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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



SOMERLEY CAPITAL LIMITED

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 Thursday, 30 November 2017 at 10:00 a.m. is set out on pages 63 to 67 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 22, 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 Tuesday, 28 November 2017 (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.

* For identification purpose only

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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: GBD Management Service Agreement, PCC Services Agreement, PCC Connected Sales Agreement, PCC Connected Purchases Agreement, Godalming Tenancy Agreement, PCC/YY Tenancy Agreement and PCC/PS 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 2020
“Director(s)”	director(s) of the Company
“Fifth Supplemental PCC Connected Purchases Agreement”	the agreement dated 13 October 2017 entered into between the Group and the PCC Group supplemental to the PCC Connected Purchases Agreement
“Fifth Supplemental PCC Connected Sales Agreement”	the agreement dated 13 October 2017 entered into between the Group and the PCC group supplemental to the PCC Connected Sales Agreement
“GBD”	Golden Brands Developments Limited, a company incorporated in the British Virgin Islands, which is owned as to approximately 94.12% by a discretionary trust and its sub-funds set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai’s family
“GBD Group”	GBD and its subsidiaries
“GBD Management Service Agreement”	the management service agreement dated 13 December 2001 entered into between Highmark and GBD, as amended and supplemented

DEFINITIONS

“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 set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai’s family
“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, as amended and supplemented
“Group”	the Company and its subsidiaries
“Highmark”	Highmark Services Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising the independent non-executive Directors constituted to make recommendations to the Independent Shareholders in respect of the terms of the Continuing Connected Transactions (including their respective Caps)
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Continuing Connected Transactions
“Independent Shareholders”	the Shareholders other than PCC, Mr. Tsai and their respective Associate who are required to abstain from voting on the Continuing Connected Transactions at the SGM
“Industrial Estate”	the Yue Yuen Industrial Estate, situated in the He Lu Industrial Area, Huang Jiang Town, Dongguan, Guangdong Province, PRC
“Latest Practicable Date”	9 November 2017, 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

DEFINITIONS

“Mr. Tsai”	Mr. Tsai Chi Jui, a substantial shareholder of the Company for the purposes of the SFO
“Ms. Tsai”	Ms. Tsai Pei Chun, Patty, an executive Director and the managing Director, a daughter of Mr. Tsai and a cousin of Mr. Tsai Ming-Lun, Ming, an executive Director
“PCC”	Pou Chen Corporation, 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, shoe-related products and manufacturing equipment and tools as amended and supplemented
“PCC Connected Sales Agreement”	the agreement dated 9 January 2007 entered into between the Group and the PCC Group for the sale of leather, moulds, production tools, finished and semi-finished shoe products as amended and supplemented
“PCC Group”	PCC and its subsidiaries and Associates other than members of the Group
“PCC/PS Tenancy Agreement”	the agreement dated 13 October 2017 entered into between members of the Pou Sheng Group and members of the PCC Group for leasing certain premises in Taiwan for the purpose of the Pou Sheng Group’s business
“PCC Services Agreement”	the services agreement dated 22 February 1997 entered into between the Company and PCC, as amended and supplemented
“PCC/YY Tenancy Agreement”	the agreement dated 13 October 2017 entered into between members of the Group (other than the Pou Sheng Group) and members of the PCC Group for leasing certain premises in Taiwan for the purpose of the Group’s manufacturing business
“Pou Sheng”	Pou Sheng International (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose securities 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

DEFINITIONS

“SAP System”	the development, establishment, implementation, operation and maintenance of an enterprise resource planning software
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 30 November 2017 at 10:00 a.m. to approve the Continuing Connected Transactions (and the relevant Caps)
“Sixth Supplemental GBD Management Service Agreement”	the agreement dated 13 October 2017 entered into between Highmark and GBD supplemental to the GBD Management Service Agreement
“Sixth Supplemental Godalming Tenancy Agreement”	the agreement dated 13 October 2017 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
“Sixth Supplemental PCC Services Agreement”	the agreement dated 13 October 2017 entered into between the Company and PCC supplemental to the PCC Services Agreement
“Share(s)”	ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“Yue Yuen International”	Yue Yuen International Limited, a previous wholly-owned subsidiary of the Company

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

Tsai Ming-Lun, Ming

Hu Chia-Ho

Liu George Hong-Chih

Hu Dien Chien

Independent Non-executive Directors:

Leung Yee Sik

Huang Ming Fu

Chu Li-Sheng

Yen Mun-Gie (also known as Teresa Yen)

Hsieh Yung Hsiang (also known as Alfred Hsieh)

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

14 November 2017

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Company's announcement dated 13 October 2017. The Company and certain of its subsidiaries have on 13 October 2017 (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 2018 and 31 December 2020. 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 recommendation 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 the PCC Group and the Group

PCC Services Agreement

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

The parties have entered into the Sixth Supplemental PCC Services Agreement to amend and extend the term for three years to 31 December 2020.

PCC Connected Sales Agreement

Under the PCC Connected Sales Agreement, members of the Group agreed to sell leather, moulds, production tools, finished and semi-finished shoe products to the PCC Group.

The parties have entered into the Fifth Supplemental PCC Connected Sales Agreement to amend and extend the term for three years to 31 December 2020.

PCC Connected Purchases Agreement

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

The parties have entered into the Fifth Supplemental PCC Connected Purchases Agreement to amend and extend the term for three years to 31 December 2020.

PCC/YY Tenancy Agreement

Under the PCC/YY Tenancy Agreement, members of the PCC Group agreed to lease to members of the Group (other than Pou Sheng Group) certain premises in Taiwan for the purpose of the Group's manufacturing business for a term of three years to 31 December 2020.

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PCC/PS Tenancy Agreement

Under the PCC/PS Tenancy Agreement, members of the PCC Group agreed to lease to members of the Pou Sheng Group certain premises in Taiwan for the purpose of the Pou Sheng Group's business for a term of three years to 31 December 2020.

(B) Transactions between the GBD Group and the Group

GBD Management Service Agreement

Under the GBD Management Service Agreement, Highmark agreed to provide GBD and its subsidiaries with management services in the Industrial Estate.

The parties have entered into the Sixth Supplemental GBD Management Service Agreement to amend and extend the term for three years to 31 December 2020.

(C) Transactions between the Godalming Group and the Group

Godalming Tenancy Agreement

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

The parties have entered into the Sixth Supplemental Godalming Tenancy Agreement to amend and extend the term for three years to 31 December 2020 and extended the tenancy to include an additional member of the Group in respect of warehouses for logistics purpose.

II. BUSINESS OF THE GROUP

The Company is an investment holding company. The Group is involved in two businesses focusing on sport fitness and lifestyle. The Group is a manufacturer of athletic and casual/outdoor footwear for leading international brand companies around the world. It also operates a number of retail networks of footwear and apparel across the Greater China region, which continues to be a key growth market for major leading international sporting and lifestyle brands.

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III. GBD MANAGEMENT SERVICE AGREEMENT

On 13 December 2001, Highmark, a wholly-owned subsidiary of the Company, entered into the GBD Management Service Agreement with GBD to provide them with management services. On 9 January 2007, the parties entered into a supplemental agreement to vary the terms of the original agreement. Under the supplemental agreement, Highmark agreed to provide management services to members of the GBD Group. The parties subsequently entered into further supplemental agreements to extend the terms to 31 December 2017. On 13 October 2017, Highmark entered into the Sixth Supplemental GBD Management Service Agreement to further extend the term for three years to 31 December 2020.

Highmark principally engages in management of the Industrial Estate which houses factories belonging to the Group and others. The management services it provides to occupants of the Industrial Estate include general up-keeping of the common areas, provision of security and up-keep of all drains in common areas and the Group receives fees for these services.

The principal business of GBD is investment holding. Through its subsidiaries, it was previously principally engaged in the manufacturing and trading of computer hardware, computer accessories and components. The GBD Group ceased its manufacturing business in 2010 and became property investment holding. A number of factory buildings in the Industrial Estate owned by members of the GBD Group are now either in vacant situation or leased to third parties.

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

Dates

GBD Management Service Agreement:	13 December 2001 (as amended and restated under supplemental agreements to 31 December 2020)
Third Supplemental GBD Management Service Agreement:	25 August 2011
Fourth Supplemental GBD Management Service Agreement:	15 September 2014
Fifth Supplemental GBD Management Service Agreement:	21 October 2014
Sixth Supplemental GBD Management Service Agreement:	13 October 2017

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Parties

Highmark:	a wholly-owned subsidiary of the Company
GBD:	a company incorporated in the British Virgin Islands, which is owned as to approximately 94.12% by a discretionary trust and its sub-funds set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family.

Payment terms

45 days from date of invoice.

According to the audited consolidated financial statements of the Group for the year ended 31 December 2015, the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2017, the relevant transaction amounts are:

Financial year end 31 December (except 2017)	2015	2016	2017 (six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>51</u>	<u>50</u>	<u>20</u>

Term

The GBD Management Service Agreement has been amended by the Sixth Supplemental GBD Management Service Agreement to continue in force for a period of three years from 1 January 2018 for the GBD Group as users of the services.

Management fees

Charges for common services are calculated by dividing the total cost base by the number of factories pro rata to their size in the Industrial Estate. The total cost base is calculated by adding all the costs incurred by Highmark in the provision of the common services (i.e. the costs of hiring security staff and the costs of up-keeping the common area) and adding a margin of 10% or higher for the aggregate costs incurred. Highmark charges the GBD Group at rates same as those charged to independent third party users for common services.

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IV. PCC SERVICES AGREEMENT

On 22 February 1997, the Company and PCC entered into the PCC Services Agreement. Since then the parties have entered into supplemental agreements to amend and extend the terms of the agreement. The parties have on 13 October 2017 entered into the Sixth Supplemental PCC Services Agreement to further extend the term for three years to 31 December 2020.

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 2020)
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

Parties

The Company for itself and on behalf of each member of the Group and PCC. PCC is a controlling shareholder of the Company that indirectly owns or controls approximately 49.98% of the Company's issued share capital and PCC, through its subsidiaries, is principally engaged in the (i) manufacturing of footwear and garment; (ii) sportswear retail and brand licensing businesses; 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 and marketing services, sourcing raw materials, materials, components, machinery and other goods and recruiting staff in relation to the production and sale of the Group's products. 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.

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The term of the PCC Services Agreement was extended by various supplemental agreements to 31 December 2017.

The Sixth Supplemental PCC Services Agreement extends the term for another three years to 31 December 2020 and amended the scope of the services agreed upon to include services in the research and development, know-how, technical services and marketing services and to source raw materials, materials, components, machinery and other goods and recruit staff in relation to the production and sale of products by the Group, and to provide administrative support and ancillary services in relation to the SAP System.

Services fees

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

- i. the Group's products developed by the PCC Group and sold by the Group, 0.5% of the net invoiced amounts of such products;
- ii. raw materials, materials, components, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, 1% of the merchandise cost invoiced to the PCC Group; and
- iii. raw materials, materials, components, machinery and other goods sourced by the PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, 0.5% of the cost of merchandise invoiced to the Group.

Reimbursement of costs and expenses

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 within 45 days after the end of the relevant month;
- 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, recruitment and other general services relating to remuneration of personnel as defined in the PCC Services Agreement, 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; and

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- iii. for all the costs and all other related administrative expenses incurred in respect of the SAP System, the Company shall pay to the PCC, in advance, an amount equivalent to the 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 the relevant month.

Reimbursement of the costs and expenses under the agreement is made on normal commercial terms and as part of the ordinary and usual course of business of the Group relating to the use of services provided by PCC.

The Group will implement the following procedures over the monitoring of pricing basis of the services received from the PCC Group and reimbursements 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 correct amount of pre-agreed service fee percentage is applied to the correct invoice; the sales and costing units of the Group will also review the costs and expenses as submitted by the PCC Group;
- ii. The accounting department of the Group will periodically review the service fees paid to the PCC Group to ensure that the correct amount of service fees as agreed under the PCC Services Agreement are paid to the PCC Group; the accounting department of the Group will also review the reimbursement of the costs and expenses incurred by the PCC Group to ensure that any additional balance is settled between the Company and PCC; and
- iii. The Group will periodically gather market information from other third parties with regard to similar services for its analysis.

Payment terms

30 to 45 days for services fees payable from date of invoice and 45 days for others payable after the end of the relevant month.

According to the audited consolidated financial statements of the Group for the year ended 31 December 2015, the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2017, the relevant transaction amounts are:

Financial year end 31 December (except 2017)	2015	2016	2017 (six months ended 30 June)
Transaction amount (US\$'000)	383,773	378,411	191,670
	<u> </u>	<u> </u>	<u> </u>

LETTER FROM THE BOARD

V. 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 2020)
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

Parties

Purchaser:	the PCC Group
Supplier:	the Group

Terms

Under the PCC Connected Sales Agreement, the PCC Group may place its requirements for leather, moulds, production tools, finished and semi-finished shoe products with the Group. The PCC Group is required to specify the terms of purchase in each order. The Group is required to supply such leather, moulds, production tools, finished and semi-finished shoe products as may be ordered by the PCC Group on the terms of each order accepted by the Group.

The selling price for the products supplied under the agreement shall be calculated as follows:

- (i) For semi-finished shoe products, the selling price is based on costs (including all related fixed and variable costs for production and sale of the semi-finished shoe products) with a profit margin of 10% or higher; and

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- (ii) For leather, moulds, production tools and finished shoe products, the selling price shall be no less favourable to the Group than those made available by the Group to independent third parties. The management of the Group reviews and monitors the terms and selling 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 selling prices shall be no less favourable to the Group than those available by the Group to independent third parties.

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

- (i) the sales and costing units of the Group are required to submit costs and transaction records relating to the sale transactions of identical or similar products to independent third parties for internal assessment and evaluation by the accounting department of the Group; and
- (ii) the accounting department of the Group will periodically review the profit margins earned from the sales transactions under the PCC Connected Sales Agreement as compared to the profit margins earned from the sale of similar products to independent third parties on the market.

The Fifth Supplemental PCC Connected Sales Agreement extends the term for another three years to 31 December 2020.

Payment terms

Within 45 days after the end of the relevant month.

According to the audited consolidated financial statements of the Group for the year ended 31 December 2015, the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2017, the relevant transaction amounts are:

Financial year end 31 December (except 2017)	2015	2016	2017 (six months ended 30 June)
Transaction amount (<i>US\$'000</i>)	<u>2,173</u>	<u>3,549</u>	<u>1,346</u>

LETTER FROM THE BOARD

VI. PCC CONNECTED PURCHASES AGREEMENT

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

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

Dates

PCC Connected Purchases Agreement:	9 January 2007 (as amended and extended to 31 December 2020)
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

Parties

Purchaser:	the Group
Supplier:	the PCC Group

Terms

Under the PCC Connected Purchases Agreement, the Group may place its requirements for raw materials, shoe-related products or manufacturing equipment or tools for its production needs with the PCC Group. The Group is required to specify the terms of purchase in each order. To ensure that the terms of purchase are 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

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quantities. For products produced exclusively for the 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. 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) it may choose.

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

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 to 31 December 2017. The parties have entered into the Fifth Supplemental PCC Connected Purchases Agreement to further extend the term for three years to 31 December 2020.

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Payment terms

Within 45 days after the end of the relevant month.

According to the audited consolidated financial statements of the Group for the year ended 31 December 2015, the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2017, the relevant transaction amounts are:

Financial year end 31 December (except 2017)	2015	2016	2017 (six months ended 30 June)
Transaction amount (US\$'000)	<u>758</u>	<u>760</u>	<u>448</u>

VII. 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. The parties have entered into the Sixth Supplemental Godalming Tenancy Agreement to further extend the term for three years to 31 December 2020 and extended the tenancy to include an additional member of the Group in respect of warehouses for logistics purpose.

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 2020)
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

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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 set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family. Godalming's principal business activity is property investment in the PRC.

Premises

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

The premises above are leased to the Group as may 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 and dormitories for workers.

Terms

The rentals on the premises paid to Godalming are based on the open market rates, which are referenced to valuations performed by an independent professional valuer, namely Ms. Grace S.M. Lam (registered professional surveyor in Hong Kong) of DTZ Cushman & Wakefield Limited. The parties have entered into the Sixth Supplemental Godalming Tenancy Agreement to further extend the term for three years to 31 December 2020. The monthly rentals on the premises under the Sixth Supplemental Godalming Tenancy Agreement, which is approximately US\$217,000, 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 month.

According to the audited consolidated financial statements of the Group for the year ended 31 December 2015, the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated accounts of the Group for the six months ended 30 June 2017, the relevant transaction amounts are:

Financial year end 31 December (except 2017)	2015	2016	2017 (six months ended 30 June)
Transaction amount (US\$'000)	4,678	4,613	1,899

LETTER FROM THE BOARD

VIII. PCC/YY TENANCY AGREEMENT

On 13 October 2017, members of the Group (other than the Pou Sheng Group) entered into the PCC/YY Tenancy Agreement with members of the PCC Group for a term of three years to 31 December 2020.

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

Date

13 October 2017

Parties

Tenants: members of the Group (other than the Pou Sheng Group)

Landlords: members of the PCC Group

Premises

- (i) Premises as referred to in the PCC/YY Tenancy Agreement located at No. 2, No. 4, No.6 and 6-1, Fu Kung Road, Fu Hsin Hsian, Chang Hwa County, Taiwan.
- (ii) Premises as referred to in the PCC/YY Tenancy Agreement located at No. 190, Section 4, Fusan Road, Fu Hsin Hsian, Chang Hwa County, Taiwan.
- (iii) Premises as referred to in the PCC/YY Tenancy Agreement located at No. 277, Section 1, Yongfu Road, Yongjing Township, Chang Hwa County, Taiwan.
- (iv) Premises as referred to in the PCC/YY Tenancy Agreement located at No. 41-5 Guancuo Street, Xianian Village, Fu Hsin Hsian, Chang Hwa County, Taiwan.

The premises above are leased to the Group as may from time to time required by the Group. These premises are leased to the Group for the purpose of the Group's manufacturing business.

Terms

The rentals on the premises paid to members of the PCC Group are based on the open market rates which are referenced to valuations performed by an independent professional valuer, namely Mr. Hsieh, Dian-Ching (holder of Taipei City Real Estate Appraiser Practicing License) of China Real Estate Appraiser Firm. The monthly rentals on the premises, which is approximately US\$78,000, shall not be higher than the prevailing market rent as valued by an independent professional valuer. All utility charges and all outgoing of recurring and non-capital nature relating to the premises shall be paid by members of the Group (other than the Pou Sheng Group).

LETTER FROM THE BOARD

Payment terms

On or before the 16th day of each and every calendar month

IX. PCC/PS TENANCY AGREEMENT

On 13 October 2017, members of the Pou Sheng Group entered into the PCC/PS Tenancy Agreement with members of the PCC Group for a term of three years to 31 December 2020. Pou Sheng is an approximately 62% non-wholly owned subsidiary of the Company and, through its subsidiaries, is principally engaged in retailing of sportswear and distribution of licensed products.

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

Date

13 October 2017

Parties

Tenants: members of the Pou Sheng Group

Landlords: members of the PCC Group

Premises

- (i) Premises as referred to in the PCC/PS Tenancy Agreement located at No. 3, Section 1, Dunhua South Road, Songshan District, Taipei City, Taiwan.
- (ii) Premises as referred to in the PCC/PS Tenancy Agreement located at No. 600, Section 4, Taiwan Boulevard, Xitun District, Taichung City, Taiwan.
- (iii) Premises as referred to in the PCC/PS Tenancy Agreement located at No. 190, Section 4, Fusan Road, Fu Hsin Hsian, Chang Hwa County, Taiwan.

The premises above are leased to the Pou Sheng Group as may from time to time required by the Pou Sheng Group. These premises are leased to the Pou Sheng Group for the purpose of the Pou Sheng Group's business.

LETTER FROM THE BOARD

Terms

The rentals on the premises paid to members of the PCC Group are based on the open market rates, which are referenced to valuations performed by an independent professional valuer, namely Mr. Hsieh, Dian-Ching and Ms. Chang, Fang-Ying (holders of Taipei City Real Estate Appraiser Practicing License) of China Real Estate Appraiser Firm. The monthly rentals on the premises, which is approximately US\$25,000, shall not be higher than the prevailing market rent as valued by an independent professional valuer. All utility charges and all outgoing of recurring and non-capital nature relating to the premises shall be paid by members of the Pou Sheng Group.

Payment terms

On or before the 16th day of each and every calendar month

X. 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) believe that the terms of the Continuing Connected Transactions for the three years ending 31 December 2020 are fair and reasonable and 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. The Directors (including the independent non-executive Directors) believe that the independent professional valuers who performed the relevant valuations in respect of the premises under the Godalming Tenancy Agreement, the PCC/YY Tenancy Agreement and the PCC/PS Tenancy Agreement possess the relevant qualification to perform the valuation required.

XI. CONNECTED PERSONS, ANNUAL CAPS AND SPECIAL GENERAL MEETING

PCC indirectly owns or controls approximately 49.98% of the Company's issued share capital. GBD is owned as to approximately 94.12% by a discretionary trust and its sub-funds set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family. Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family. PCC, GBD and Godalming are therefore connected persons of the Company within the meaning of the Listing Rules.

LETTER FROM THE BOARD

For purposes of compliance with the Listing Rules, in terms of future annual review of the Continuing Connected Transactions, the auditors of the Company will be asked to confirm whether the Continuing Connected Transactions have been conducted within the Caps. The proposed Caps for each group of connected transactions in the three years ending 31 December 2020 are set out below.

Proposed Caps

Connected Group	1 January 2018 to 31 December 2018 (US\$'000)	1 January 2019 to 31 December 2019 (US\$'000)	1 January 2020 to 31 December 2020 (US\$'000)
PCC			
Sixth Supplemental PCC Services Agreement	443,696	473,599	510,130
Fifth Supplemental PCC Connected Sales Agreement	3,459	3,701	3,960
Fifth Supplemental PCC Connected Purchases Agreement	1,258	1,346	1,440
PCC/YY Tenancy Agreement	1,274	1,274	1,274
PCC/PS Tenancy Agreement	430	430	430
Sub-total*:	<u>450,117</u>	<u>480,350</u>	<u>517,234</u>
GBD			
Sixth Supplemental GBD Management Service Agreement:	<u>19</u>	<u>20</u>	<u>21</u>
Sub-total*:	<u>19</u>	<u>20</u>	<u>21</u>
Godalming			
Sixth Supplemental Godalming Tenancy Agreement	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>
Sub-total*:	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>
Total:	<u><u>452,736</u></u>	<u><u>482,970</u></u>	<u><u>519,855</u></u>

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

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 and the PCC Connected Sales Agreement are mainly determined with reference to: (i) the historical transaction amounts under the respective agreements; and (ii) the expected growth of 7% per year in the business of the Group (taking into account the growth for the six months ended 30 June 2017 as compared to the same period in 2016 and the estimated growth resulting from recent acquisitions of subsidiaries of the Group).
- (2) 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; and (ii) projected future purchase orders based on the expected increase in the products as a result of the expected growth in the business of the Group.
- (3) The above proposed Caps for transactions with the PCC Group in respect of the PCC/YY Tenancy Agreement and the PCC/PS Tenancy Agreement are mainly determined with reference to (i) the actual leased areas occupied by members of the Group for the six months ended 30 June 2017; and (ii) the relevant market rental values of the premises concerned as assessed by an independent professional valuer.
- (4) The above proposed Caps for transactions with the GBD Group are mainly determined with reference to (i) the historical transaction amounts of the services; (ii) the areas expected to be occupied by the GBD Group; and (iii) the estimates of growth in services in the next three years.
- (5) 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 and a joint venture of the Company; and (iii) the relevant market rental values of the premises concerned as assessed by an independent professional valuer.

The aggregate historical values of the relevant Continuing Connected Transactions which actually took place in each of the two years ended 31 December 2016 and the six months ended 30 June 2017 were approximately US\$391,433,000, US\$387,383,000 and US\$195,383,000 respectively. Under Rule 14A.82 of the Listing Rules, the Continuing Connected Transactions have been aggregated and have not been considered on an individual agreement basis for the purposes of ascertaining the disclosure and independent shareholders' approval requirements under the Listing Rules. For the purpose of continuing compliance with the Listing Rules, each of these Continuing Connected Transactions will be subject to aggregate annual caps under their respective connected group. The consideration under each of the Continuing Connected Transactions has been and will be satisfied from internal resources of the Group. The Directors (including the independent non-executive Directors) believe that the terms of the Continuing Connected Transactions for the three years ending 31 December 2020 and the Caps are fair and reasonable; and are in the interest of and are beneficial to the Group and Shareholders 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.

LETTER FROM THE BOARD

XII. 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.

The SGM will be held on Thursday, 30 November 2017 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 approximately 49.98% 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, GBD and Godalming do not hold any Shares. Mr. Tsai and his Associates are interested or deemed interested in 115,321,998 Shares representing approximately 6.99% of the total issued share capital 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, Mr. 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.

Ms. Tsai and Mr. Tsai Ming-Lun, Ming (an executive Director and an Associate of Ms. Tsai) have 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.

LETTER FROM THE BOARD

XIII. 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



YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

14 November 2017

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 the 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 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

**Leung Yee Sik, Huang Ming Fu, Chu Li-Sheng
Yen Mun-Gie (also known as Teresa Yen) and
Hsieh Yung Hsiang (also known as Alfred Hsieh)**
*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

14 November 2017

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Continuing Connected Transactions between the Group and (i) the PCC Group; (ii) the Godalming Group; and (iii) the GBD 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 14 November 2017 (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 the controlling shareholder of the Company that indirectly holds an aggregate of 824,143,835 Shares, representing approximately 49.98% of the issued share capital of the Company. Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds, set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family. GBD is owned as to approximately 94.12% by a discretionary trust and its sub-funds set up by Mr. Tsai, for the benefits of Mr. Tsai, Ms. Tsai and certain members of Mr. Tsai's family. As such, PCC, Godalming and GBD are connected persons of the Company within the meaning of Chapter 14A of the Listing Rules.

As the Caps on an annual basis and their respective applicable percentage ratios exceed HK\$10 million and 5% respectively, 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. Each of PCC, Mr. Tsai and their respective Associates shall abstain from voting on the resolutions approving the Continuing Connected Transactions at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Leung Yee Sik, Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh), 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.

In formulating our advice, we have reviewed, among other things, the agreements entered and to be entered into between the Group and the PCC Group, the Godalming Group and the GBD Group to govern the conduct of the Continuing Connected Transactions, the valuation reports prepared by independent professional valuers in relation to the Sixth Supplemental Godalming Tenancy Agreement, the PCC/YY Tenancy Agreement and the PCC/PS Tenancy Agreement, the annual reports of the Company for the financial year ended 31 December 2016 and 31 December 2015 (the “**Annual Reports**”), the interim report of the Company for the six months ended 30 June 2017 (the “**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, 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, the Godalming Group and the GBD Group, nor have we carried out any independent verification of the information supplied.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Somerley Capital Limited. In the last two years, there has been no engagement between the Group and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties to the Continuing Connected Transactions.

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, the PCC Group, the Godalming Group and the GBD Group

The Group is engaged in two businesses focusing on sport fitness and lifestyle. The Group is a manufacturer of athletic and casual/outdoor footwear for leading international brand companies around the world. It also operates a number of retail networks of footwear and apparel across the Greater China region, which continues to be a key growth market for major leading international sporting and lifestyle brands.

In the ordinary and usual course of its business, the Group has been carrying out the Continuing Connected Transactions with the PCC Group, the Godalming Group and the GBD Group, subject to the annual caps and the terms as specified in the respective agreements. The purpose 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 2017 and therefore facilitate the ongoing operations of the Group, the Group has, on 13 October 2017, entered into various supplemental agreements to extend the Continuing Connected Transactions for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. A summary of the Continuing Connected Transactions is set out below:

A. Transactions with the PCC Group

PCC is the controlling shareholder of the Company, the shares of which are listed on Taiwan Stock Exchange Corporation. As disclosed in the 2016 annual report of PCC, the PCC Group is principally engaged in the (i) manufacturing of footwear and garment; (ii) sportswear retail and brand licensing businesses; and (iii) other businesses including real estate development and hotel operation.

Being the controlling shareholder of the Company, PCC has provided a non-competition undertaking (the “**Undertaking**”) in favour of the Group. Pursuant to the Undertaking, the PCC Group shall not be engaged or interested in any business (other than through the Company) which is engaged in the production on a commercial scale of raw materials, components, machinery, moulds and tools for shoes outside Taiwan and in such places where the Company or its Associates have operations and/or sales.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group shall continue to conduct the transactions with the PCC Group under the following agreements:

- (a) PCC Services Agreement and the Sixth 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 and marketing services and to source raw materials, materials, components, machinery and other goods and recruit staff in relation to the production and sales of the Group’s products, and to provide administrative support and ancillary services in relation to the SAP System.

- (b) PCC Connected Sales Agreement and the Fifth Supplemental PCC Connected Sales Agreement (the “**PCC Connected Sales Agreements**”)

Under the PCC Connected Sales Agreements, the Group shall supply leather, moulds, production tools, finished and semi-finished shoe products to the PCC Group, by which the Group shall be able to deploy better management in utilising its production facilities.

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

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

- (d) PCC/YY Tenancy Agreement

Under the PCC/YY Tenancy Agreement, members of the PCC Group agreed to lease to members of the Group (other than Pou Sheng Group) certain premises in Taiwan for the purpose of the Group’s manufacturing business.

- (e) PCC/PS Tenancy Agreement

Under the PCC/PS Tenancy Agreement, members of the PCC Group agreed to lease to members of the Pou Sheng Group certain premises in Taiwan for the purpose of the Pou Sheng Group’s business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- B. *Transaction with the Godalming Group - Godalming Tenancy Agreement and the Sixth Supplemental Godalming Tenancy Agreement (the "Godalming Tenancy Agreements")*

The principal business activity of Godalming is property investment in the PRC.

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

- C. *Transaction with the GBD Group – GBD Management Service Agreement and the Sixth Supplemental GBD Management Service Agreement (the "GBD Management Service Agreements")*

The principal business of GBD is property investment holding.

Pursuant to the GBD Management Service Agreements, Highmark shall provide the GBD Group with certain management services, including security services and general up-keeping of common areas, in respect of a number of properties situated in the Industrial Estate.

2. **Reasons for and benefits of the Continuing Connected Transactions**

The management of the Group considers that the Continuing Connected Transactions are advantageous to the Group given the facts that (i) the Group is able to leverage on the PCC Group's abundant experience in the industry and its research and development expertise through the PCC Services Agreements; (ii) the Group is able to have better management on the utilisation of its production facilities for the PCC Connected Sales Agreements; and (iii) PCC/YY Tenancy Agreement and PCC/PS Tenancy Agreement shall provide the Group with stable and necessary premises for the purpose of the Group's business.

Moreover, the Continuing Connected Transactions have been taking place over periods ranging from 10 to 25 years on an ongoing basis, except for PCC/YY Tenancy Agreement and PCC/PS Tenancy Agreement, and have been facilitating the conducting of 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.

Having considered the factors above, we concur with the Directors 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 Sixth Supplemental PCC Services Agreement to cover a 3-year period ending 31 December 2020.

Subject matter

The PCC Group shall provide research and development, know-how, technical and marketing services, sourcing raw materials, materials, components, machinery and other goods and recruiting staff in relation to the production and sales of the Group's products, and to provide administrative support and ancillary services in relation to the SAP System.

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 the PCC Group on behalf of the Group from within Taiwan; (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, recruitment and other general services relating to remuneration of personnel as defined in the PCC Services Agreements; and (iii) all the costs and other related administrative expenses incurred in respect of the SAP System.

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

- (a) 0.5% of the net invoiced amounts for the Group's products to be developed by the PCC Group and sold by the Group;
- (b) 1% of the merchandise cost to be invoiced to the PCC Group where raw materials, materials, components, machinery and other goods are to be purchased by, and inspection and shipment arrangements are to be handled by, the PCC Group on behalf of the Group from within Taiwan; and
- (c) 0.5% of the cost of merchandise to be invoiced to the Group where the PCC Group shall identify the suppliers of raw materials, materials, components, machinery and other goods in Taiwan or overseas, whereby purchases are to be directly handled by the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 made reference to a number of contractual agreements in relation to the provision of research and development services by one party to another, involving companies listed on the Stock Exchange and primarily engaged in manufacturing businesses (the “**R&D Comparable Transactions**”) that we are able to identify, on a best effort basis, from the website of the Stock Exchange during the period from 1 October 2016 to the Latest Practicable Date. We note that the R&D Comparable Transactions do not include listed companies which are engaged in shoe 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, given shoe products or related raw materials are not differentiated or specialised products. 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 table below summarises the terms of the R&D Comparable Transactions:

No.	Parties	Nature of transaction	Pricing basis	Date of public documents
1.	TCL Multimedia Technology Holdings Limited (“ TCL ”) (stock code: 1070) and TCL Corporation (stock code: 000100.SZ)	Provision of research and development services in relation to internet operation and services technology to TCL and its subsidiaries by TCL Corporation and its subsidiaries	0.15% of the revenue from principal operation of TCL and its subsidiaries	29 September 2017
2.	Vietnam Manufacturing and Export Processing (Holdings) Limited (“ VMEPH ”) (stock code: 422) and Sanyang Motor Co., Limited (“ Sanyang ”) (stock code: 2206.TW)	Grant of an exclusive licence to use the technology, know-how, trade secrets and production information in connection with the manufacture and sales of motorbikes and related parts to a subsidiary of VMEPH by Sanyang	4% of the annual net selling price of products manufactured using such technology from Sanyang and sold by the subsidiary of VMEPH	28 April 2017
3.	Glorious Sun Enterprises Limited (“ GSE ”) (stock code: 393) and Glory Star Investments Limited (“ GSI ”)	Provision of services in relation to product design, development and management services for apparel products in the PRC by GSI to a subsidiary of GSE	3% of the net sales of the relevant products	24 April 2017

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No.	Parties	Nature of transaction	Pricing basis	Date of public documents
4.	Vedan International (Holdings) Limited (“Vedan”) (stock code: 2317) and Vedan Enterprise Corporation (“Vedan Corp”)	Provision of technological support services in developing other advanced fermentation technology to Vedan and its subsidiaries by Vedan Corp	1% of turnover of the two subsidiaries of Vedan	19 April 2017
5.	Tonly Electronics Holdings Limited (“Tonly”) (stock code: 1249) and TCL Corporation	Grant of a licence to use the general technology support services and trade name to Tonly and its subsidiaries by TCL Corporation and its subsidiaries	0.15% of the revenue of Tonly and its subsidiaries and subject to downward revision	19 April 2017
6.	Advanced Semiconductor Manufacturing Corporation Limited (“ASMC”) (stock code: 3355) and NXP B.V.	Transfer of relevant knowledge and experience; grant of a licence to manufacture and sell products; provision of technical assistance; and provision of technical training to ASMC by NXP B.V.	1% of the net selling price of relevant product	9 December 2016
7.	ASMC and NXP Semiconductors Netherlands B.V. (“NXP Semiconductors”)	Grant of a license to ASMC by NXP Semiconductors over certain intellectual property rights for use in manufacturing of certain products	1% of the net selling price of relevant product	9 December 2016

Source: the announcements, circulars or annual reports of the respective companies published on the website of the Stock Exchange

As illustrated in the table above, the licence or service fees charged in the R&D Comparable Transactions are based on a percentage of sales price of the relevant products, the range of which was from 0.15% to 4%. As the fees to be charged by the PCC Group for the research and development services to be provided to the Group fall within the lower end of this range, we consider the pricing basis in respect of the research and development services pursuant to the PCC Services Agreements reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 reviewed a number of contractual agreements in relation to the provision of procurement services by one party to another, involving companies listed on the Stock Exchange and primarily engaged in manufacturing businesses (the “**Procurement Comparable Transactions**”) that we are able to identify, on a best effort basis, from the website of the Stock Exchange during the period from 1 October 2016 to the Latest Practicable Date. We note that the Procurement Comparable Transactions do not include listed companies which are engaged in shoe manufacturing business, as in the case of the Company. However, in our opinion, the nature of services, as against the nature of business of the listed companies, is in the present circumstances a more relevant criterion in selecting the Procurement Comparable Transactions, given shoe products or related raw materials are not differentiated or specialised products. As such, the Procurement Comparable Transactions are fair and representative samples of contractual agreements in relation to the provision of procurement services for assessment purpose. The table below summarises the terms of the Procurement Comparable Transactions:

No.	Parties	Nature of transaction	Pricing basis	Date of public documents
1.	China Sanjiang Fine Chemicals Company Limited (“CSF”) (stock code: 2198) and Grand Novel Developments Limited (“GND”)	Provision of overseas procurement services by GND of methanol, silver, ethylene and propylene to CSF and its subsidiaries	A monthly remuneration of HK\$100,000 and 8% of purchase amounts with a cap not exceeding 5% of the annual audited net profit of CSF and its subsidiaries	6 November 2017
2.	TCL and Shenzhen Qianhai Sailing Supply Chain Management Co., Ltd. (“Qianhai”)	Provision of purchasing services by Qianhai and its subsidiaries of components or raw materials required for production of electronic products to TCL and its subsidiaries	0.3% mark up on purchase price	29 September 2017
3.	Lisi Group (Holdings) Limited (“Lisi”) (stock code: 526) and Lisi Import and Export Company Limited (“LIE”)	Provision of import agency services including handling government applications, settlement services, provision of guarantees to a wholly-owned subsidiary of Lisi by LIE	0.6% of gross transaction amount	27 July 2017

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No.	Parties	Nature of transaction	Pricing basis	Date of public documents
4.	Time Watch Investments Limited (“TWIL”) (stock code: 2033) and Good Base Evertime Limited (“Good Base”)	Provision of purchasing and production services of watches by Good Base to TWIL and its subsidiaries	5-10% mark up on cost of procurement and production	4 July 2017
5.	Datang International Power Generation Co., Ltd. (“DIPG”) (stock code: 991) and China National Water Resources & Electric Power Materials & Equipment Group Co., Ltd. (“CNW”)	Provision of purchasing service of infrastructure and production materials by CNW to DIPG	Not more than 6% of purchase amount	29 June 2017
6.	Trinity Limited (“TL”) (stock code: 891) and Li & Fung Limited (“L&F”) (stock code: 494)	Provision of sourcing and related services for menswear products by L&F and its subsidiaries to TL and its subsidiaries	Commission up to 10% of the free on board value of all products sourced through L&F and its subsidiaries plus a fixed annual fee of HK\$8,000,000	7 June 2017
7.	Junefield Department Store Group Limited (“Junefield”) (stock code: 758) and Ecuamining Mineral S.A. (“Ecuamining”)	Acting as sourcing agent to procure the supply of mineral concentrates or its related products for a subsidiary of Junefield by Ecuamining	2% of invoice price of purchase orders	27 April 2017
8.	Tonly and TCL Corporation	Acting as the intermediary to import the required articles, things, parts or components for Tonly and its subsidiaries by TCL Corporation and its subsidiaries	1% of the import cost	19 April 2017
9.	Jolimark Holdings Limited (“Jolimark”) (stock code: 2028) and Jiangmen Kong Yue Information Product Import Export Ltd. (“JKY”)	Provision of import services including materials, equipment and technology to Jolimark and its subsidiaries by JKY	1% of contract price	13 April 2017

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No.	Parties	Nature of transaction	Pricing basis	Date of public documents
10.	BYD Electronic (International) Company Limited ("BYD") (stock code: 285) and BYD Company Limited ("BYDC") (stock code: 1211)	Provision of purchasing service of production equipment, machineries and raw materials by BYDC to BYD and its subsidiaries for production of handset components and modules	Not more than 0.5% of the total purchase amount of all the goods purchased, excluding value added tax or other applicable taxes, discounts, allowances or returns	18 November 2016
11.	L&F and Global Brands Group Holding Limited ("GBG") (stock code: 787)	Provision of sourcing and supply chain management services of apparel products by L&F and its subsidiaries to GBG and its subsidiaries	A commission not exceeding 7% of the free on board price on all products and components sourced through L&F and its subsidiaries	14 November 2016

Source: the announcements, circulars or annual reports of the respective companies 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 fall within the lower end of the range of 0.3% to 10% for those Procurement Comparable Transactions charged with mark-ups on costs, we therefore consider the pricing basis in respect of the procurement services pursuant to the PCC Services Agreements reasonable.

B. *PCC Connected Sales Agreements*

Parties

Purchaser: the PCC Group

Supplier: the Group

Term

Extended by the Fifth Supplemental PCC Connected Sales Agreement to cover a 3-year period ending 31 December 2020.

Subject matter

The Group may sell leather, moulds, production tools, finished and semi-finished shoe products to the PCC Group at the request of the PCC Group.

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Pricing policy

(a) Semi-finished shoe products

The selling price shall be based on costs (including costs for production and sale of semi-finished shoe products) with a profit margin of 10% or higher.

We were advised by the management of the Group that, in determining the profit margin of 10% or higher, they have made reference to the operating profit margin of the Group of approximately 7.1% and 5.2% for the year ended 31 December 2016 and 2015 respectively. We concur with the Directors' view that a mark-up of 10% or higher for the above transaction is acceptable.

(b) Leather, moulds, production tools and finished shoe products

The selling price shall be no less favourable to the Group than those made available by the Group to independent third parties.

We understand 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.

In view of the above, we consider the terms of PCC Connected Sales Agreements fair and reasonable.

C. *PCC Connected Purchases Agreements*

Parties

Purchaser: the Group

Supplier: the PCC Group

Term

Extended by the Fifth Supplemental PCC Connected Purchases Agreement to cover a 3-year period ending 31 December 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject matter

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

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 of the Group 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 products produced exclusively for the 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.

For materials available from independent third parties

As confirmed by the management of the Group, 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 price offered by the PCC Group against the quotations offered by independent third parties to ensure that the products charged are no less favourable to the Group than those available from independent third parties.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For materials exclusively from the PCC Group

As advised by the management of the Group, the PCC Group specialises in manufacturing of shoes and components, therefore possessing expertise in shoe-making technology and know-how. In the meantime, the Company has also faced with customers' requirements where new materials would be used. 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 that there would likely be situation where the Company needs to source certain materials exclusively from the PCC Group 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 in 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.

In determining the prices of those new materials 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 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.

In view of the above, we consider the terms of PCC Connected Purchases Agreements fair and reasonable.

D. PCC/YY Tenancy Agreement

Term

Members of the Group (other than the Pou Sheng Group) entered into the PCC/YY Tenancy Agreement with members of the PCC Group for a term of three years to 31 December 2020.

Parties

Landlord: members of the PCC Group

Tenant: members of the Group (other than the Pou Sheng Group)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject matter

The leasing of certain premises in Taiwan by the Group from the PCC Group for the Group's manufacturing business (the "PCC/YY Property").

Pricing policy – rent

The monthly rent is set with reference to market rental value of the PCC/YY Property as valued by an independent professional valuer on 31 August 2017.

In connection with the aforesaid valuation, we have reviewed, among others, the engagement letter of the independent professional valuer, the accreditations of the valuer's professional qualifications and the valuation reports.

We understand from the engagement letter of the independent professional valuer that it would perform a valuation of the market rental value of the PCC/YY Property, which is the basis of determining the rent for the PCC/YY Property under the PCC/YY Tenancy Agreement.

According to the credentials of the valuer who signed the valuation reports, he possesses (i) required professional qualifications including a real estate appraiser practising licence with which a person could undertake appraisal of land and buildings in Taiwan; and (ii) not less than 11 years of experience in the industry during which he completed approximately 2,000 valuations.

Besides, we have conducted an interview with the independent professional valuer as regards the methodologies adopted and assumptions involved in the valuation reports of the PCC/YY Property; and whether the independent professional valuer is independent of the Group and the PCC Group.

We were advised that the independent professional valuer has performed the required procedures in accordance with its internal compliance guidelines to confirm its independence with each of the Group and the PCC Group before accepting this valuation engagement. Separately, a statement of independence was included in the valuation reports where the independent professional valuer confirmed, among other things, that it is independent of the PCC Group and the Group.

We were further advised that, the independent professional valuer has adopted the relevant valuation method as stipulated in the "Regulations on Real Estate Appraisal" under the laws of Taiwan, which is commonly adopted in valuing the market rents of properties similar to the PCC/YY Property in similar circumstances.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above, we consider the rents for the PCC/YY Property under the PCC/YY Tenancy Agreement, which are determined with reference to its market rental values as valued by an independent professional valuer, fair and reasonable.

Pricing policy – utility charges

According to PCC/YY Tenancy Agreement, all utility charges and all outgoing expenses which are recurring and non-capital in nature relating to the premises shall be paid by members of the Group (other than the Pou Sheng Group). All tenants under the PCC/YY Tenancy Agreement are obligated to pay the utility charges and relevant expenses to the PCC Group except for those who have the charges billed to the relevant tenants directly instead of the PCC Group. As advised by the management of the Group, the relevant charges incurred by the PCC Group will be reimbursed by the Group to the PCC Group without any mark-up.

In view of the above, we consider the utility charges for the PCC/YY Property under the PCC/YY Tenancy Agreement fair and reasonable.

E. PCC/PS Tenancy Agreement

Term

Members of the Pou Sheng Group entered into the PCC/PS Tenancy Agreement with members of the PCC Group for a term of three years to 31 December 2020.

Parties

Landlord: members of the PCC Group

Tenant: members of the Pou Sheng Group

Subject matter

The leasing of certain premises in Taiwan by the Pou Sheng Group from the PCC Group for the Pou Sheng Group's business (the "PCC/PS Property").

Pricing policy – rent

The monthly rent is set with reference to market rental value of the PCC/PS Property as valued by an independent professional valuer on 31 August 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the market rental values of PCC/YY Property and PCC/PS Property were assessed by the same independent professional valuer, we performed the same due diligence on the independent professional valuer including (i) reviewing engagement letter of the independent professional valuer; and (ii) assessing its independence with each of the Group and the PCC Group, with details set out in the section headed "D. PCC/YY Tenancy Agreement" of this letter.

According to the credentials of the valuers who signed the valuation reports, they possess (i) required professional qualifications including a real estate appraiser practising licence with which a person could undertake appraisal of land and buildings in Taiwan; and (ii) not less than 11 years of experience in the industry during which each of them completed approximately 2,000 and 500 valuations respectively.

In view of the above, we consider the rents for the PCC/PS Property under the PCC/PS Tenancy Agreement, which are determined with reference to its market rental values as valued by an independent professional valuer, fair and reasonable.

Pricing policy – utility and management charges

According to PCC/PS Tenancy Agreement, all utility charges and all outgoing expenses which are recurring and non-capital in nature relating to the premises shall be paid by members of the Pou Sheng Group. All tenants under the PCC/PS Tenancy Agreement with the relevant utility and management charges billed to the PCC Group are obligated to pay back the charges to the PCC Group. As advised by the management of the Group, the relevant charges incurred by the PCC Group will be reimbursed by the Pou Sheng Group to the PCC Group without any mark-up.

In view of the above, we consider the utility and management charges for the PCC/YY Property under the PCC/YY Tenancy Agreement fair and reasonable.

F. GBD Management Service Agreements

Parties

Highmark and GBD.

Term

Extended by the Sixth Supplemental GBD Management Service Agreement to cover a 3-year period ending 31 December 2020.

Subject matter

Provision of management services (general up-keeping of common areas, provision of security and up-keep of all drains in common areas) in respect of a number of factory buildings owned by the GBD Group situated in the Industrial Estate, which are either leased to third parties or in vacant currently.

Pricing policy

The service fees charged to the GBD Group shall be on the same basis as that charged by Highmark to independent third party occupants of the Industrial Estate. In particular, the fees for common services are determined with reference to (i) the costs for provision of relevant services (i.e. the remuneration to security staff and the costs for up-keeping of common areas); and (ii) a 10% margin or higher on top of the total costs incurred.

In view of the above, we consider the service fees to be paid by the GBD Group pursuant to GBD Management Service Agreements fair and reasonable as they are charged on the same basis as those charged to independent third party occupants of the Industrial Estate.

G. Godalming Tenancy Agreements

Parties

Landlords: wholly-owned subsidiaries of Godalming

Tenants: certain subsidiaries and a joint venture of the Company

Term

Extended by the Sixth Supplemental Godalming Tenancy Agreement to cover a 3-year period ending 31 December 2020.

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 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 an independent professional valuer on 31 August 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In connection with the aforesaid valuation, we have reviewed, among other things, the engagement letter of the independent professional valuer and the valuation report.

We understand from the engagement letter of the independent professional valuer that they would perform 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 Agreement.

We have also checked the official website of The Hong Kong Institute of Surveyors as to the professional qualification of the valuer who signed the valuation report and noted that she is a registered professional surveyor in accordance with the Surveyors Registration Ordinance (Cap 417) of Hong Kong. In addition, we were advised that she possesses 24 years' experience in valuation of properties in the PRC.

Besides, we have conducted an interview with the independent professional valuer as regards the methodologies adopted and assumptions involved in the valuation report of the Guangdong Properties; and whether the independent professional valuer is independent of the Group and the Godalming Group. The independent professional valuer has confirmed to us that (i) it has complied with the requirements set out in the HKIS Valuation Standards (2012 Edition) issued by The Hong Kong Institute of Surveyors in performing the valuation; (ii) the "direct comparison approach" adopted in this valuation is the most common valuation approach for valuing properties by reference to comparable market transactions, which the independent professional valuer considers appropriate; and (iii) it is independent to each of the Group and the Godalming Group in accordance with Rule 5.08 of the Listing Rules.

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

H. *Payment terms of the Continuing Connected Transactions*

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

Agreements	Payment terms
PCC Services Agreements	30 to 45 days for services fees payable from date of invoice and 45 days for others payable after the end of the relevant month.
PCC Connected Sales Agreements	45 days after the end of relevant month
PCC Connected Purchases Agreements	45 days after the end of relevant month
PCC/YY Tenancy Agreement	On or before the 16th day of each and every calendar month
PCC/PS Tenancy Agreement	On or before the 16th day of each and every calendar month
Godalming Tenancy Agreements	On or before the last day of each month
GBD Management Service Agreements	45 days from date of invoice

As disclosed in the 2016 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The Caps

The historical transaction amounts for each of the Continuing Connected Transactions for the two years ended 31 December 2016 and the six months ended 30 June 2017 and the caps for the Continuing Connected Transactions for each of the three years ending 31 December 2020 are set out below:

Agreements	Historical figures (in US\$'000)			Annual caps (in US\$'000)		
	For the year ended 31 December		For the 6 months ended 30 June	For the year ending 31 December		
	2015	2016	2017	2018	2019	2020
(a) with PCC Group						
PCC Services						
Agreements	383,773	378,411	191,670	443,696	473,599	510,130
PCC Connected						
Sales Agreements	2,173	3,549	1,346	3,459	3,701	3,960
PCC Connected						
Purchases						
Agreements	758	760	448	1,258	1,346	1,440
PCC/YY Tenancy						
Agreement	-	-	-	1,274	1,274	1,274
PCC/PS Tenancy						
Agreement	-	-	-	430	430	430
Sub-total	<u>386,704</u>	<u>382,720</u>	<u>193,464</u>	<u>450,117</u>	<u>480,350</u>	<u>517,234</u>
(b) with GBD Group						
GBD Management						
Service						
Agreements	51	50	20	19	20	21
(c) with Godalming						
Group						
Godalming Tenancy						
Agreements	<u>4,678</u>	<u>4,613</u>	<u>1,899</u>	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>
Total	<u>391,433</u>	<u>387,383</u>	<u>195,383</u>	<u>452,736</u>	<u>482,970</u>	<u>519,855</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

A. *Based on projected transaction amounts in the year ending 31 December 2017*

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 projected transaction amounts of the relevant agreements for the year ending 31 December 2017 by reference to the historical transaction amounts incurred during the two years ended 31 December 2016 and six months ended 30 June 2017; and (ii) the estimated annual growth rate for the coming three years.

(a) PCC Services Agreements

In arriving at the Caps for the PCC Services Agreements, the management of the Group has taken into account (i) an expected annual growth rate of 7% for the service fees and the cost and expense reimbursement in relation to the various services to be provided by the PCC Group to the Group for each of the three years ending 31 December 2020; and (ii) additional expenses to be incurred for the SAP System.

The 7% annual growth rate is determined mainly with reference to the estimated growth rate of approximately 7% of the Group's revenue in 2017 as compared to that in 2016. As mentioned in the Interim Report, the Group's revenue increased by approximately 3.9% in 2017 as compared to that in 2016. The management of the Group further advised that the expected growth rate of 7% is also attributable to a subsidiary which was newly acquired in April 2017. The Interim Report stated that, had the acquisition been completed on 1 January 2017, the Group's revenue for the period would have been approximately US\$4,545 million, representing an increase of approximately 2.2% as compared to the Group's actual revenue for the period of approximately US\$4,448 million. The aggregate growth rate for revenue in 2018 would be approximately 6.1% as a result of these two factors. Since the acquisition has just been completed in this year, the management of the Group expects that the estimated growth of revenue will last for a few years covering the three years ending 31 December 2020.

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.

The Caps for the expenses to be incurred for the SAP System will account for approximately 2% to 3% of the Caps for the PCC Services Agreements for each of the three years ending 31 December 2020. The expenses for the SAP System is determined mainly with reference to the expected costs, including licensing fees and maintenance fees of the SAP System, to be borne by the Group, with a 10% buffer allowing certain degree of flexibility in the progress of implementing the SAP System.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

(b) PCC Connected Sales Agreements

The historical transaction amounts of the PCC Connected Sales Agreements fluctuated during the three-year period ended 31 December 2016. The sales amounts dropped by approximately 56.7% for the year ended 31 December 2015 as compared to 2014. However, the sales amounts increased significantly by approximately 63.3% for the year ended 31 December 2016 as compared to 2015. The management of the Group advised that the demand for the products in Taiwan varied greatly in the past few years, which led to fluctuation of sales amounts. As a result, in arriving at the Cap for 2018, the Group has considered the average of historical transaction amounts during the three-year period ended 31 December 2016, which was approximately US\$3.5 million.

The management of the Group is of the view that, going forward, there will be a stable increase in the transactions under the PCC Connected Sales Agreements along with the Group's business growth. As a result, the management of the Group has used the same expected annual growth rate of the Group's revenue of 7% in determining the Caps for 2019 and 2020.

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

(c) PCC Connected Purchases Agreements

The Caps for the PCC Connected Purchases Agreements in 2018 demonstrates an increase of approximately 65.5% as compared to the historical transaction amounts in 2016. It is mainly attributed by (i) an expected annual growth rate of 7% for those products that have been purchased from the PCC Group before; and (ii) new materials required for production of new shoe components which will be launched in the last quarter of 2017.

Certain materials, which the Group has not purchased from the PCC Group before, will be required for producing the new shoe components. The Group has been receiving the purchase orders for the new shoe components from major customers since the second half of 2017 and expects that the production and delivery of the products will be completed in 2018. The expected amount of relevant materials required for the purchase orders is approximately US\$331,000, which is the expected purchases from the PCC Group for 2018. The management of the Group expects that similar quantity of purchase orders will be received throughout three years ending 31 December 2020, therefore similar transaction amounts are expected in arriving at the Caps for 2019 and 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 estimated usage by occupants in the Industrial Estate*

GBD Management Service Agreements

The Caps for the GBD Management Service Agreements are principally determined with reference to (i) the areas expected to be occupied by the GBD Group for each of the three years ending 31 December 2020 based on the areas occupied by the GBD Group in the Industrial Estate in June 2017; and (ii) an estimated annual growth of approximately 5% in the service fees charged to the GBD Group. The management of the Group is of the view that the growth rate provides a certain degree of flexibility for the Group to adjust the service fees charged to the GBD Group in the coming three years.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the GBD Management Service Agreements reasonable.

C. *Rental agreements*

(a) PCC/YY Tenancy Agreement

The rental and utility fees payable by the Group pursuant to the PCC/YY Tenancy Agreement are fixed when the relevant agreements are entered into by the parties.

As advised by the management of the Company, in arriving at the rental payable, the expected areas to be occupied by members of the Group under the PCC/YY Tenancy Agreement for the three years ending 31 December 2020 are determined mainly with reference to the actual areas occupied by the members of the Group for the six months ended 30 June 2017. The relevant market rental values of the premises concerned are assessed by an independent professional valuer.

The utility fees payable are determined with reference to average historical amounts during the three-month period ended 31 August 2017.

The Caps for PCC/YY Tenancy Agreement represent the US\$ equivalent of the fixed NT\$ denominated rental payable as agreed under the PCC/YY Tenancy Agreement and of the utility fees payable.

The Caps are set with a 10% buffer for currency fluctuation as the exchange rate of US\$ against NT\$ has fluctuated greatly since 2014.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We were further advised that the management does not foresee significant change in the usages of the properties by the members of the Group or the required area in the properties concerned to carry on their respective manufacturing businesses.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the PCC/YY Tenancy Agreement reasonable.

(b) PCC/PS Tenancy Agreement

The rental, utility and management fees payable by the Pou Sheng Group pursuant to the PCC/PS Tenancy Agreement are fixed when the relevant agreements are entered into by the parties.

As advised by the management of the Company, in arriving at the rental payable, the expected areas to be occupied by members of the Pou Sheng Group under the PCC/PS Tenancy Agreement for the three years ending 31 December 2020 are determined mainly with reference to the actual areas occupied by the members of the Pou Sheng Group for the six months ended 30 June 2017. The relevant market rental values of the premises concerned were assessed by an independent professional valuer.

The utility fees payable are determined with reference to average historical amounts during three-month period ended 31 August 2017. Since some of the rented premises are offices at commercial buildings, the PCC Group has to charge management fees to the Pou Sheng Group. The expected amounts of management fees are determined with reference to average historical monthly management fees charged for the rented areas of the commercial buildings during three-month period ended 31 August 2017.

The Caps for PCC/PS Tenancy Agreement represent the US\$ equivalent of the fixed NT\$ denominated rental payable as agreed under the PCC/PS Tenancy Agreement and of the utility fees payable.

Similar to PCC/YY Tenancy Agreement, the Caps are set with a 10% buffer for currency fluctuation as the exchange rate of US\$ against NT\$ has fluctuated greatly since 2014.

We were further advised that the management does not foresee significant change in the usages of the properties by the members of the Pou Sheng Group or the required area in the properties concerned to carry on their respective businesses.

Taking into account the above, we consider the bases and assumptions involved in setting the Caps for the PCC/PS Tenancy Agreement reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Godalming Tenancy Agreements

The Godalming Tenancy Agreements have not prescribed the exact areas to be leased to the subsidiaries and a joint venture of the Company during the three-year term. The Caps for the Godalming Tenancy Agreements are based on the areas to be occupied by the subsidiaries and a joint venture of the Company in the coming three years and with reference to the relevant market rental value of the properties concerned as assessed by an independent professional valuer.

As advised by the management of the Company, in arriving at the Caps, the areas to be occupied by the subsidiaries and a joint venture of the Company under the Godalming Tenancy Agreements for the three years ending 31 December 2020 are expected to be substantially the same as the actual areas occupied by the subsidiaries and a joint venture of the Company in August 2017.

We were further advised that the management does not foresee significant change in the usages of the properties by the subsidiaries and a joint venture of the Company or the required area in the properties concerned for production and logistics purposes.

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

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 auditors 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 auditors 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;
- c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors 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 auditors have 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 auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The independent non-executive directors and the auditors of the Company have reviewed the then continuing connected transactions conducted for each of the two years ended 31 December 2015 and 31 December 2016 and have provided the relevant confirmations as required under the Listing Rules, details of which are contained in the Company's annual reports of 2015 and 2016. The required confirmations in respect of the relevant continuing connected transactions conducted during the year ending 31 December 2017 will be included in the Company's annual report for the year ending 31 December 2017.

In light of the reporting 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 auditors 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, 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 resolutions to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
David Ching
Director

Mr. David Ching 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 fifteen 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%
Tsai Ming-Lun, Ming	Beneficial owner	33,000 (Note 2)	0.00%
Hu Chia-Ho	Beneficial owner	78,000 (Note 2)	0.00%
Liu George Hong-Chih	Beneficial owner	78,000 (Note 2)	0.00%

Notes:

1. The total issued share capital of the Company as at the Latest Practicable Date is 1,648,928,486 Shares.
2. Each of Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 33,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016.

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

Name of Director	Capacity	Number of shares/ underlying shares held (ordinary shares)	Percentage of the issued share capital of Pou Sheng (Note 1)
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Hu Chia-Ho	Beneficial owner	800,000 (Note 2)	0.01%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

Notes:

1. The total issued share capital of Pou Sheng as at the Latest Practicable Date is 5,338,548,615 shares.
2. Mr. Hu Chia-Ho has interests in share options granted under the share option scheme of Pou Sheng entitling him to subscribe for 800,000 ordinary shares of Pou Sheng.

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	49.98%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	46.88%
Max Creation Industrial Limited ("Max Creation")	(b)	115,001,998	6.97%
World Future Investments Limited ("World Future")	(c)	115,001,998	6.97%
Mr. Tsai Chi Jui	(c)	115,321,998	6.99%
Ms. Tsai Huang Shu Man	(c)	115,321,998	6.99%
Merrill Lynch & Co. Inc.	(d)	99,315,703	6.02%
<i>Short Position</i>			
Merrill Lynch & Co. Inc.	(d)	109,341,792	6.63%

* The total issued share capital of the Company as at the Latest Practicable Date is 1,648,928,486 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, Mr. Chan Lu Min and Mr. Tsai Ming-Lun, Ming, 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) Of the 115,001,998 ordinary shares beneficially owned by Max Creation, 80,494,822 ordinary shares were held by Quicksilver Profits Limited (“Quicksilver”), 20,631,440 ordinary shares were held by Red Hot Investments Limited (“Red Hot”) and 13,875,736 ordinary shares were held by Moby Dick Enterprises Limited (“Moby Dick”). Quicksilver, Red Hot and Moby Dick are wholly-owned subsidiaries of Max Creation.
- c) World Future is deemed to be interested in 115,001,998 ordinary shares under the SFO by virtue of its interests in more than one third of the voting shares in Max Creation. Mr. Tsai Chi Jui, the father of Ms. Tsai Pei Chun, Patty (who is a director of the Company), is also deemed to be interested in these 115,001,998 ordinary shares under the same section as he holds 100% of the issued share capital in World Future. In addition, Mr. Tsai Chi Jui holds 320,000 ordinary shares directly. Ms. Tsai Huang Shu Man, being the spouse of Mr. Tsai Chi Jui, is deemed to be interested in the 115,321,998 ordinary shares in which Mr. Tsai Chi Jui is interested by virtue of the SFO.
- d) 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) 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) 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 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.

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
Alchemy International (Holdings) Co., Limited	Twin Seas Holdings Co., Limited	10
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
Top Units Developments Limited	Charm Life Ltd.	49

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

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

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, 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 IFA, 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 2016, 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 2016, 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 Ng Yuk Yee, Feona. She is a solicitor of the High Court of the Hong Kong Special Administrative Region and is the Head of Legal and Company Secretary Department of the Group.
- (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 22, 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. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih, and Mr. Hu Dien Chien are the executive Directors, and Mr. Leung Yee Sik, Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) 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 26 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 54 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)

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 30 November 2017 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 sixth supplemental agreement (the “**Sixth Supplemental PCC Services Agreement**”) dated 13 October 2017 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 14 November 2017) under which PCC agreed to provide research and development, know-how, technical and marketing services and to source raw materials, materials, components, machinery and other goods and recruit staff in relation to the production and sale of products of the Company and its subsidiaries (the “**Group**”) and to provide administrative support and ancillary services in relation to the SAP System (as defined in the Company’s circular dated 14 November 2017) 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 Services Agreement (the details of which are summarised in the Company’s circular dated 14 November 2017) 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 Services Agreement;
- (B) **THAT** the fifth supplemental agreement (the “**Fifth Supplemental PCC Connected Sales Agreement**”) dated 13 October 2017 entered into between the Company and PCC (which is supplemental to the PCC Connected Sales Agreement (as defined in the Company’s circular dated 14 November 2017) under which the Company and its subsidiaries agreed to sell leather, moulds, production tools, finished and semi-finished shoe products to PCC and its subsidiaries (the “**PCC Group**”) be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

the Fifth Supplemental PCC Connected Sales Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 Fifth Supplemental PCC Connected Sales Agreement;

- (C) **THAT** the fifth supplemental agreement (the "**Fifth Supplemental PCC Connected Purchases Agreement**") dated 13 October 2017 entered into between the Company and PCC (which is supplemental to the PCC Connected Purchases Agreement (as defined in the Company's circular dated 14 November 2017) under which the Company and its subsidiaries agreed to purchase from the PCC Group raw materials, production tools and shoe-related products for its 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 Fifth Supplemental PCC Connected Purchases Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 Fifth Supplemental PCC Connected Purchases Agreement;
- (D) **THAT** the sixth supplemental agreement (the "**Sixth Supplemental GBD Management Service Agreement**") dated 13 October 2017 entered into between Highmark Services Limited ("**Highmark**") and Golden Brands Developments Limited ("**GBD**") (which is supplemental to the GBD Management Service Agreement (as defined in the Company's circular dated 14 November 2017) under which Highmark agreed to provide GBD with management services in respect of a number of factory buildings situated in the Industrial Estate owned by GBD and its subsidiaries) 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 GBD Management Service Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 GBD Management Service Agreement;
- (E) **THAT** the sixth supplemental agreement (the "**Sixth Supplemental Godalming Tenancy Agreement**") dated 13 October 2017 between Godalming Industries Limited ("**Godalming**") as landlord and subsidiaries and a joint venture of the Company as tenants (which is a supplemental to the Godalming Tenancy Agreement (as defined in the Company's circular dated 14 November 2017) 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/sole factory buildings,

NOTICE OF SPECIAL GENERAL MEETING

offices, warehouses, 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 Sixth Supplemental Godalming Tenancy Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 Godalming Tenancy Agreement;

- (F) **THAT** the agreement (the "**PCC/YY Tenancy Agreement**") dated 13 October 2017 entered into between members of the PCC Group as landlord and certain members of the Group (other than Pou Sheng International (Holdings) Limited and its subsidiaries, collectively the "**Pou Sheng Group**") as tenants under which members of the PCC Group agreed to lease to members of the Group (other than the Pou Sheng Group) certain premises in Taiwan for the purpose of the Group's manufacturing business be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the PCC/YY Tenancy Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 PCC/YY Tenancy Agreement;
- (G) **THAT** the agreement (the "**PCC/PS Tenancy Agreement**") dated 13 October 2017 entered into between members of the PCC Group as landlord and certain members of the Pou Sheng Group as tenants under which members of the PCC Group agreed to lease to members of the Pou Sheng Group certain premises in Taiwan for the purpose of the Pou Sheng Group's business be and is hereby approved, confirmed and ratified and that the period caps in respect of such transactions as set out in the PCC/PS Tenancy Agreement (the details of which are summarised in the Company's circular dated 14 November 2017) 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 PCC/PS Tenancy Agreement;
- (H) **THAT** the stock option plan of Texas Clothing Holding Corp. ("**TCHC**") adopted on 7 November 2012 ("**TCHC Stock Option Plan**") in its amended and restated form (a copy of which has been produced to this meeting marked "A") as set out in the Company's circular dated 14 November 2017, be and is hereby approved, and that the directors of the Company be are hereby authorised to do all such acts and things as may be necessary to carry out such amendments and (if any) modifications;

NOTICE OF SPECIAL GENERAL MEETING

- (I) **THAT** subject to resolution (H) in relation to the approval of the TCHC Stock Option Plan in its amended and restated form as set out in the notice convening this meeting being passed, the Nonqualified Stock Option Agreement dated 9 October 2017 (a copy of which has been produced to this meeting marked "B") in respect of the grant of Tranche D TCHC options ("**Tranche D TCHC Options**") exercisable into 100,000 Shares of TCHC at an exercise price of US\$24.18 per share (but not less than the fair market value of a share of TCHC on the date of grant) under the TCHC Stock Option Plan to Mr. Jay Patel, the Chief Financial Officer of TCHC, be and is hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorized to take all such steps as may be necessary to carry out such grant of options in accordance with the terms and conditions of the TCHC Stock Option Plan;
- (J) **THAT** subject to resolution (H) in relation to the approval of the TCHC Stock Option Plan in its amended and restated form as set out in the notice convening this meeting being passed, the Nonqualified Stock Option Agreement dated 9 October 2017 (a copy of which has been produced to this meeting marked "C") in respect of the grant of Tranche D TCHC Options exercisable into 50,000 shares of TCHC at an exercise price of US\$24.18 per share (but not less than the fair market value of a share of TCHC on the date of grant) under the TCHC Stock Option Plan to Mr. Steven Richman, the President of Tribal Sportswear, a division of Hagggar Canada Co., and a wholly-owned, indirect subsidiary of TCHC, be and is hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorized to take all such steps as may be necessary to carry out such grant of options in accordance with the terms and conditions of the TCHC Stock Option Plan; and
- (K) **THAT** subject to resolution (H) in relation to the approval of the TCHC Stock Option Plan in its amended and restated form as set out in the notice convening this meeting being passed, the cancellation of the TCHC options exercisable into 38,923 shares of TCHC at an exercise price of US\$32.21 per share previously granted to Ms. Eve Richey, the Senior Vice President and Chief Digital Officer of TCHC, and the Nonqualified Stock Option Agreement dated 9 October 2017 (a copy of which has been produced to this meeting marked "D") in respect of the simultaneous grant of replacement Tranche D TCHC Options exercisable into 38,923 shares of TCHC at an exercise price of US\$24.18 per share (but not less than the fair market value of a share of TCHC on the date of grant) to Ms. Eve Richey under the TCHC Stock Option Plan, be and are hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorized to take all such steps as may be necessary to carry out such grant of options in accordance with the terms and conditions of the TCHC Stock Option Plan.

By Order of the Board
Lu Chin Chu
Chairman

Hong Kong, 14 November 2017

NOTICE OF SPECIAL GENERAL MEETING

Principal Place of Business:

22nd Floor
C-Bons International Center
108 Wai Yip Street
Kwun Tong
Kowloon, Hong Kong

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 22, 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 Tuesday, 28 November, 2017 (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, 24 November, 2017 to Thursday, 30 November, 2017, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 23 November, 2017 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, 24 November, 2017.**
7. If tropical cyclone warning signal No. 8 or above is in force 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.