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YANGTZEKIANG GARMENT LIMITED

(incorporated in the Hong Kong with limited liability)

(Stock Code: 00294)

YGM TRADING LIMITED

(incorporated in the Hong Kong with limited liability)

(Stock Code: 00375)

**CONNECTED TRANSACTIONS
AND CONTINUING CONNECTED TRANSACTIONS**

Yangtzekiang Group and YGM Group have been carrying out certain transactions in relation to the sales and purchases of garment products and the licensing of warehouse and office space.

As the Chan Family is beneficially interested in shares representing approximately 50.61% and approximately 53.69% of the total issued shares of Yangtzekiang and YGM, respectively, each of Yangtzekiang and YGM is a connected person of the other for the purpose of the Listing Rules. Accordingly, the Garment Transactions and the Licence Arrangement constitute continuing connected transactions or connected transactions for Yangtzekiang and YGM under the Listing Rules.

GARMENT TRANSACTIONS

As disclosed in the joint announcement of the Companies dated 25 March 2020 (as supplemented by YGM's supplemental announcement dated 27 March 2020), Yangtzekiang and YGM entered into, among other things, a master agreement in respect of the purchases of garment products by YGM Group from Yangtzekiang Group on 25 March 2020. Since such master agreement will expire on 31 March 2023, the Companies entered into the Garment Master Agreement on 29 March 2023 for renewing the terms and conditions in respect of the Garment Transactions during the period commencing on 1 April 2023 and ending on 31 March 2025. The Companies currently estimate that the annual trading volume of garment products under the Garment Master Agreement will not exceed the maximum annual cap of HK\$9 million for each of the two financial years ending 31 March 2025.

As the annual cap in relation to the Garment Transactions represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) of the Companies and the Garment Transactions will be conducted on normal commercial terms, the Garment Transactions are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for each of the Companies.

LICENCE ARRANGEMENT

As disclosed in the joint announcement of the Companies dated 25 March 2020 (as supplemented by YGM's supplemental announcement dated 27 March 2020), YGM has been licensing from Yangtzekiang to occupy certain premises including the Premises and the Companies have entered into relevant licence agreements since 31 March 2001. As the prevailing licence agreement will expire on 31 March 2023, Yangtzekiang and YGM Marketing entered into the Licence Agreement on 29 March 2023 and agreed to continue the Licence Arrangement between the Groups until 31 March 2025.

The annual licence fee and the annual building management fee payable by YGM Marketing to Yangtzekiang under the Licence Agreement will not exceed the maximum annual cap of HK\$4.32 million and HK\$130,000, respectively.

For Yangtzekiang as licensor, the Licence Arrangement will be regarded as a continuing connected transaction. As the aggregate amount of the annual caps in relation to the Licence Arrangement represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for Yangtzekiang and the Licence Arrangement will be conducted on normal commercial terms, the Licence Arrangement is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for Yangtzekiang.

For YGM Marketing as licensee, the entering into of the Licence Agreement by YGM Marketing will require YGM Group to recognise the exclusive rights as right-of-use asset in the consolidated financial statements of YGM under HKFRS 16 with a cost of approximately HK\$8.6 million at initial recognition and a corresponding lease liability which represents the present value of the future licence fee payments. As such, under the Listing Rules, the entering into of the Licence Agreement by YGM Marketing will be regarded by YGM as an one-off acquisition of asset and a connected transaction. As the value of the right-of-use asset in relation to the Licence Arrangement represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for YGM and the Licence Arrangement will be conducted on normal commercial terms, the Licence Arrangement is only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for YGM.

BACKGROUND

Yangtzekiang Group and YGM Group have been carrying out certain transactions in relation to the sales and purchases of garment products and the licensing of warehouse and office space. These transactions constitute continuing connected transactions or connected transactions for Yangtzekiang and YGM under the Listing Rules.

GARMENT TRANSACTIONS

As disclosed in the joint announcement of the Companies dated 25 March 2020 (as supplemented by YGM's supplemental announcement dated 27 March 2020), Yangtzekiang and YGM entered into, among other things, a master agreement in respect of the purchases of garment products by YGM Group from Yangtzekiang Group on 25 March 2020. Since such master agreement will expire on 31 March 2023, the Companies entered into the Garment Master Agreement on 29 March 2023 for renewing the terms and conditions in respect of the Garment Transactions.

Further details of the Garment Master Agreement and the Garment Transactions are as follows:

Date of the Garment Master Agreement

29 March 2023

Parties

- (1) Yangtzekiang, on behalf of Yangtzekiang Group
- (2) YGM, on behalf of YGM Group

Nature of the Garment Transactions

YGM Group may from time to time purchase knitwear and other garment products from Yangtzekiang Group during the period commencing on 1 April 2023 and ending on 31 March 2025 (both days inclusive).

The purchase price payable by YGM Group to Yangtzekiang Group for the garment products under the Garment Master Agreement shall be payable in cash within 30 days upon issuance of debit notes.

Pricing Basis and Annual Cap

The Garment Transactions have been and shall continue to be entered into in the ordinary and usual course of business of the Groups and on normal commercial terms.

The Garment Transactions have been and shall continue to be conducted on an order-by-order basis. The scope of work will include the design, sourcing of raw materials and manufacturing of garment products in accordance with the specifications stipulated in each order. Yangtzekiang Group will assess the order placed by YGM Group and prepare a preliminary quotation, taking into account the volume of the order, the design and specifications of the garment products, the estimated cost of production, the workmanship required, its production capacity during the period and its recent quotations to other independent customers for similar garments products.

YGM Group will compare Yangtzekiang Group's quotations with the purchase prices of similar garment products in previous seasons from independent third parties (taking into account other relevant factors such as inflation), as well as the prevailing market prices for similar garment products based on information available in the market.

After assessing the overall work required for manufacturing the garment products under the order and comparing with other quotations and prevailing market prices, the Groups will determine the final price after arm's length negotiations. The orders will be made on normal commercial terms which shall be no less favorable than those terms available to independent third parties.

For the three financial years ending 31 March 2023, the annual volume of purchases of garments products by YGM Group from Yangtzekiang Group amounted/would amount to approximately HK\$3.9 million, HK\$4.5 million and HK\$0.4 million, respectively.

The Companies currently estimate that the annual trading volume of garment products under the Garment Master Agreement will not exceed the maximum annual cap of HK\$9 million for each of the two financial years ending 31 March 2025. This estimate was made based on (i) the annual volume of purchases of garment products by YGM Group from Yangtzekiang Group for the three financial years ending 31 March 2023; (ii) orders for knitwear and other garment products currently under negotiation between Yangtzekiang Group and existing and new third party customers; (iii) the estimated market demand for garment products; and (iv) the estimated scale of operations of YGM Group.

As the annual cap in relation to the Garment Transactions represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) of the Companies and the Garment Transactions will be conducted on normal commercial terms, the Garment Transactions are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for each of the Companies.

Reasons for and benefits of the Garment Transactions

The Garment Transactions provide the Companies with additional suppliers or purchasers (as the case may be) of garment products. Given the well-established relationship between the Companies, the board of directors of each of the Companies considers that the continuation of the Garment Transactions will be beneficial to the Groups.

The directors of the Companies (including their respective independent non-executive directors) consider that the Garment Transactions will be conducted in the Companies' respective ordinary and usual course of business and on normal commercial terms, negotiated on an arm's length basis, and are fair and reasonable and in the interests of the Companies and their respective shareholders as a whole.

LICENCE ARRANGEMENT

As disclosed in the joint announcement of the Companies dated 25 March 2020 (as supplemented by YGM's supplemental announcement dated 27 March 2020), YGM has been licensing from Yangtzekiang to occupy certain premises (which the Premises form part) and the Companies have entered into relevant licence agreements since 31 March 2001. As the prevailing licence agreement will expire on 31 March 2023, Yangtzekiang and YGM Marketing entered into the Licence Agreement on 29 March 2023 and agreed to continue the Licence Arrangement between the Groups until 31 March 2025.

Further details of the Licence Agreement are as follows:

Date of the Licence Agreement

29 March 2023

Parties

- (1) Yangtzekiang (as licensor)
- (2) YGM Marketing (as licensee)

Nature of the Licence Arrangement

Yangtzekiang agrees to allow YGM Marketing to occupy as licensee the Premises of approximately 36,000 square feet for a term commencing on 1 April 2023 and terminating on 31 March 2025 (both days inclusive).

During the term of the Licence Agreement, YGM Marketing agrees to pay Yangtzekiang:

- (i) a licence fee (exclusive of government rates and rent, building management fee and other charges) of HK\$360,000 per month (i.e. approximately HK\$10.00 per square feet per month); and
- (ii) a building management fee of HK\$10,800 per month (i.e. approximately HK\$0.30 per square feet per month).

Under the Licence Agreement, YGM Marketing, with the written consent of Yangtzekiang, may from time to time during the licence period:

- (1) surrender portion(s) of the Premises provided that (i) such surrendered portions in aggregate shall not exceed 20,000 square feet; (ii) the licence fee payable by YGM Marketing shall be reduced by HK\$10.00 per month per square feet (exclusive of government rates and rent, building management fee and other charges) of the area(s) of the said premises being surrendered; and (iii) the building management fee payable by YGM Marketing shall be reduced by HK\$0.30 per month per square feet of the area(s) of the Premises being surrendered; and/or
- (2) license additional premises at 22-24 Tai Yau Street, San Po Kong, Kowloon, Hong Kong held by Yangtzekiang provided that (i) the aggregate area of such additionally licensed premise shall not exceed the areas of the Premises that has been surrendered pursuant to (1) above; (ii) the licence fee payable by YGM Marketing for the additionally licensed premises shall be HK\$10.00 per month per square feet (exclusive of government rates and rent, building management fee and other charges); and (iii) the building management fee payable by YGM Marketing for the additionally licensed premises shall be HK\$0.30 per month per square feet.

The licence fees and the building management fees payable by YGM Marketing to Yangtzekiang under the Licence Agreement shall be paid in cash on a monthly basis within 30 days upon issuance of debit notes, which shall be issued on a monthly basis.

The Licence Agreement also provides that:

- (1) the aggregate annual licence fee payable under the Licence Agreement shall not exceed the maximum annual cap of HK\$4.32 million; and
- (2) the aggregate annual building management fee payable under the Licence Agreement shall not exceed the maximum annual cap of HK\$130,000.

Pricing Basis and Annual Cap

The licence fee and building management fee under the Licence Agreement were determined by Yangtzekiang Group and YGM Group after arm's length negotiations having regard to the government rates, conditions of the building, the size of the Premises, the prevailing level of rental value in the neighbouring premises, the estimated scale of operations of YGM Group and the historical transaction amounts and internal valuation by the Companies.

For the three financial years ending 31 March 2023, (i) the annual licence fee payable by YGM to Yangtzekiang under the prevailing licence agreement for 40,000 square feet (as opposed to 36,000 square feet under the new Licence Agreement) amounted/would amount to approximately HK\$4.8 million, HK\$4.8 million and HK\$4.8 million, respectively; and (ii) the annual building management fee payable by YGM to Yangtzekiang under the prevailing licence agreement for 40,000 square feet (as opposed to 36,000 square feet under the new Licence Agreement) amounted/would amount to approximately HK\$144,000, HK\$144,000 and HK\$144,000, respectively. The annual licence fee and management fee per square feet under the prevailing licence agreement and those under the new Licence Agreement are the same.

The annual licence fee payable by YGM Marketing to Yangtzekiang under the Licence Agreement will not exceed the maximum annual cap of HK\$4.32 million; and the annual building management fee payable by YGM Marketing to Yangtzekiang under the Licence Agreement will not exceed the maximum annual cap of HK\$130,000, which are calculated with reference to the maximum area licensable by YGM Marketing from Yangtzekiang under the Licence Agreement.

For Yangtzekiang as licensor, the Licence Arrangement will be regarded as a continuing connected transaction. As the aggregate amount of the annual caps in relation to the Licence Arrangement represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for Yangtzekiang and the Licence Arrangement will be conducted on normal commercial terms, the Licence Arrangement is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for Yangtzekiang.

For YGM Marketing as licensee, the entering into of the Licence Agreement by YGM Marketing will require YGM Group to recognise the exclusive rights as right-of-use asset in the consolidated financial statements of YGM under HKFRS 16 with a cost of approximately HK\$8.6 million at initial recognition and a corresponding lease liability which represents the present value of the future licence fee payments. As such, under the Listing Rules, the entering into of the Licence Agreement by YGM Marketing will be regarded by YGM as an one-off acquisition of asset and a connected transaction. As the value of the right-of-use asset in relation to the Licence Arrangement represents more than 0.1% but less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for YGM and the Licence Arrangement will be conducted on normal commercial terms, the Licence Arrangement is only subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules for YGM.

Reasons for and benefits of the Licence Arrangement

The Premises have been occupied for the operations of YGM Group since 1988. It is thus considered desirable for YGM Group to continue the use of the Premises to avoid business interruption and to renew the licence with Yangtzekiang Group at a fair market rental rate.

The directors of both Companies (including their respective independent non-executive directors) consider that the Licence Arrangement will be conducted in the Companies' respective ordinary course of business and on normal commercial terms, and the terms of the new Licence Agreement (including the relevant caps) are negotiated on an arm's length basis, and are fair and reasonable and in the interests of the Companies and their respective shareholders as a whole.

INTERNAL CONTROLS

To ensure the Garment Transactions and the Licence Arrangement are and will be conducted on normal commercial terms, the Groups have adopted the following internal control procedures:

- (i) the finance, merchandising and sales departments of the Companies are responsible for collecting data and statistics of the Garment Transactions and the Licence Arrangement on a monthly basis to ensure the annual caps approved are not exceeded;
- (ii) the merchandising department of YGM Group will compare Yangtzekiang Group's quotations with the purchase prices of similar garment products in previous seasons from independent third parties (taking into account other relevant factors such as inflation) to ensure that the purchase price will be comparable to the prevailing market price;
- (iii) the financial controllers of the Companies will regularly review the terms of the Garment Transactions to ensure that the fees charged for such transactions will reflect the pricing policies of the Groups;
- (iv) the sales departments of the Groups will review annually the pricing policies of the Garment Transactions to ensure that they are charged on the same bases and rates for similar products offered by or to independent third parties;
- (v) the external auditors of each of the Companies will report by issuing a letter to the board of directors of the Companies every year in relation to the pricing policies and annual caps of the Garment Transactions and the Licence Arrangement conducted during the preceding financial year pursuant to the Listing Rules; and
- (vi) the independent non-executive directors of each of the Companies will conduct an annual review with respect to the Garment Transactions and the Licence Arrangement conducted during the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of each of the Companies pursuant to the requirements under the Listing Rules, and to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.

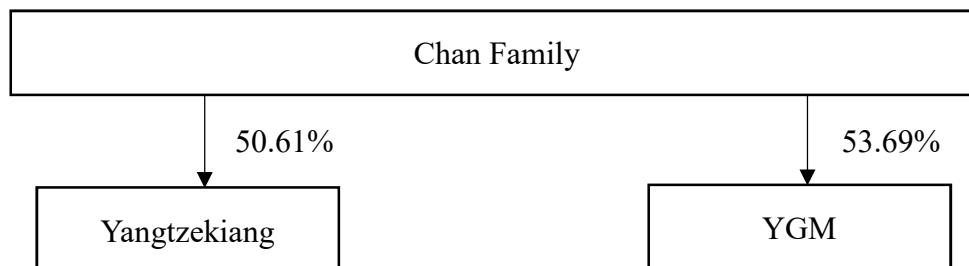
The directors (including the independent non-executive directors) of the respective Company believe that the above measures will ensure that the Garment Transactions and the Licence Arrangement will be conducted on normal commercial terms and not prejudicial to the interests of each of Yangtzekiang and YGM and the minority shareholders of each respective company.

PRINCIPAL BUSINESSES OF YANGTZEKIANG GROUP AND YGM GROUP AND THE CONNECTION AMONG THE RELEVANT PARTIES

YangtzeKiang Group is principally engaged in the manufacturing and sale of garment and textiles, provision of processing services and rental of properties.

YGM Group is principally engaged in the garment wholesaling and retailing, trademark ownership and licensing, property investment and provision of security printing, general business printing and trading of printing products.

The Chan Family's direct and indirect equity interests in each of YangtzeKiang and YGM are summarised as follows:



As the Chan Family is beneficially interested in shares representing approximately 50.61% and approximately 53.69% of the total issued shares of YangtzeKiang and YGM, respectively, each of YangtzeKiang and YGM is a connected person of the other for the purpose of the Listing Rules.

Save for (i) Madam Chan Suk Man and Mr. Chan Wing To (who are directors of YangtzeKiang only); (ii) Mr. Fu Sing Yam, William (who is director of YGM only), other Chan Directors, who are members of the Chan Family, are directors of both Companies, and the three independent non-executive directors of YangtzeKiang are also independent non-executive directors of YGM. Subject as aforesaid, no director (other than the Chan Directors) has a material interest in the transactions contemplated in this announcement. Other than the Chan Directors, who have abstained from voting on the resolutions of the board of directors of the Companies regarding the transactions contemplated in this announcement, no director of the Companies has abstained from such voting.

DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the Board of Directors
“Chan Directors”	Mr. Chan Wing Fui, Peter, Mr. Chan Wing Kee, Mr. Chan Wing Sun, Samuel, Mr. Chan Wing To, Madam Chan Suk Ling, Shirley, Madam Chan Suk Man and Mr. Fu Sing Yam, William
“Chan Family”	the Chan Directors and their associates
“Companies”	collectively, YangtzeKiang and YGM
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Garment Master Agreement”	the master agreement dated 29 March 2023 and entered into between YangtzeKiang and YGM in respect of the Garment Transactions
“Garment Transactions”	the purchase of garment products (mainly knitwear) by YGM Group from YangtzeKiang Group on an order-by-order basis and from time to time in accordance with the Garment Master Agreement, as more particularly described in the section headed “Garment Transactions” in this announcement
“Groups”	collectively, YangtzeKiang Group and YGM Group
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“independent third party(ies)”	third party(ies) who are independent of and not connected with the Companies or their connected persons
“Licence Arrangement”	the arrangement in respect of the licensing of the Premises by YGM Group from Yangtzekiang Group, as more particularly described in the section headed “Licence Arrangement” in this announcement
“Licence Agreement”	the licence agreement dated 29 March 2023 and entered into between Yangtzekiang and YGM Marketing in respect of the Licence Arrangement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Premises”	approximately 36,000 square feet of warehouse and office space situate at 22-24 Tai Yau Street, San Po Kong, Kowloon, Hong Kong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Yangtzekiang”	Yangtzekiang Garment Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed and traded on the Stock Exchange
“Yangtzekiang Group”	Yangtzekiang and its subsidiaries
“YGM”	YGM Trading Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed and traded on the Stock Exchange
“YGM Group”	YGM and its subsidiaries
“YGM Marketing”	YGM Marketing Limited, a wholly-owned subsidiary of YGM
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board of Directors
Yangtzekiang Garment Limited
Chan Wing Fui, Peter
Chairman

By Order of the Board of Directors
YGM Trading Limited
Chan Wing Sun, Samuel
Chairman

Hong Kong, 29 March 2023

As at the date of this joint announcement,

- (a) *the board of directors of Yangtzekiang comprises six executive directors, namely Mr. Chan Wing Fui, Peter, Mr. Chan Wing Kee, Mr. Chan Wing To, Madam Chan Suk Man, Mr. Chan Wing Sun, Samuel and Madam Chan Suk Ling, Shirley and three independent non-executive directors, namely Mr. Choi Ting Ki, Mr. So Stephen Hon Cheung and Mr. Li Guangming; and*
- (b) *the board of directors of YGM comprises five executive directors, namely Mr. Chan Wing Sun, Samuel, Madam Chan Suk Ling, Shirley, Mr. Fu Sing Yam, William, Mr. Chan Wing Fui, Peter, and Mr. Chan Wing Kee; and three independent non-executive directors, namely Mr. Choi Ting Ki, Mr. So Stephen Hon Cheung and Mr. Li Guangming.*