Transactions for three years ending December 31, 2026 to ensure business continuation and for compliance with the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Caps of the Continuing Connected Transactions is more than 5%, such Supplemental Agreements, Continuing Connected Transactions and Caps are subject to the announcement, reporting, annual review requirements and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

The Board will seek approval from the Independent Shareholders on the Supplemental Agreements, Continuing Connected Transactions and the Caps at the SGM. A circular containing, among other things, (i) further information about the Supplemental Agreements, 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 Supplemental Agreements, Continuing Connected Transactions and the Caps; (iii) the recommendation from the Independent Board Committee in respect of the Supplemental Agreements, Continuing Connected Transactions and the Caps; and (iv) a notice convening the SGM is expected to be despatched to the Shareholders on or before November 10, 2023 as additional time is required for finalization of certain information to be included in the circular.

* For identification purpose only

I. INTRODUCTION

The Continuing Connected Transactions have been taking place for a long period of time in the ordinary and usual course of business of the Group. As the existing caps in respect of Continuing Connected Transactions will expire on December 31, 2023, the Company has on October 6, 2023 (after trading hours), entered into the Supplemental Agreements with PCC to, among other things, renew the Caps and extend the duration for the Continuing Connected Transactions for three years ending December 31, 2026 to ensure business continuation and for compliance with the Listing Rules.

II. TRANSACTIONS BETWEEN THE PCC GROUP AND THE GROUP

(a) Eighth Supplemental PCC Services Agreement

The signing parties have entered into the Eighth Supplemental PCC Services Agreement to renew the Caps and further extend the duration for three years ending December 31, 2026 and to align the payment period for service fee in respect of products developed by the PCC Group and sold by the Group with other payment periods. Save for the above revisions, all other major terms of the PCC Services Agreement remain unchanged.

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

Date

October 6, 2023

Signing parties

The Company and PCC

Major terms

The services agreed upon in the PCC Services Agreement include, inter alia, PCC providing services relating to research and development, know-how, technical, marketing and consultancy, 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 general administration support. 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.

Services fees and payment terms

The Company will pay the following fees to PCC 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;
- 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; 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.

The above service fees will be 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 of staff in relation to the production and sale of the Group's products and general administration support, 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 has implemented and will continue to 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.

(b) Seventh Supplemental PCC Connected Sales Agreement

The signing parties have entered into the Seventh Supplemental PCC Connected Sales Agreement to renew the Caps and to extend the duration for another three years ending December 31, 2026. Save for the above revisions, all other major terms of the PCC Connected Sales Agreement remain unchanged.

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

Date

October 6, 2023

Signing parties

The Company and PCC

Major 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.

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 on a cost-plus margin and in any event 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 has implemented and will continue to 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.

(c) **Seventh Supplemental PCC Connected Purchases Agreement**

The signing parties have entered into the Seventh Supplemental PCC Connected Purchases Agreement to renew the Caps and to further extend the duration for three years ending December 31, 2026. Save for the above revisions, all other major terms of the PCC Connected Purchases Agreement remain unchanged.

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

Date

October 6, 2023

Signing parties

The Company and PCC

Major 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.

Pricing basis

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

- i. 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; and
- ii. 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 has implemented and will continue to 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.

III. REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company is an investment holding company. The principal activities of the Group are manufacturing and sales of footwear products, as well as retail and distribution of sportswear and footwear products.

PCC 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 through its subsidiaries.

The Continuing Connected Transactions are advantageous to the Group given the fact that (i) the Group is able to leverage on the PCC Group's abundant experience in the industry, including its extensive business network and its research and development expertise, through the PCC Services Agreements; and (ii) the Group's production efficiency can be enhanced with better utilisation of production capacity through transactions under the PCC Connected Sales Agreements, while manufacturing of certain products of the Group requires materials from the PCC Group through transactions under the PCC Connected Purchases Agreements. Further, 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. The entering of the Supplemental Agreements will regulate the conduct of the Continuing Connected Transactions and facilitate the ongoing operations of the Group in a flexible and efficient manner.

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 Supplemental Agreements (including the Caps) are on normal commercial terms and are fair and reasonable and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole.

IV. HISTORICAL TRANSACTION AMOUNT AND PROPOSED CAPS

Set out below is a summary of (a) the existing caps of the Continuing Connected Transactions for the three years ending December 31, 2023; and (b) the historical amounts of the Continuing Connected Transactions between the Company and PCC in each of the two years ended December 31, 2022 and the eight months ended August 31, 2023 according to the audited consolidated financial statements of the Group for the years ended December 31, 2021 and 2022 as well as the unaudited consolidated accounts of the Group for the eight months ended August 31, 2023:

	Year ended/ending December 31,					
	2021		2022		2023	
	(US\$'000)		(US\$'000)		(US\$'000)	
	Existing caps	Transaction Amount	Existing caps	Transaction Amount	Existing caps	Transaction Amount
						(from January 1 to August 31)
PCC Services Agreement	409,357	283,729	429,825	297,218	451,316	168,243
PCC Connected Sales Agreement	8,147	4,471	8,480	5,248	8,829	2,573
PCC Connected Purchases Agreement	1,916	1,915	2,012	2,006	2,113	1,489
Total:	<u>419,420</u>	<u>290,115</u>	<u>440,317</u>	<u>304,472</u>	<u>462,258</u>	<u>172,305</u>

The Caps proposed by the Board for three years ending December 31, 2026 are set out below:

	Year ending December 31,		
	2024	2025	2026
	(US\$'000)	(US\$'000)	(US\$'000)
Eighth Supplemental PCC Services Agreement	374,228	392,940	412,587
Seventh Supplemental PCC Connected Sales Agreement	5,116	5,364	5,623
Seventh Supplemental PCC Connected Purchases Agreement	4,699	5,084	5,283
Total:	<u>384,043</u>	<u>403,388</u>	<u>423,493</u>

The Company took into account the historical amounts and its estimated future business needs in determining the proposed Caps.

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 their respective annual caps. The consideration under each of the Continuing Connected Transactions has been and will be satisfied from internal resources of the Group.

V. LISTING RULES IMPLICATION

As at the date of this announcement, PCC indirectly owns and is entitled to exercise control of approximately 51.11% of the voting rights in respect of the issued Shares. Accordingly, PCC is a connected person of the Company within the meaning of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Caps of the Continuing Connected Transactions is more than 5%, such Supplemental Agreements, Continuing Connected Transactions and Caps are subject to the announcement, reporting, annual review requirements and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

VI. GENERAL

An Independent Board Committee has been constituted to make a recommendation to the Independent Shareholders in respect of the resolutions to approve the Supplemental Agreements, Continuing Connected Transactions and the Caps. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the Supplemental Agreements (including the Caps) are on normal commercial terms and are fair and reasonable and (ii) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and Shareholders as a whole.

PCC and its associates will abstain from voting on the resolutions to approve the relevant Supplemental Agreements, Continuing Connected Transactions and the Caps at the SGM. The trustee of the share award scheme (adopted by the Board on January 28, 2014) held 13,000 Shares as at the date of this announcement, and will not exercise the voting rights at the SGM in respect of those Shares held under the trust.

A circular containing, among other things, (i) further information about the Supplemental Agreements, 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 Supplemental Agreements, Continuing Connected Transactions and the Caps; (iii) the recommendation from the Independent Board Committee in respect of the Supplemental Agreements, Continuing Connected Transactions and the Caps; and (iv) a notice convening the SGM is expected to be despatched to the Shareholders on or before November 10, 2023 as additional time is required for finalization of certain information to be included in the circular.

VII. DEFINITIONS

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

“associate(s)”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Caps”	the maximum aggregate annual caps for each of the Continuing Connected Transactions under the Supplemental Agreements for the three years ending December 31, 2026
“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
“connected person(s)”	the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	the meaning ascribed thereto in the Listing Rules
“Continuing Connected Transactions”	the transactions carried out under the following agreements: PCC Services Agreement, PCC Connected Sales Agreement and PCC Connected Purchases Agreement
“Director(s)”	director(s) of the Company
“Eighth Supplemental PCC Services Agreement”	the agreement dated October 6, 2023 entered into between the Company and PCC supplemental to the PCC Services Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors constituted to make recommendations to the Independent Shareholders in respect of the terms of the Supplemental Agreements, Continuing Connected Transactions and the 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 appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Supplemental Agreements, Continuing Connected Transactions and the Caps
“Independent Shareholders”	the Shareholders other than PCC and its associates who are required to abstain from voting on the resolutions to approve the Supplemental Agreements, Continuing Connected Transactions and the Caps at the SGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PCC”	Pou Chen Corporation, a company with its shares listed and traded on the Taiwan Stock Exchange Corporation (stock code: 9904) and a controlling shareholder which indirectly owns or controls approximately 51.11% of the issued Shares as at the date of this announcement
“PCC Connected Purchases Agreement”	the agreement dated January 9, 2007 entered into between the Company and PCC for the purchase of raw materials, moulds, shoe-related products and manufacturing equipment and production tools, as amended and supplemented by first supplemental agreement dated November 20, 2008, second supplemental agreement dated August 25, 2011, third supplemental agreement dated September 15, 2014, fourth supplemental agreement dated October 21, 2014, fifth supplemental agreement dated October 13, 2017, sixth supplemental agreement dated October 8, 2020 and Seventh Supplemental PCC Connected Purchases Agreement
“PCC Connected Sales Agreement”	the agreement dated January 9, 2007 entered into between the Company and PCC 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 by first supplemental agreement dated November 20, 2008, second supplemental agreement dated August 25, 2011, third supplemental agreement dated September 15, 2014, fourth supplemental agreement dated October 21, 2014, fifth supplemental agreement dated October 13, 2017, sixth supplemental agreement dated October 8, 2020 and Seventh Supplemental PCC Connected Sales Agreement

“PCC Group”	PCC and its subsidiaries and associates other than members of the Group
“PCC Services Agreement”	the services agreement dated February 22, 1997 entered into between the Company and PCC for providing services relating to research and development, know-how, technical, marketing and consultancy, 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 general administrative support, as amended and supplemented by first supplemental agreement dated January 9, 2007, second supplemental agreement dated November 20, 2008, third supplemental agreement dated August 25, 2011, fourth supplemental agreement dated September 15, 2014, fifth supplemental agreement dated October 21, 2014, sixth supplemental agreement dated October 13, 2017, seventh supplemental agreement dated October 8, 2020 and Eighth Supplemental PCC Services Agreement
“PRC”	The People’s Republic of China
“Seventh Supplemental PCC Connected Purchases Agreement”	the agreement dated October 6, 2023 entered into between the Company and PCC supplemental to the PCC Connected Purchases Agreement
“Seventh Supplemental PCC Connected Sales Agreement”	the agreement dated October 6, 2023 entered into between the Company and PCC supplemental to the PCC Connected Sales 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 held to consider and approve, inter alia, Supplemental Agreements, the Continuing Connected Transactions and the Caps
“Share(s)”	ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreements”	the respective agreements for the Continuing Connected Transactions in respect of each of the three years ending December 31, 2026, namely Eighth Supplemental PCC Services Agreement, Seventh Supplemental PCC Connected Sales Agreement and Seventh Supplemental PCC Connected Purchases Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 = HK\$7.80. Such rate is for the purpose of illustration only and does not constitute a representation that any amount in question in US\$ or HK\$ has been or could have been or may be converted at such or another rate or at all.

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

Hong Kong, October 6, 2023

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. Liu George Hong-Chih and Mr. Shih Chih-Hung (Chief Financial Officer).

Independent Non-executive Directors:

Mr. Wong Hak Kun, Mr. Ho Lai Hong, Mr. Lin Shei-Yuan and Dr. Yang Ju-Huei.

Website: www.yueyuen.com