

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other licensed dealer in securities, bank manager, solicitor, professional accountant or other independent professional adviser.

If you have sold or transferred all your shares in Yue Yuen Industrial (Holdings) Limited (the "Company"), you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



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

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders**



A notice convening a special general meeting of the Company to be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on 26 November 2020 at 10:00 a.m. is set out on pages 66 to 69 of this circular. A form of proxy for use at the special general meeting is also enclosed with this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 10:00 a.m. on 24 November 2020 (Hong Kong Time), or not less than 48 hours before the time for holding the adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or at any adjournment thereof, should you so wish.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please see pages 1 to 2 of this circular for measures being taken to prevent and control the spread of the Novel Coronavirus ("COVID-19") at the SGM, including:

- compulsory temperature checks
- submission of health declaration form
- wearing of surgical face masks
- no distribution of corporate gifts and no serving of refreshment

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue, at the Company's discretion to the extent permitted by law. The Company reminds Shareholders that they may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

* For identification purpose only

CONTENTS

	<i>Page</i>
Precautionary measures for the Special General Meeting	1
Definitions	3
Letter from the Board	7
Letter from the Independent Board Committee	28
Letter from the Independent Financial Adviser	29
Appendix – General information	57
Notice of Special General Meeting	66

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing Novel Coronavirus (“COVID-19”) pandemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- i. Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.3 degrees Celsius will be denied entry into the SGM venue or be required to leave the SGM venue.
- ii. All Shareholders, proxies and other attendees are required to complete and submit at the entrance of the SGM venue a health declaration form confirming their names and contact details, and confirming that they have not travelled to, or to their best of knowledge, had no close contact with any person who has recently travelled to, any affected countries or areas outside of Hong Kong at any time in the preceding 14 days. Any person who does not comply with this requirement may be denied entry into the SGM venue or be required to leave the SGM venue.
- iii. Every person is required to wear surgical face masks inside the SGM venue at all times, and to maintain a safe distance between seats.
- iv. No corporate gifts will be distributed and no refreshment will be served.

To the extent permitted under law, the Company reserves the right to deny entry of any person into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In addition, the Company reminds Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person, by using form of proxy with voting instructions inserted.

The form of proxy is attached to the circular for shareholders who opt to receive physical circulars. Alternatively, the form of proxy can be downloaded from the Company’s website at www.yueyuen.com. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

Subject to the development of COVID-19, the Company may be required to change the SGM arrangements at short notice. Shareholders should check the Company’s website for further announcements and updates on the SGM arrangements.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

If Shareholders choosing not to attend the SGM in person have any questions about the relevant resolutions, or about the Company or any matters for communication with the Board, they are welcome to contact the Company via investor relations department as follows:

Investor Relations
Email: investor@yueyuen.com
Tel: 852 2370 5111
Fax: 852 2370 5108

If Shareholders have any questions relating to the SGM, please contact Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong as follows:

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: 852 2980 1333
Fax: 852 2810 8185

DEFINITIONS

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

“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
“Eagle Nice”	Eagle Nice (International) Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and whose ordinary shares are listed on the main board of the Stock Exchange
“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

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising the independent non-executive Directors to be 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
“Latest Practicable Date”	5 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 (Stock Code: 9904), 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

DEFINITIONS

“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
“Pou Sheng”	Pou Sheng International (Holdings) Limited (Stock Code: 3813), a company incorporated under the laws of Bermuda with limited liability and whose ordinary shares are listed on the main board of the Stock Exchange
“Pou Sheng Group”	Pou Sheng and its subsidiaries
“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)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened to approve the Continuing Connected Transactions (including the relevant Caps)
“Share(s)”	share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“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
“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 circular, translations of US\$ into HK\$ are made in this circular, 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.

LETTER FROM THE BOARD



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

Board of Directors:

Executive Directors:

Lu Chin Chu (*Chairman*)

Tsai Pei Chun, Patty (*Managing Director*)

Chan Lu Min

Lin Cheng-Tien

Hu Chia-Ho

Liu George Hong-Chih

Hu Dien Chien

Yu Huan-Chang

Independent Non-executive Directors:

Wong Hak Kun

Ho Lai Hong

Yen Mun-Gie (also known as Teresa Yen)

Chen Chia-Shen

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business:

22nd Floor

C-Bons International Center

108 Wai Yip Street

Kwun Tong

Kowloon, Hong Kong

10 November 2020

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's announcement dated 8 October 2020. 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 are conditional on the approval of the Independent Shareholders at the SGM.

The purpose of this circular is to provide you with (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 recommendations from the Independent Board Committee in respect of the Continuing Connected Transactions; and (iv) a notice convening the SGM.

* For identification purpose only

LETTER FROM THE BOARD

I. SUMMARY OF CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions can be broadly divided into the following categories:

(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.

LETTER FROM THE BOARD

(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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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;

LETTER FROM THE BOARD

- 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 eight months ended 31 August 2020, the relevant transaction amounts are:

Financial year end 31 December (except 2020)	2018	2019	2020 (eight months ended 31 August)
Transaction amount (<i>US\$'000</i>)	<u>388,887</u>	<u>361,304</u>	<u>178,411</u>

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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, in which the staff of the Company will provide ancillary consultancy and guidance services related to the development, implementation, operation and maintenance of the enterprise resource planning software of the PCC 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 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;

LETTER FROM THE BOARD

- 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 eight months ended 31 August 2020, the relevant transaction amounts are:

Financial year end 31 December (except 2020)	2018	2019	2020 (eight months ended 31 August)
Transaction amount (US\$'000)	3,449	3,627	2,028

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- 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 eight months ended 31 August 2020, the relevant transaction amounts are:

Financial year end			2020
31 December (except 2020)	2018	2019	(eight months ended 31 August)
Transaction amount (<i>US\$'000</i>)	1,150	1,139	899

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 Cushman & Wakefield Limited, 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. The average aggregate monthly rentals for the three years starting from 1 January 2021 to 31 December 2023 on the premises under the Seventh Supplemental Godalming Tenancy Agreement, which is approximately US\$160,600, shall not be higher than the prevailing market rent as valued by an independent professional valuer.

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.

LETTER FROM THE BOARD

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 eight months ended 31 August 2020, the relevant transaction amounts are:

Financial year end 31 December (except 2020)	2018	2019	2020 (eight months ended 31 August)
Transaction amount (US\$'000)	1,921	1,930	1,314

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 (including the independent non-executive Directors) are of the view 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.

LETTER FROM THE BOARD

The following sets forth the Group's historical annual caps and actual amounts in relation to the Continuing Connected Transactions for the periods indicated:

Connected Group	1 January 2018 to 31 December 2018 <i>(US\$'000)</i>		1 January 2019 to 31 December 2019 <i>(US\$'000)</i>		1 January 2020 to 31 December 2020 <i>(US\$'000)</i>	
	Annual cap	Actual amount	Annual cap	Actual amount	Annual cap	Actual amount
						<i>(eight months ended 31 August 2020)</i>
PCC						
Sixth Supplemental PCC Services Agreement	443,696	388,887	473,599	361,304	510,130	178,411
Fifth Supplemental PCC Connected Sales Agreement	3,459	3,449	3,701	3,627	3,960	2,028
Fifth Supplemental PCC Connected Purchases Agreement	1,258	1,150	1,346	1,139	1,440	899
Sub-total:	448,413	393,486	478,646	366,070	515,530	181,338
Godalming						
Sixth Supplemental Godalming Tenancy Agreement	2,600	1,921	2,600	1,930	2,600	1,314
Sub-total:	2,600	1,921	2,600	1,930	2,600	1,314
Total:	451,013	395,407	481,246	368,000	518,130	182,652

LETTER FROM THE BOARD

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 as stated above 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, as the joint venture is not a subsidiary of the Group.

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 as Godalming has the substantive substitution right over the premises leased, 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.

LETTER FROM THE BOARD

Basis of Determination of the Proposed Caps

1. The above proposed Caps for transactions with the PCC Group in respect of the PCC Services Agreement are mainly determined with reference to: (i) the historical transaction amounts with an inflation rate of 3% estimated with reference to the historical monthly changes in consumer price index of Taiwan for the year ending 31 December 2021; (ii) the expected growth of 5% per year for the two years ending 31 December 2023 in the business of the Group (taking into account the growth for the year ended 31 December 2019 as compared to the same period in 2018); and (iii) 10% buffer for exchange fluctuation (taking into account the historical exchange fluctuation between New Taiwan dollar (“NTD”) and US\$ in 2018 to 2020).
2. The above proposed Caps for transactions with the PCC Group in respect of PCC Connected Sales Agreement are mainly determined with reference to: (i) the historical transaction amounts with an inflation rate of 3% estimated with reference to the historical monthly changes in consumer price index of Taiwan for the year ending 31 December 2021; (ii) the expected growth of 5% per year for the two years ending 31 December 2023 in the business of the Group (taking into account the growth for the year ended 31 December 2019 as compared to the same period in 2018) for manufacture and supply of leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools; (iii) projected demand for consultancy and guidance services for the year ending 31 December 2021 based on the historical amount of the services provided and the expected annual salary increment for three years ending 31 December 2023 (taking into account the historical changes on salary in Taiwan) for provision of consultancy and guidance services; and (iv) 10% buffer for exchange fluctuation (taking into account the historical exchange fluctuation between NTD and US\$ in 2018 to 2020).
3. The above proposed Caps for transactions with the PCC Group in respect of the PCC Purchases Agreement are mainly determined with reference to (i) the historical transaction amounts with an inflation rate of 3% estimated with reference to the historical monthly changes in consumer price index of Taiwan for the year ending 31 December 2021; (ii) the expected growth of 5% per year for the two years ending 31 December 2023 in the business of the Group (taking into account the growth for the year ended 31 December 2019 as compared to the same period in 2018); (iii) projected future purchase orders based on the expected increase in new materials used by customers commencing from 2020; and (iv) 10% buffer for exchange fluctuation (taking into account the historical exchange fluctuation between NTD and US\$ in 2018 to 2020).

LETTER FROM THE BOARD

4. The above proposed Caps for transactions with the Godalming Group are mainly determined with reference to (i) the historical transaction amounts; (ii) the areas to be leased to the subsidiaries of the Company; (iii) the relevant market rental values of the premises concerned as assessed by an independent professional valuer; and (iv) 10% buffer for exchange fluctuation (taking into account the historical exchange fluctuation between Renminbi and US\$ in 2018 to 2020).

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 eight months ended 31 August 2020 were approximately US\$395,407,000, US\$368,000,000 and US\$182,652,000 respectively. The existing Caps for each group of Continuing Connected Transactions have not been exceeded and are not expected to be exceeded before the Independent Shareholder's approval is sought in respect of the new Caps at the SGM. 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 have assessed the proposed Caps and have considered the aforementioned basis of determination of the proposed Caps including the historical transaction amounts, the expected growth of the Company, future projections in relation to demand for services and purchase orders and allowance of 10% buffer for exchange fluctuations. Therefore, the Directors (including the independent non-executive Directors) are of the view 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.

LETTER FROM THE BOARD

The SGM will be held on 26 November 2020 for the purpose of, among other things, obtaining approval from the Independent Shareholders in respect of the Continuing Connected Transactions by way of poll. As at the Latest Practicable Date, PCC directly and indirectly owns and is entitled to exercise control of 51.11% of the voting rights in respect of the issued share capital of the Company and is hence a connected person of the Company as defined under the Listing Rules. As far as the Company is aware, Godalming does not hold any Shares of the Company. In accordance with the Listing Rules, any connected person and any Shareholder and their respective Associates with a material interest in the Continuing Connected Transactions will not vote on the resolutions in respect of the Continuing Connected Transactions. Each of PCC, Godalming, Ms. Tsai and their respective Associates who are Shareholders will abstain from voting on the resolutions to approve the relevant Continuing Connected Transactions Agreements (including the proposed Caps) at the SGM. While Ms. Tsai does not hold any Shares, her mother (being an Associate of Ms. Tsai), through a company the entire issued share capital of which is held by her, indirectly owns approximately 4% of the Company's issued share capital as at the Latest Practicable Date and 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.

X. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the terms of the Continuing Connected Transactions and the proposed Caps are fair and reasonable and they are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that the Independent Shareholders vote in favour of all resolutions to be proposed at the SGM in respect of the Continuing Connected Transactions and the proposed Caps. Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the appendix to this circular.

Your faithfully,
For and on behalf of
Yue Yuen Industrial (Holdings) Limited
Lu Chin Chu
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

10 November 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Yue Yuen Industrial (Holdings) Limited in respect of the resolutions to approve the Continuing Connected Transactions (including the proposed Caps), details of which are set out in the "Letter from the Board" contained in this circular of the Company (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the "Letter from the Board" and to the advice of the Independent Financial Adviser in its capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Continuing Connected Transactions (including the proposed Caps) are fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole, as set out in the "Letter from Independent Financial Adviser" as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider the terms of the Continuing Connected Transactions (including the proposed Caps) to be fair and reasonable and the Continuing Connected Transactions are in the interests of the Company and the Independent 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM in respect of the Continuing Connected Transactions (including the proposed Caps).

Yours faithfully,
For and on behalf of the
Independent Board Committee

**Wong Hak Kun,
Ho Lai Hong,
Yen Mun-Gie**

**(also known as Teresa Yen
and Chen Chia-Shen**

*Independent Non-executive Directors of
Yue Yuen Industrial (Holdings) Limited*

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

10 November 2020

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions between the Group and (i) the PCC Group; and (ii) the Godalming Group. Details of the Continuing Connected Transactions and their respective Caps are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 10 November 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

PCC is a controlling shareholder of the Company and indirectly holds an aggregate of 824,143,835 Shares, representing approximately 51.11% of the issued share capital of the Company, as at the Latest Practicable Date. 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. Ms. Tsai is an executive director and the managing director of the Company. As such, PCC and Godalming are connected persons of the Company within the meaning of Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Caps of the Continuing Connected Transactions is more than 5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and are subject to approval by the Independent Shareholders at the SGM under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Hak Kun, Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen, has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Continuing Connected Transactions and the Caps are fair and reasonable so far as the Independent Shareholders are concerned, whether the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there have been no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, Somerley Capital Limited did not have any relationships or interests with the Company, the PCC Group and the Godalming Group that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser in respect of the Continuing Connected Transactions, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have reviewed, among other things, the Seventh Supplemental PCC Services Agreement, the Sixth Supplemental PCC Connected Sales Agreement, the Sixth Supplemental PCC Connected Purchases Agreement, the Seventh Supplemental Godalming Tenancy Agreement, the valuation report prepared by an independent professional valuer in relation to the Seventh Supplemental Godalming Tenancy Agreement, the annual reports of the Company for the financial years ended 31 December 2019 and 31 December 2018, the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group (the “**Management**”), and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the SGM. We have also sought and received confirmation from the Directors that all relevant material information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, the PCC Group and the Godalming Group, nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation as regards the Continuing Connected Transactions and the Caps, we have taken the following principal factors and reasons into consideration:

1. Background of the Group and the Continuing Connected Transactions

As set out in the 2020 Interim Report, the Group is engaged in two main businesses focusing on (i) manufacturing and sales of footwear products; and (ii) retail and distribution of sportswear and apparel products. The major products of the Group's manufacturing business include athletic shoes, casual/outdoor shoes, sports sandals, soles and components. Retail sales mainly involve sale of shoes and apparel products.

PCC, the shares of which are listed on Taiwan Stock Exchange Corporation, is the controlling shareholder of the Company. As disclosed in the "Letter from the Board" contained in the Circular, the PCC Group is principally engaged in (i) manufacturing of shoes; (ii) retail of sporting goods and brand licensing businesses; and (iii) other businesses including real estate development and hotel operation. The principal business activity of Godalming is property investment in the PRC.

The Group, the PCC Group and the Godalming Group have been conducting the Continuing Connected Transactions for a long period of time. The PCC Services Agreement was entered into in 1997, while the PCC Connected Sales Agreement and the PCC Connected Purchases Agreement were entered into in 2007. The Group started to lease properties from the Godalming Group in 1992 under the Godalming Tenancy Agreement.

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

- (a) PCC Services Agreement and the Seventh Supplemental PCC Services Agreement (the "**PCC Services Agreements**")

Pursuant to the PCC Services Agreements, the Company shall engage the PCC Group 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 sales of the Group's products and provide general administration support services.

- (b) PCC Connected Sales Agreement and the Sixth Supplemental PCC Connected Sales Agreement (the "**PCC Connected Sales Agreements**")

Under the PCC Connected Sales Agreements, members of the Group shall 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) PCC Connected Purchases Agreement and the Sixth Supplemental PCC Connected Purchases Agreement (the “**PCC Connected Purchases Agreements**”)

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

- (d) Godalming Tenancy Agreement and the Seventh Supplemental Godalming Tenancy Agreement (the “**Godalming Tenancy Agreements**”)

Pursuant to the Godalming Tenancy Agreements, the Godalming Group shall lease certain premises in the PRC to members of the Group and a joint venture of the Company for production and logistics purposes, including shoe and sole factory buildings, offices, warehouses, auxiliaries and dormitories for workers.

2. Reasons for and benefits of the Continuing Connected Transactions

In the ordinary and usual course of its business, the Group has been carrying out the Continuing Connected Transactions with the PCC Group and the Godalming Group, subject to the annual caps and the terms as specified in the respective agreements.

The Management considers that 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; (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 require materials from the PCC Group through transactions under the PCC Connected Purchases Agreements; and (iii) the Godalming Tenancy Agreements shall provide the Group with stable and necessary premises for the Group’s business operations.

Moreover, the Continuing Connected Transactions have been taking place over periods ranging from 13 to 28 years on an ongoing basis and have been facilitating the ordinary business operation of the Group. Without them, the Group would have to identify new business partners and renegotiate all terms and conditions in order to continue such transactions and ensure a smooth operation of the Group’s business. One of the purposes of conducting the Continuing Connected Transactions is to facilitate the Group in running its business in a flexible and efficient manner. In order to regulate the conduct of the Continuing Connected Transactions beyond 2020 and therefore facilitate the ongoing operations of the Group, the Group has, on 8 October 2020, entered into various supplemental agreements to extend the Continuing Connected Transactions for a term of three years commencing from 1 January 2021 and ending on 31 December 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the factors above, and also details of the Group and the Continuing Connected Transactions as set out in the section headed “1. Background of the Group and the Continuing Connected Transactions” of this letter above, we concur with the Directors’ view that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Continuing Connected Transactions

A. *PCC Services Agreements*

Parties

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

Term

Extended by the Seventh Supplemental PCC Services Agreement to cover a 3-year period ending 31 December 2023.

Subject matter

The PCC Group shall provide to the Group 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 sales of the Group’s products and provision of general administration support services.

Reimbursement of costs and expenses and service fees

In consideration of the services to be provided by the PCC Group, the Group shall reimburse the PCC Group (i) all costs of merchandise for the 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, which are paid by the PCC Group to the suppliers; and (ii) all 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. Reimbursement of the costs and expenses under the PCC Services Agreements is made on normal commercial terms (i.e. based on the actual costs and expenses incurred).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, the Group shall pay the PCC Group the following service fees for:

- (a) the Group's products developed through the research and development, know-how, 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 ("**R&D Service Fee**");
- (b) 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 ("**Procurement Service Fee I**"); and
- (c) 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 ("**Procurement Service Fee II**").

Assessment of the pricing terms

(1) Reimbursement of costs and expenses

Given that (i) the reimbursement of costs and expenses under the PCC Services Agreements is based on the actual costs and expenses incurred; and (ii) we understand from the "Letter from the Board" contained in the Circular that the Group has implemented and will continue to implement certain procedures over the monitoring of reimbursement of costs and expenses, including but not limited to, the review of costs and expenses as submitted by the PCC Group, we have reviewed sample documents obtained from the Company in respect of the reimbursement of costs and expenses under the PCC Services Agreements.

Based on our review and discussion with the Management, the reimbursement of costs and expenses are invoiced on a monthly basis. We have discussed with the Management and understand that staff from sales and costing units of the Group would review and assess the costs and expenses submitted by the PCC Group. We have also reviewed the documents of a total of three sample transactions obtained from the Company in respect of reimbursement of costs and expenses under the PCC Services Agreements, with one sample from each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020. We consider the sample transactions we have reviewed (being transactions covering each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020) are sufficient for assessing our understanding of the Company's pricing policy. Based on our review of the sample documents, it is noted that the accounting department of the Group checked the reimbursement summary to the breakdown of costs and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

expenses incurred by the PCC Group prior to the settlement of balance. It is considered that there exists appropriate controls in governing the conduct of the reimbursement of costs and expenses under the PCC Services Agreements by ensuring that the reimbursement of the costs and expenses thereunder is made on normal commercial terms (i.e. based on the actual costs and expenses incurred).

(2) R&D Service Fee

For services provided by the PCC Group in respect of item (a) above, we have discussed with the Management and understand that the Group and relevant footwear brand(s) will have discussions and agree on the specifications and requirements of the products to be manufactured by the Group, and the PCC Group will help in the research and development work, provide know-how and technical services in the design and composition of some of the footwear products based on the requirements and specifications raised by relevant brand(s).

As mentioned in the section headed “1. Background of the Group and the Continuing Connected Transactions” of this letter above, the Group is a manufacturer of athletics shoes, casual/outdoor shoes, sports sandals, soles and components. In considering the pricing basis for the research and development services to be provided by the PCC Group (i.e. item (a) as mentioned above), we have conducted a search, on a best effort basis, for companies listed on the Stock Exchange (the “**Comparable Companies**”) which based on the industry classification function within the Bloomberg Terminal, are principally engaged in apparel, footwear, and textile and accessories design businesses. As set out in the paragraph above, the Group utilises the PCC Group’s research and development expertise, including its know-how and technical services, in the design and composition of some of the footwear products for manufacturing purpose, and therefore it is considered that the services provided by the PCC Group is similar to the use of licensed technology/know-how/services (i.e. licensing services). As such, for comparison purposes, we have made reference to a number of contractual agreements identified, on a best effort basis, in relation to the provision of research and development services and/or licensing services by one party to another, involving the Comparable Companies (the “**R&D Comparable Transactions**”) based on review of the latest published annual report of the respective Comparable Companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the R&D Comparable Transactions set out below do not include listed companies which are engaged in footwear manufacturing business, as in the case of the Company. However, in our opinion, the nature of services, as against the nature of business of listed companies, is in the present circumstances a more relevant criterion in selecting the R&D Comparable Transactions as such arrangements will demonstrate the terms of business arrangements with similar nature for our assessment of the R&D Service Fee. As such, the R&D Comparable Transactions are fair and representative samples of contractual agreements in relation to the provision of research and development services for assessment purpose. The R&D Comparable Transactions set out in the table below represent an exhaustive list of transactions based on the above criteria:

No.	Parties	Nature of transaction	Pricing basis
1.	Crystal International Group Limited (" Crystal International ") (stock code: 2232) and Masterknit Limited (" Masterknit ")	Provision of services in relation to research and development, logistics, information technology support and administrative support to Masterknit by a subsidiary of Crystal International	Costs related to the general services plus a fixed margin rate of 12% on the costs related to the services
2.	Yongsheng Advanced Materials Company Limited (" Yongsheng ") (stock code: 3608) and HUVIS Corporation (" HUVIS ")	Grant of an exclusive license to use the technology, recipes, production facilities, know-how in connection with the production operation and quality control to a subsidiary of Yongsheng by HUVIS	3.625% to 6.25% of the profit before tax generated from the sale of the licensed products for the use of licensed technology (<i>Note</i>)

Source: the R&D Comparable Transactions are identified from the latest published annual reports of the respective companies, with details of the R&D Comparable Transactions extracted from the announcements/circulars of the respective transactions published on the website of the Stock Exchange

Note: It is also noted that there is a service fee of 0.1% of the revenue generated from the sale of the licensed products solely for the use of the brands which are owned by HUVIS. Since it involves the use of brands only, this transaction is not included in our analysis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the transaction between Yongsheng and HUVIS, it is noted that the service fee is charged on a percentage of the profit before tax generated from the sale of the licensed products. For illustrative and comparison purposes only, we have calculated the implied service fee for the use of licensed technology by Yongsheng on a percentage to revenue basis with reference to the revenue and profit before tax as disclosed in the 2019 annual report of Yongsheng, which resulted in an implied service fee ranging from approximately 0.8% to 1.4% of revenue. In respect of the transaction between Crystal International and Masterknit, the pricing basis is based on costs of providing the relevant services, which is different from that of the R&D Service Fee.

In view of the fact that only one R&D Comparable Transaction (i.e. the transaction between Yongsheng and HUVIS) is comparable in terms of pricing basis for our assessment based on the above selection criteria, and in order to provide a meaningful comparison for assessing the fairness and reasonableness of the R&D Service Fee, we have extended our scope of search, on a best effort basis, to transactions with similar nature, involving payment of service fees for the use of certain technology, know-how, technological services or provision of research and development services for developing/manufacturing certain products, identified by reviewing the documents published on the website of the Stock Exchange from 1 June 2020 up to the date of the announcement of the Continuing Connected Transactions (a period we consider appropriate for identifying sufficient recent transactions for the purpose of our analysis), with pricing terms disclosed in the relevant documents where the pricing basis is based on invoiced amount/revenue of the relevant products (the “**Additional R&D Comparable Transactions**”). The Additional R&D Comparable Transactions set out in the table below represent an exhaustive list of transactions based on the above criteria:

No.	Parties	Nature of transaction	Pricing basis
1.	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“ Shanghai Fosun ”) (stock code: 2196) and Polyphor Ltd (“ Polyphor ”)	Grant of an exclusive license to use its patent, know-how and Balixafortide (i.e. a patent and highly selective blocker of CXCR4) (the “ Drugs ”) and its related products/combinations to a subsidiary of Shanghai Fosun by Polyphor	<p>(i) The aggregate amount of upfront payment, development and regulatory millstones payments shall be not exceeding US\$34 million;</p> <p>(ii) The aggregate amount of sales milestones payment shall be not exceeding US\$148 million, based on the achievement of annual net sales of the Drugs; and</p> <p>(iii) 12% - 16% of the annual sale for the royalty fees</p>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Parties	Nature of transaction	Pricing basis
2.	Precision Tsugami (China) Corporation Limited (“ Precision Tsugami ”) (stock code: 1651) and Tsugami Corporation	Grant (i) an exclusive license to use the technology for manufacturing high precision machine tools and to provide after-sales services in connection with these products to Precision Tsugami by Tsugami Corporation; and (ii) the right to use the trademarks in the PRC, Hong Kong and Taiwan, and a non-exclusive license to use the trademarks in any regions (excluding the PRC, Hong Kong and Taiwan)	1.0% or 5.0% of the total sales of such models of high precision machine tools (excluding tax and other miscellaneous costs and charges)
3.	Sterling Group Holdings Limited (“ Sterling Group ”) (stock code: 1825) and JP Outfitters, LLC (“ JP Outfitters ”)	Grant a non-transferable license, without the right to sublicense, to utilise the intellectual property in the manufacturing, marketing, sale, and distribution of apparel products and fashion accessories (the “ Products ”) solely within certain territories to a subsidiary of Sterling Group by JP Outfitters	A royalty payment of (i) 0.4% of all gross sales generated in connection with the manufacturing of the Products (the “ Gross Sales ”) for the first US\$40,000,000 in any cumulative rolling trailing twelve months period after the date of the agreement; and (ii) once the Gross Sales in any cumulative rolling trailing twelve months period after the date of the agreement exceed US\$40,000,000, 1% of all gross sales commencing on and continuing afterwards

Source: the Additional R&D Comparable Transactions are identified from the documents published by the respective companies on the website of the Stock Exchange from 1 June 2020 up to the date of the announcement of the Continuing Connected Transactions, with details of the Additional R&D Comparable Transactions extracted from the relevant announcements/circulars of the respective transactions published on the website of the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out above, it is noted that the fees to be charged by the service providers for the relevant services range from 0.4% to 16% on sales amounts of the relevant products. The fee to be charged by the PCC Group of 0.5% of the net invoiced amounts is at the lower end of the range.

As illustrated in the tables above, the licence or service fees charged in the R&D Comparable Transaction for Yongsheng and the Additional R&D Comparable Transactions are based on, among other things, a percentage of profit before tax and sales relating to the relevant products. Although the pricing basis of service fees of the R&D Comparable Transaction for Yongsheng are not completely identical to the R&D Service Fee to be charged by the PCC Group, it is not uncommon that the service fees are charged based on a percentage of the economic benefits generated from the relevant products. We believe the R&D Comparable Transactions and the Additional R&D Comparable Transactions are good indicators to show the pricing basis in respect of the research and development services pursuant to the PCC Services Agreements to be reasonable.

(3) Procurement Service Fee I and Procurement Service Fee II

To assess the pricing basis of the procurement services to be provided by the PCC Group (i.e. items (b) and (c) as mentioned above), we have made reference to a number of contractual agreements identified, on a best effort basis, in relation to the provision of procurement services by one party to another involving the Comparable Companies (the “**Procurement Comparable Transactions**”) based on review of the latest published annual report of the respective Comparable Companies.

As discussed in (2) above, as the nature of services is in the present circumstances a more relevant criterion in selecting the Procurement Comparable Transactions, it is considered that the Procurement Comparable Transactions are fair and representative samples of contractual agreements in relation to the provision of procurement services for assessment purpose. The Procurement Comparable Transactions set out in the table below represent an exhaustive list of transactions based on the above criteria:

No.	Parties	Nature of transaction	Pricing basis
1.	Global Brands Group Holding Limited (“ Global Brands ”) (stock code: 787) and Li & Fung Group (“ Li & Fung ”)	Provision of sourcing and supply chain management services to a subsidiary of Global Brands by a subsidiary of Li & Fung	Not exceeding 7% of the Free On Board price for sourcing products and components

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Parties	Nature of transaction	Pricing basis
2.	Time Watch Investments Limited (“ Time Watch ”) (stock code: 2033) and ILG of Switzerland Ltd. and its subsidiaries (the “ ILG Group ”)	Provision of export and import services of multi-brand watches and accessories between Hong Kong and the PRC to members of ILG Group	The higher of (i) 2.5% of the selling price, and (ii) HK\$16,000.

Source: the Procurement Comparable Transactions are identified from the latest published annual reports of the respective companies, with details of the Procurement Comparable Transactions extracted from the announcements/circulars of the respective transactions published on the website of the Stock Exchange

As shown in the table above, the service fees for the Procurement Comparable Transactions are charged on the basis of mark-ups on costs. The fees to be charged by the PCC Group for the purchasing and sourcing services to be provided to the Group is lower than those Procurement Comparable Transactions of 2.5% to 7% mark-ups on costs, we therefore consider the pricing basis in respect of the procurement services pursuant to the PCC Services Agreements reasonable.

For the R&D Service Fee, Procurement Service Fee I and Procurement Service Fee II, as disclosed in the “Letter from the Board” contained in the Circular, the Group has implemented and will continue to implement certain procedures over the monitoring of pricing basis of services received from the PCC Group under the PCC Services Agreements. In view of this, we have reviewed sample documents obtained from the Company in respect of the service fees paid to the PCC Group under the PCC Services Agreements. Based on our review and discussion with the Management, the payment of service fees is settled on a monthly basis. We have discussed with the Management and understand that staff from sales and costing units of the Group have reviewed the sales and costs to assess whether the transactions qualify for service fees payable to the PCC Group. It is also noted in the sample documents (including, among other things, the invoices from the PCC Group, calculation of service fees, summary of relevant sales and purchases and payment records of service fees) that the service fee percentage has been checked by the accounting department of the Group in order to ensure the pre-agreed service fee percentage has been properly applied to the relevant transactions for that month. Therefore, it is considered that the procedures implemented by the Group are appropriate in governing the conduct of the transactions under the PCC Services Agreements in respect of the R&D Service Fee, Procurement Service Fee I and Procurement Service Fee II.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also understand from the Management that the Group's internal audit team performs periodic review and conducts sample checking on transactions under the PCC Services Agreements to ensure that the reimbursement of costs and expenses and service fees paid to the PCC Group are in accordance with the PCC Services Agreements. We have reviewed a report prepared by the Group's internal audit team and noted that the internal control procedures in respect of the PCC Services Agreements were considered to be effective by the Group's internal audit team based on their review.

Conclusion

In view of the above, we consider that the pricing of the PCC Services Agreements are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

B. *PCC Connected Sales Agreements*

Parties

Purchaser: the PCC Group
Supplier: the Group

Term

Extended by the Sixth Supplemental PCC Connected Sales Agreement to cover a 3-year period ending 31 December 2023.

Subject matter

The Group may 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 at the order/request of the PCC Group.

Pricing policy

- (a) 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. As set out in the "Letter from the Board" contained in the Circular, in general, the Management reviews and monitors the terms and selling prices offered to the PCC Group by comparing with the terms and prices offered to independent third

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

parties for comparable products with similar features and quantities in order to ensure that the terms and selling prices shall be no less favourable to the Group than those available by the Group to independent third parties.

In particular, as advised by the Management, for manufacture and supply of moulds, the price shall be set based on standard price lists as agreed with independent third parties for the production of moulds, which set out the price for each type of materials and processes involved for the production of moulds. The standard price lists are applied when determining the pricing of moulds for sales to the PCC Group and customers which are independent third parties.

(b) Provision of consultancy and guidance services

For 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 the PCC Group and the Company in the next invoice.

Assessment of the pricing terms

In assessing the pricing terms under the PCC Connected Sales Agreements, we have reviewed the documents of a total of three sample transactions obtained from the Company in respect of sales to the PCC Group under the PCC Connected Sales Agreements, with one sample from each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020. We consider the sample transactions we have reviewed (being transactions covering each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020) are sufficient for assessing our understanding of the Company's pricing policy. We noted that the pricing for products sold to the PCC Group was no less favourable to the Group as compared to the pricing for comparable products sold to independent third parties. In respect of the provision of consultancy and guidance services, we have reviewed a summary of estimated and actual expenses and costs and noted that the Group has charged the PCC Group based on its estimate of costs and expenses for the current month and the differences between the actual and estimated expenses and costs for the previous month. We have discussed with the Management and understand that the consultancy and guidance services are mainly related to the development, implementation, operation and maintenance of an enterprise resource planning software (the "SAP System") to be used by the Group and the PCC Group, and the costs and expenses charged under the PCC Sales Agreements are actual amounts incurred by the Company in providing the relevant services. Based on our review, it is

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

considered that the pricing in respect of sales to the PCC Group and the provision of consultancy and guidance services is reasonable and the pricing is governed with appropriate controls implemented by the Group. The Group will continue to implement procedures to monitor the pricing basis under the PCC Connected Sales Agreements, please refer to the "Letter from the Board" contained in the Circular for details.

For pricing of moulds, as advised by the Management, the price would be set based on the standard price lists as agreed with independent third parties. We understand from the Management that the PCC Group would purchase moulds of footwear products from the Group for use during the PCC Group's research and development process of footwear products. The Group also produces moulds for customers other than the PCC Group. The Management is of the view that the PCC Group possesses expertise in research and development of manufacturing of footwear products, and the sale of moulds to the PCC Group under the PCC Connected Sales Agreements would facilitate the PCC Group to perform the research and development work for the Group under the PCC Services Agreements, which in turn allows the Group to fulfil the production requirements from customers. As disclosed in the "Letter from the Board" contained in the Circular, the sales and costing units of the Group will check and approve the prices which are set based on the 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. It is considered that such measures, i.e. checking of price to the standard price lists and the periodic review of internal approval documents, are appropriate in governing the pricing of the relevant products to be sold to the PCC Group.

We also understand from the Management that the Group's internal audit team performs periodic review and conducts sample checking on transactions under the PCC Connected Sales Agreements to ensure that the terms and the selling prices offered to the PCC Group by the Group shall be no less favourable than those offered by the Group to independent third parties for comparable products with similar features and quantities. We have reviewed a report prepared by the Group's internal audit team and noted that the internal control procedures in respect of the PCC Connected Sales Agreements were considered to be effective by the Group's internal audit team based on their review.

In view of the above, we consider that the procedures to be implemented by the Group are appropriate in governing the conduct of the transactions under the PCC Connected Sales Agreements and safeguarding the interests of the Company by ensuring the pricing of the transactions under the PCC Connected Sales Agreements are fair and reasonable and on normal commercial terms. As such, we consider the terms of PCC Connected Sales Agreements to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

C. *PCC Connected Purchases Agreements*

Parties

Purchaser: the Group
Supplier: the PCC Group

Term

Extended by the Sixth Supplemental PCC Connected Purchases Agreement to cover a 3-year period ending 31 December 2023.

Subject matter

The Group may purchase from the PCC Group raw materials, shoe-related products, moulds and manufacturing equipment and production tools for production needs.

Pricing policy

To ensure that the terms of purchase are no less favourable to the Group than those available from independent third parties, the Management will determine the terms in its purchase orders by comparing with those offered by independent third parties for products with similar features and quantities as considered by the Group.

For purchase of products exclusively from the PCC Group, the Management 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For products available from independent third parties

As confirmed by the Management, the Group is not obligated to purchase the relevant products exclusively from the PCC Group under the PCC Connected Purchases Agreements and is free to make purchases with any independent third party supplier with which the best terms are offered to the Group.

As disclosed in the “Letter from the Board” contained in the Circular, it is required for the procurement unit of the Group to obtain quotations which may be in writing or oral form from at least two independent third party suppliers for products in similar quantities and features as considered by the Group to determine whether the price and terms offered by the PCC Group are fair and reasonable when compared to those offered by independent third party suppliers. The procurement unit of the Group will compare the price offered by the PCC Group against the quotations offered by independent third parties to ensure that the products are charged no less favourable to the Group than those available from independent third parties.

For products exclusively from the PCC Group

As advised by the Management, the PCC Group possesses expertise in shoe-making technology and know-how, and strength and experience in producing and sourcing different kinds of materials. In the meantime, the Company has also been faced with customers’ requirements where specific materials would be required for manufacture of products. As such, it would be practicable for the Company to seek for help from the PCC Group to source those materials. Therefore, it is envisaged the situation where the Company needs to source certain materials exclusively from the PCC Group would be likely in the near future.

As disclosed in the “Letter from the Board” contained in the Circular, it is required for the procurement unit of the Group to 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 to the Group are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment of the pricing terms

In determining the prices of those products to be produced exclusively by the PCC Group, the procurement unit of the Group will compare the price and/or gross profit margin for products with similar features offered by the PCC Group to independent third parties. In light of the expertise of the PCC Group, we consider it reasonable for the procurement unit of the Group to 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 offered by the PCC Group are no less favourable to the Group.

We were advised by the Management that majority of the transactions under the PCC Connected Purchases Agreement involve purchase of products exclusively from the PCC Group. In assessing the fairness and reasonableness of the pricing policy, we have reviewed the documents of a total of three sample transactions obtained from the Company in respect of purchases from the PCC Group under the PCC Connected Purchases Agreements, with one sample from each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020. We consider the sample transactions we have reviewed (being transactions covering each of the year ended 31 December 2018 and 2019 and six months ended 30 June 2020) are sufficient for assessing our understanding of the Company's pricing policy. We have reviewed sample documents obtained from the Company, including the gross profit margin analysis for products with similar features sold by the PCC Group to independent third parties and the Group, ledger records of the PCC Group, and payment records/invoice of relevant purchases, in respect of transactions of products supplied by the PCC Group. We have discussed with the Management and understand that the sample transactions involve transactions of products exclusively supplied by the PCC Group, and hence the procurement unit of the Group has compared the gross profit margin for products with similar features offered by the PCC Group to independent third parties. Based on our review of the sample documents, it is noted that the gross profit margin for the sample transaction was comparable to similar products sold by the PCC Group to independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand that the Group's internal audit team performs periodic review and conducts sample checking on transactions under the PCC Connected Purchases Agreements to ensure that the products charged by the PCC Group are no less favourable to the Group than those available from independent third parties for comparable products with similar features and quantities. We have obtained and reviewed a report prepared by the Group's internal audit team and noted that the internal control procedures in relation to the PCC Connected Purchases Agreements were considered to be effective by the Group's internal audit team based on their review.

The Group has implemented and will continue to implement procedures to monitor the pricing basis under the PCC Connected Purchases Agreements, please refer to the "Letter from the Board" contained in the Circular for details. We consider that the procedures to be implemented by the Group are appropriate in governing the conduct of the transactions under the PCC Connected Purchases Agreements and safeguarding the interests of the Company by ensuring the pricing of the transactions under the PCC Connected Purchases Agreements are fair and reasonable and on normal commercial terms. As such, we consider the terms of PCC Connected Purchases Agreements fair and reasonable.

D. Godalming Tenancy Agreements

Parties

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

Term

Extended by the Seventh Supplemental Godalming Tenancy Agreement to cover a 3-year period ending 31 December 2023.

Subject matter

The leasing of three premises in Guangdong, the PRC by the Group from the Godalming Group for production and logistics purposes, including shoe and sole factory buildings, offices, warehouses, auxiliaries and dormitories for workers (the "**Guangdong Properties**").

Rent

The monthly rent is set with reference to market rental value of the Guangdong Properties as valued by Cushman & Wakefield Limited, an independent professional valuer (the "**Valuer**"), on 31 August 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In connection with the aforesaid valuation, we have reviewed, among other things, the engagement letter of the Valuer and the valuation report. We understand from the Valuer and note from its engagement letter that it has performed a valuation of the market rental value of each of the Guangdong Properties, which is the basis of determining the respective rent of each of the Guangdong Properties under the Godalming Tenancy Agreements. The engagement letter also contains standard valuation scopes that are typical of rental valuations carried out by independent property valuers. We have discussed the expertise of the Valuer with its relevant staff members and understand that the Valuer is an established independent property valuer with a number of completed assignments acting for listed companies, and the Valuer is certified with the relevant qualifications required to perform this valuation exercise. We understand that the signing person of the valuation report has over 25 years' industry experience in valuation of properties in, among others, the PRC and Hong Kong, and the relevant valuation team members have industry experience ranging from 20 to 25 years.

Besides, we have conducted an interview with the Valuer as regards the methodologies adopted and assumptions involved in the valuation report of the Guangdong Properties; and whether the Valuer is independent from the Group and the Godalming Group. The Valuer has confirmed to us that (i) it has complied with the requirements set out in the Hong Kong Institute of Surveyors Valuation Standards (2017 Edition) issued by The Hong Kong Institute of Surveyors in performing the valuation; (ii) the "market comparison approach" has been adopted in the valuation which is considered as the most appropriate and most common valuation approach for market rent valuation by reference to comparable market rent evidence; and (iii) it is independent from each of the Group and the Godalming Group in accordance with the relevant requirements in the Hong Kong Institute of Surveyors Valuation Standards (2017 Edition).

In view of the aforementioned, we consider the respective rents for the Guangdong Properties, which are determined with reference to their respective market rental values as valued by an independent professional valuer, fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

E. Payment terms of the Continuing Connected Transactions

The table below summarises the payment terms of the relevant agreements:

Agreements	Payment terms
PCC Services Agreements	In general, within 30 to 45 days for services fees payable after the end of relevant month of the invoice date and 45 days for reimbursement of costs and expenses after the end of the relevant month of the invoice date
PCC Connected Sales Agreements	In general, within 30 days to 45 days after the end of relevant month of the invoice date
PCC Connected Purchases Agreements	In general, within 30 days to 45 days after the end of relevant month of the invoice date
Godalming Tenancy Agreements	On or before the last day of each calendar month

As disclosed in the 2019 annual report of the Company, the credit periods for the Group's purchases or sales range from 30 days to 90 days. We regard the above payment terms as reflecting normal commercial credit terms commonly adopted by the Group.

F. Review of the continuing connected transactions by auditor

The auditor of the Company has performed a review of the continuing connected transactions of the Group, including, among other things, the then continuing connected transactions conducted for each of the two years ended 31 December 2018 and 31 December 2019 under each of the PCC Services Agreements, the PCC Connected Sales Agreements, the PCC Connected Purchases Agreements and the Godalming Tenancy Agreements (the "**Past Transactions**"). We noted from the 2018 and 2019 annual reports of the Company that the auditor was engaged to report in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the findings and conclusions in respect of the Past Transactions in accordance with Rule 14A.56 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the analysis on the terms of the Continuing Connected Transactions in this letter above, the auditor's review of the Past Transactions and the obligations of the Directors to comply with the Listing Rules to conduct continuing connected transactions on normal commercial terms, we consider that the Continuing Connected Transactions will be conducted on normal commercial terms.

4. The Caps

The historical transaction amounts for each of the Continuing Connected Transactions for the two years ended 31 December 2019 and the eight months ended 31 August 2020 and the Caps for the Continuing Connected Transactions for each of the three years ending 31 December 2023 are set out below:

	Historical figures <i>(in US\$'000)</i>			Annual caps <i>(in US\$'000)</i>		
	For the year ended 31 December		For the 8 months ended 31 August	For the year ending 31 December		
	2018	2019	2020	2021	2022	2023
Agreements						
(a) with PCC Group						
PCC Services Agreements	388,887	361,304	178,411	409,357	429,825	451,316
PCC Connected Sales						
Agreements	3,449	3,627	2,028	8,147	8,480	8,829
PCC Connected Purchases						
Agreements	1,150	1,139	899	1,916	2,012	2,113
Sub-total	<u>393,486</u>	<u>366,070</u>	<u>181,338</u>	<u>419,420</u>	<u>440,317</u>	<u>462,258</u>
(b) with Godalming Group						
Godalming Tenancy						
Agreements	1,921	1,930	1,314	2,260	1,760	1,760
Total	<u><u>395,407</u></u>	<u><u>368,000</u></u>	<u><u>182,652</u></u>	<u><u>421,680</u></u>	<u><u>442,077</u></u>	<u><u>464,018</u></u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

A. *Based on historical transaction amounts for the year ended 31 December 2019*

In respect of the PCC Services Agreements, the PCC Connected Sales Agreements and the PCC Connected Purchases Agreements, the estimation of the Caps is principally based on (i) the historical transaction amounts incurred during the year ended 31 December 2019 for 2021; and (ii) the estimated annual growth rate of 5% for 2022 and 2023.

As set out in the 2020 Interim Report, the Group's revenue decreased by approximately 19.4% for the six months ended 30 June 2020 as compared to corresponding period in 2019 mainly caused by the temporary factory shutdowns in China and Southeast Asian countries for a period of time with the outbreak of the COVID-19 pandemic in the first half of 2020, affecting the operating efficiency of the Group and leading to temporary supply chain disruptions. It is stated in the 2020 Interim Report that the Management expects that it may take some time for the Group's production to return to normal levels, depending on the development of the COVID-19 pandemic. The Group will continue to enhance its product development and innovation capabilities and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, and to create long-term synergies for its businesses in the future. The Group remains optimistic about the long-term growth prospects of its retail business given the increasing health awareness, higher sports participation rates and the growth of the "athleisure" trend in the Greater China region. In view of the above, and given the signs of retail spending recovering in some markets alongside the reopening of economies and stimulus programs initiated by governments around the globe, it is expected by the Management that the Group's operations will gradually resume to normal levels and hence the Management considers the historical transaction amounts for the year ended 31 December 2019 will be a more meaningful reference for estimating the Caps for the PCC Services Agreements, the PCC Connected Sales Agreements and the PCC Connected Purchases Agreements for the year ending 31 December 2021. Further details of the Management's bases of estimating the Caps are set out below.

(i) PCC Services Agreements

In arriving at the Cap for the year ending 31 December 2021, the Management has taken into account the historical transaction amount incurred during the year ended 31 December 2019, with an inflation rate of 3% estimated with reference to the historical monthly changes in consumer price index of Taiwan in 2018 to 2020. A buffer for exchange rate fluctuation estimated with reference to the historical exchange rate fluctuation between New Taiwan dollar ("NTD") and US\$ in 2018 to 2020 has been incorporated in the Cap in 2021 as majority of transactions under the PCC Services Agreements are denominated in NTD while the Cap is presented in US\$, which is the functional currency of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the Caps for the two years ending 31 December 2022 and 2023, an annual growth rate of 5% was taken into account based on the Cap for the year ending 31 December 2021. The 5% annual growth rate is determined mainly with reference to the growth rate of approximately 4.2% of the Group's revenue in 2019 as compared to that in 2018.

In view of the above, we are of the view that such growth rate in estimating the Caps for the PCC Services Agreements is reasonable, and we consider the bases and assumptions involved in setting the Caps for the PCC Services Agreements reasonable.

(ii) PCC Connected Sales Agreements

In estimating the Cap for the year ending 31 December 2021, the Management has taken into account (i) the actual transaction amount in 2019 with an inflation rate of 3% estimated with reference to the historical monthly changes in consumer price index of Taiwan in 2018 to 2020; (ii) expected consultancy and guidance service income; and (iii) buffer for exchange rate fluctuation between NTD and US\$ as majority of transactions under the PCC Connected Sales Agreements are denominated in NTD while the Cap is presented in US\$, which is the functional currency of the Company.

As mentioned in the sub-section above, it is expected by the Management that the operations of the Group will gradually resume to normal levels and hence the Cap for 2021 has mainly been estimated with reference to the actual transaction amount in 2019 and taking into account an inflation rate of 3%. Consultancy and guidance service income mainly represents staff cost in respect of consultancy and guidance services provided to the PCC Group for the development, implementation, operation and maintenance of the SAP System. As advised by the Management, the Group and the PCC Group are developing and will be implementing the SAP System by stages in these few years. As such, the Group has set up a team of staff responsible for the implementation of the SAP System and started to provide consultancy service to the PCC Group in 2019. The progress of implementing the SAP System has been slowed down due to the COVID-19 pandemic in the first half of 2020, but the Management expects that progress will resume when the epidemic situation has been stabilised, therefore service income for the year ending 31 December 2021 is estimated based on the average monthly amount of such income received in 2019 with an annual growth which reflects the expected annual salary increment after taking into account the salary increment in Taiwan in 2020. Furthermore, we understand from the Management that the 10% buffer for exchange rate fluctuation has been considered after taking into account the historical exchange rate fluctuation between NTD and US\$ in 2018 to 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Management is of the view that, going forward, there will be a stable increase in the product transactions under the PCC Connected Sales Agreements along with the Group's business growth. As a result, the Management has used the expected annual growth rate of 5%, which is referenced to the growth in the Group's revenue in 2019 as compared to 2018, in determining the Caps for 2022 and 2023. As for the consultancy and guidance service income, the expected transaction amounts for 2022 and 2023 are estimated based on the expected transaction amount for 2021 with an annual growth which reflects the expected annual salary increment after taking into account the salary increment in Taiwan in 2020.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the PCC Connected Sales Agreements reasonable.

(iii) PCC Connected Purchases Agreements

The Cap for the PCC Connected Purchases Agreements in 2021 shows an increase of approximately 68.2% as compared to the historical transaction amount in 2019. It is mainly attributed by new materials required for production of new shoe components. In addition, we understand from the Management that the actual transaction amount in 2019 has been considered and an inflation rate has been applied for those products that have been purchased from the PCC Group in previous years in estimating the Cap in 2021. A buffer for exchange rate fluctuation estimated with reference to the historical exchange rate fluctuation between NTD and US\$ in 2018 to 2020 has been incorporated in the Cap in 2021 as majority of transactions under the PCC Connected Purchases Agreements are denominated in NTD while the Cap is presented in US\$, which is the functional currency of the Company.

As advised by the Management, certain materials, which the Group started to purchase from the PCC Group in 2020, are expected to be required for producing new shoe components in 2021 to 2023. The expected amount of purchase for such materials from the PCC Group in 2021 is estimated based on the average monthly amount of purchases incurred from January to July 2020. We have discussed with the Management on the effect of the launch of new shoe components on existing production, and the Management expects that, based on previous experience in production of new shoe components and its effect on existing production level, the production of existing shoe products and hence the purchases of relevant materials in 2021 to 2023 would not be materially affected by the new shoe components.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Similar to the PCC Services Agreements and the PCC Connected Sales Agreements, the Management expects that the transaction amounts will have an annual growth of 5% after considering the revenue growth in 2019 when determining the Caps for the PCC Connected Purchases Agreements for 2022 and 2023.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the PCC Connected Purchases Agreements reasonable.

B. Based on rental area – the Godalming Tenancy Agreements

Pursuant to the Godalming Tenancy Agreements, the Group can lease certain areas of the Guangdong Properties from 2021 to 2023. The Caps for the Godalming Tenancy Agreements are based on the areas to be occupied by the subsidiaries of the Company in the coming three years and with reference to the relevant market rental value of the properties concerned as assessed by the Valuer. A buffer of 10% for exchange rate fluctuation between Renmenbi (“RMB”) and US\$ is also taken into account as the rental expenses are denominated in RMB while the Cap is presented in US\$, which is the functional currency of the Company. We understand from the Management that the buffer for exchange rate fluctuation has been referenced to the historical fluctuation in exchange rates between RMB and US\$ in 2018 to 2020.

We have reviewed the Management’s basis of estimating the Cap and understand from the Management that in arriving at the Cap for the year ending 31 December 2021, the areas to be occupied by the subsidiaries of the Company under the Godalming Tenancy Agreements for the year ending 31 December 2021 are expected to be approximately 123,000 square metres which is substantially the same as the actual areas occupied by the subsidiaries of the Company in September 2020. As such, the Management has estimated the Cap for 2021 based on the areas to be occupied in 2021 and the relevant market rental value of the properties concerned as assessed by the Valuer, with the buffer for exchange rate fluctuation. We have discussed with the Valuer and reviewed the valuation report, further details are set out in the sub-section headed “D. Godalming Tenancy Agreements” under the section headed “3. Principal terms of the Continuing Connected Transactions” of this letter above.

As for the years ending 31 December 2022 and 2023, the Management expects that the areas of the Guangdong Properties to be leased will decrease after 2021 due to relocation of production facilities to other countries such as Indonesia and Vietnam. In estimating the Caps for 2022 and 2023, the Management has considered the expected areas of the Guangdong Properties to be leased in 2022 and 2023 of approximately 93,000 square metres and the relevant market rental value of the properties concerned as assessed by the Valuer, with the buffer for exchange rate fluctuation.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the Godalming Tenancy Agreements reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conclusion

Generally speaking, in our opinion, it is in the interest of the Group for the Caps to be as accommodating to the Group as possible. Provided that the terms for the Continuing Connected Transactions, including the pricing terms, are fair and reasonable and that the conduct of the Continuing Connected Transactions is subject to annual review by independent non-executive Directors and auditor of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the Caps are tailored to future business growth.

Having reviewed the bases and assumptions considered in determining the Caps as discussed above, we consider that the Caps have been set by the Company with due care and are fair and reasonable.

5. Annual review of the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions to be carried out are subject to the following annual review requirements:

- (a) each year, the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report whether the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year, the auditor of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days before the bulk printing of the Company's annual report), confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material aspects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material aspects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have exceeded the Caps;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditor sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions as set out in paragraph (b). The Board must state in the annual report whether the Company's auditor has confirmed the matters set out in Listing Rule 14A.56; and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditor of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the requirements for the Continuing Connected Transactions, in particular, (a) the restriction of the values of the Continuing Connected Transactions by way of the Caps; and (b) the requirements under the Listing Rules for ongoing review by the independent non-executive Directors and the auditor of the Company of the terms of the Continuing Connected Transactions and the Caps, we are of the view that there exist appropriate measures to govern the conduct of the Continuing Connected Transactions and to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Continuing Connected Transactions and the Caps are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

I. Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and/or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

(a) *Long position in the Shares and underlying Shares of the Company*

Name of Director	Capacity	Number of Shares/ underlying Shares held	Percentage of the issued share capital of the Company (Note 1)
Lu Chin Chu	Beneficial owner	45,000	0.00%
Lin Cheng-Tien	Beneficial owner	45,000	0.00%
Hu Chia-Ho	Beneficial owner	118,000 (Note 2)	0.01%
Liu George Hong-Chih	Beneficial owner	118,000 (Note 2)	0.01%
Hu Dien Chien	Beneficial owner	189,000 (Note 2)	0.01%

Notes:

- The total issued share capital of the Company as at the Latest Practicable Date is 1,612,183,986 Shares.
- Each of Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Hu Dien Chien is interested in 40,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on 28 January 2014 and amended on 23 March 2016 and 28 September 2018.

(b) *Long position in shares and underlying shares of HK\$0.01 each of Pou Sheng, an associated corporation within the meaning of Part XV of the SFO*

Name of Director	Capacity	Number of shares/ underlying shares held	Percentage of the issued share capital of Pou Sheng (Note 1)
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.36%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

Note:

- The total issued share capital of Pou Sheng as at the Latest Practicable Date is 5,356,847,615 shares.

(c) *Long position in shares and underlying shares of NT\$10.00 each of PCC, an associated corporation within the meaning of Part XV of the SFO*

Name of Director	Capacity	Number of shares/ underlying shares held	Percentage of the issued share capital of PCC (Note 1)
Lu Chin Chu	Beneficial owner	1,964,470	0.07%
Lu Chin Chu	Interests of children under 18 and/or spouse	73,300	0.00%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	0.14%
Chan Lu Min	Beneficial owner	366,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	0.01%

Note:

- The total issued share capital of PCC as at the Latest Practicable Date is 2,946,787,213 shares.

Other than the interests disclosed above, none of the Directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at the Latest Practicable Date.

II. Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

(a) Interests in the Shares

Name of substantial shareholder	Notes	Number of ordinary shares beneficially held	Current percentage interest in the issued share capital of the Company*
		<i>Long Position</i>	
Pou Chen Corporation ("PCC")	(a)	824,143,835	51.11%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.95%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.16%
Silchester International Investors LLP	(c)	97,081,000	6.02%
		<i>Short Position</i>	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.78%

* The total issued share capital of the Company as at the Latest Practicable Date is 1,612,183,986 Shares.

Notes:

- a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty and Mr. Chan Lu Min, who are directors of the Company, are also directors of PCC and Wealthplus. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.

- b) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) (“Merrill Lynch Portfolio Managers Limited”) under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) (“Blackrock, Inc.”) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc.

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International indirectly through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company dated 10 March 2008.

- c) Silchester International Investors LLP is interested in these 97,081,000 ordinary shares in its capacity as investment manager.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial shareholders of other members of the Group

As at the Latest Practicable Date, so far as is known to the Directors, the following parties, other than a Director, are directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Group:

Name of subsidiary	Name of shareholder	% of the issued share capital in the relevant subsidiary
Bestample Investments Limited	L & K Engineering Co., Ltd.	15
Fujian Baomin Sporting Goods Co., Ltd.	Glorious Win Developments Limited	10
Keen Vision Holdings Limited	Song Chang Keun	40
Ontime Ventures Limited	Yen Ming Ho	10
PT. GF Indonesia (Indonesia)	SIG F&F LIMITED	35
	EXR KOREA CO LIMITED	11.11
PT. Suksespermata Indonusa	Yen Ming Ho	10
Qingdao Pou Sheng International Sporting Goods Company Limited	山東力威經貿有限公司	28
Prodigy Management Limited	Substantial Industries Limited	25
Avezzi Limited	Jens Fruelund Christensen	33.36

Save as disclosed above, the Directors are not aware that there is any party (not being a Director) who, as at the Latest Practicable Date, had an interest or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such shares.

III. Interests in competing business

Between the Company and Pou Sheng

The Company is deemed to be interested in approximately 62.19% interest in Pou Sheng as at the Latest Practicable Date which is accounted for as a subsidiary of the Company. Pou Sheng is listed on the main board of the Stock Exchange. The principal businesses of the Pou Sheng Group are the retail and distribution of footwear and sportswear in the Greater China region.

As at the Latest Practicable Date, Ms. Tsai, who is an executive and the managing director of the Company, is also a non-executive director of Pou Sheng. Ms. Tsai also holds certain shares in Pou Sheng.

As the Company and Pou Sheng are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Pou Sheng. As Pou Sheng no longer has any footwear manufacturing business, it is expected that there will not be any competition between the Pou Sheng Group and the Group in terms of the Group's footwear manufacturing business.

Between the Company and Eagle Nice

As at the Latest Practicable Date, the Company held indirectly approximately 36.09% interests in Eagle Nice whose shares are listed on the main board of the Stock Exchange. Eagle Nice is principally engaged in the manufacturing and trading of sportswear and garments. Based on the published annual report of Eagle Nice, the revenue of Eagle Nice for the year ended March 31, 2020 was approximately HK\$3.0 billion. As the Group's principal activities are manufacturing of footwear business and the retail and distribution of sportswear products, the business of Eagle Nice and the Group potentially compete with each other.

As at the Latest Practicable Date, Mr. Hu Dien Chien, who is an executive director of the Company, is also an executive director of Eagle Nice.

As the Company and Eagle Nice are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independent of, and at arms length from, Eagle Nice.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

Reference is made to the interim report of the Company for the six months ended 30 June 2020 (the "**Interim Report**"), which disclosed that the Group recorded an unaudited consolidated loss attributable to owners of the Company of approximately US\$136.8 million for the six months ended 30 June 2020. Such loss is mainly due to the COVID-19 pandemic resulting in the temporary factory shutdowns in the PRC and Southeast Asian countries, lower consumer demand and the suspension of operations of majority of the retail stores of the Group in the first quarter of 2020. Please refer to the Interim Report for a more detailed discussion.

Save as disclosed above, the Directors confirm that, as at the Latest Practicable Date, there has been no material change in the financial or trading position of the Group since 31 December 2019, being the date up to which the latest published audited financial statements of the Group were made up.

6. EXPERT

- (a) The following is the qualification of Somerley Capital Limited, the Independent Financial Adviser, which has given its opinion or advice which is contained in this circular:

Name	Qualification
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

- (b) As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2019, being the date up to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included in this circular in the form and context in which they appear.

7. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (a) None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date up to which the latest published audited financial statements of the Group were made.
- (b) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

8. MISCELLANEOUS

- (a) The secretary of the Company is Chau Chi Ming, Dickens.
- (b) The principal place of business of Company in Hong Kong is at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) As at the date of this circular, Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, 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 are the executive Directors, and Mr. Wong Hak Kun, Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen are the independent non-executive Directors.
- (d) The English text of this document and the form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of the Company situated at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong, from the date of this circular, until the date of the SGM:

- (a) this circular;
- (b) the Memorandum of Association and Bye-laws of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 28 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 29 to 56 of this circular;
- (e) the written consent of Independent Financial Adviser referred to in the section headed "Expert" in this Appendix; and
- (f) the agreements in respect of the Continuing Connected Transactions referred to in this circular.

NOTICE OF SPECIAL GENERAL MEETING



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Yue Yuen Industrial (Holdings) Limited (the “Company”) will be held at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on 26 November 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

- (A) THAT the seventh supplemental agreement (the “Seventh Supplemental PCC Services Agreement”) dated 8 October 2020 entered into between the Company and Pou Chen Corporation (“PCC”) (which is supplemental to the PCC Services Agreement (as defined in the Company’s circular dated 10 November 2020), under which, inter alia, PCC agrees 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 products of the Company and its subsidiaries (the “Group”) and provide general administration support services, be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the Seventh Supplemental PCC Services Agreement (the details of which are summarised in the Company’s circular dated 10 November 2020) and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to take all actions and execute all documents which they deem necessary, required or appropriate, in order to implement and validate anything related to the Seventh Supplemental PCC Services Agreement;

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (B) **THAT** the sixth supplemental agreement (the “Sixth Supplemental PCC Connected Sales Agreement”) dated 8 October 2020 entered into between the Company and PCC (which is supplemental to the PCC Connected Sales Agreement (as defined in the Company’s circular dated 10 November 2020) under which, inter alia, the Group agrees to sell leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools to PCC and its subsidiaries (the “PCC Group”) and provide consultancy and guidance services to PCC Group as may be ordered by the PCC Group on the terms of each order accepted by the Group, be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the Sixth Supplemental PCC Connected Sales Agreement (the details of which are summarised in the Company’s circular dated 10 November 2020) and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to take all actions and execute all documents which they deem necessary, required or appropriate, in order to implement and validate anything related to the Sixth Supplemental PCC Connected Sales Agreement;
- (C) **THAT** the sixth supplemental agreement (the “Sixth Supplemental PCC Connected Purchases Agreement”) dated 8 October 2020 entered into between the Company and PCC (which is supplemental to the PCC Connected Purchases Agreement (as defined in the Company’s circular dated 10 November 2020) under which 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, be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the Sixth Supplemental PCC Connected Purchases Agreement (the details of which are summarised in the Company’s circular dated 10 November 2020) and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to take all actions and execute all documents which they deem necessary, required or appropriate, in order to implement and validate anything related to the Sixth Supplemental PCC Connected Purchases Agreement;

NOTICE OF SPECIAL GENERAL MEETING

(D) **THAT** the seventh supplemental agreement (the “Seventh Supplemental Godalming Tenancy Agreement”) dated 8 October 2020 between Godalming Industries Limited (“Godalming”) as landlord and subsidiary and a joint venture of the Company as tenants (which is supplemental to the Godalming Tenancy Agreement (as defined in the Company’s circular dated 10 November 2020) under which Godalming agreed to lease to certain subsidiaries 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, be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the Seventh Supplemental Godalming Tenancy Agreement (the details of which are summarised in the Company’s circular dated 10 November 2020) and the transactions contemplated therein, be and are hereby approved, confirmed and ratified and that the directors of the Company be and are hereby authorised to take all actions and execute all documents which they deem necessary, required or appropriate, in order to implement and validate anything related to the Seventh Supplemental Godalming Tenancy Agreement.

By Order of the Board
Lu Chin Chu
Chairman

Hong Kong, 10 November 2020

Principal Place of Business:
22nd Floor
C-Bons International Center
108 Wai Yip Street
Kwun Tong
Kowloon,
Hong Kong

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. A form of proxy for use at the SGM or any adjournment thereof is enclosed.
2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy or proxies (if such member is the holder of two or more shares) to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, not later than 10:00 a.m. on 24 November 2020 (Hong Kong Time), or not less than 48 hours before the time for holding the adjourned meeting, as the case may be.
3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorized to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
6. **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 on Friday, 20 November 2020.**
7. If tropical cyclone warning signal No. 8 or above is in force or "extreme conditions" caused by super typhoons or black rainstorm warning signal is in force at or at any time after 7:00 a.m. on the date of the SGM, the SGM will be postponed and members will be informed of the date, time and venue of the postponed SGM by a supplementary notice, posted on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited.

The SGM will be held as scheduled when amber or red rainstorm warning signal is in force.

After considering their own situations, members should decide whether they would attend the SGM under bad weather condition and if they do so, they are advised to exercise care and caution.