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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8377)

MAJOR AND CONNECTED TRANSACTIONS — PROVISION OF FINANCIAL ASSISTANCE TO CONNECTED PERSON

PROVISION OF FINANCIAL ASSISTANCE

During the Relevant Period, there were (i) Shareholder's Loans made by Mr. Wong, a controlling shareholder of the Company and an executive Director, to Tseyu International, a wholly owned subsidiary of the Company, and (ii) a historical outstanding balance due from Mr. Wong to Guangzhou Xinhua, a wholly owned subsidiary of the Company.

As at the date of this announcement, the outstanding Shareholder's Loans due from Tseyu International to Mr. Wong amounted to HK\$19,171,000, and the outstanding intra-group current account balance due from Mr. Wong to Guangzhou Xinhua was RMB16,760,277 (equivalent to approximately HK\$18,603,907).

On 31 March 2020, the HK Loan Agreement was signed between Tseyu International and Mr. Wong, and the PRC Loan Agreement was signed between Guangzhou Xinhua and Mr. Wong to record, confirm and agree on the arrangements concerning the Shareholder's Loans and the Current Account Receivables in compliance with the requirements under Chapter 20 of the GEM Listing Rules.

GEM LISTING RULES IMPLICATIONS

As Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company, Mr. Wong is considered to be a connected person of the Company.

As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans and the entering into of the HK Loan Agreement are fully exempt under Rule 20.88 of the GEM Listing Rules.

As one or more of the applicable percentage ratio for the transactions contemplated under the PRC Loan Agreement exceed 25% but are less than 100%, the transactions contemplated under the PRC Loan Agreement would constitute a major transaction under Chapter 19 of the GEM Listing Rules, and therefore subject to the reporting, announcement, circular and Shareholders's approval requirements.

In addition, as the applicable percentage ratios as defined in the GEM Listing Rules in respect of the PRC Loan Agreement and the transactions contemplated thereunder are more than 25% and the principal amount of the term loan under the PRC Loan Agreement is more than HK\$10,000,000, the PRC Loan Agreement and the transactions contemplated thereunder constitute financial assistances and connected transactions for the Company under Chapter 20 of the GEM Listing Rules and therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, had abstained from voting on the resolutions of the Board approving the PRC Loan Agreement and the transactions contemplated thereunder.

GENERAL INFORMATION

The Company will convene the EGM in due course for the Independent Shareholders to consider and, if thought fit, approve the entering of the PRC Loan Agreement and the transactions contemplated thereunder. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, shall abstain from voting on the resolutions in respect of the PRC Loan Agreement and the transactions contemplated thereunder at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the PRC Loan Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders on the terms of the PRC Loan Agreement as soon as possible. None of the members of the Independent Board Committee has any interest in the PRC Loan Agreement and the transactions contemplated thereunder.

DESPATCH OF THE CIRCULAR

A circular of the EGM containing, among others, (i) details of the PRC Loan Agreement and the transactions contemplated thereunder; (ii) the advice and recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the PRC Loan Agreement; (iv) a notice convening the EGM; and (v) other information required under the GEM Listing Rules, will be dispatched to the shareholders after publication of this announcement on or before 23 April 2020.

PROVISION OF FINANCIAL ASSISTANCE

Background

Prior to the Listing, there were several intra-group current account advances made among Tseyu International, Guangzhou Xinhua and Mr. Wong, which involved advances made by (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong, for which all current account balances were net off under the consolidated accounts of the Group.

After Listing and during the Relevant Period, the Current Account Receivables due by Mr. Wong to Guangdong Xinhua has remained static, while there had been advances from Mr. Wong to Tseyu International and repayments from Tseyu International to Mr. Wong from time to time, resulting in fluctuations of the current account balances among Mr. Wong and the Group during the Relevant Period. The intra-group current account balances under the consolidated accounts of the Group as at the end of each financial year in the Relevant Period were nil.

It was discovered during the audit process of the Group's financial statements for the year ended 31 December 2019 that although the current accounts balances would be offset against each other on the consolidated basis and therefore would not be reflected in the financial statements of the Group, the Shareholder's Loans and the Current Account Receivables due to Guangdong Xinhua from Mr. Wong should be taken into account separately when assessing the relevant GEM Listing Rules implications. The outstanding balance of advances due from (i) Tseyu International to Mr. Wong amounted to HK\$19,171,000; and (ii) Mr. Wong to Guangzhou Xinhua amounted to RMB16,760,277 (equivalent to approximately HK\$18,603,907) as at the date of this announcement.

The Shareholder's Loans provided by Mr. Wong to Tseyu International during the Relevant Period constituted financial assistance from Mr. Wong to the Group. As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans are fully exempt from the reporting, announcement, independent financial advice and shareholders' approval requirements under Rule 20.88 of the GEM Listing Rules.

However, the Current Account Receivables due to Guangzhou Xinhua from Mr. Wong represents a provision of financial assistance to connected person which constituted non-exempt connected transactions on the part of the Company under the GEM Listing Rules and subject to the reporting, announcement, independent financial advice and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above situation and in compliance with the requirements of connected transactions under Chapter 20 of the GEM Listing Rules, on 31 March 2020, the PRC Loan Agreement was signed between Guangzhou Xinhua and Mr. Wong, and the HK Loan Agreement was signed between Tseyu International and Mr. Wong, to record, confirm and agree on the arrangements concerning the Shareholder's Loans and the Current Account Receivables. Details of the HK Loan Agreement and the PRC Loan Agreement and are summarized below.

HK Loan Agreement

Date: 31 March 2020

Parties: Mr. Wong (as lender)
Tseyu International (as borrower)

Pursuant to the HK Loan Agreement, Mr. Wong and Tseyu International confirm that the Shareholder's Loans in an aggregated sum of HK\$19,171,000 have been advanced and remain outstanding as at the date of the HK Loan Agreement.

It is agreed that the Shareholder's Loan shall be interest-free and unsecured, and shall be repayable in cash on demand.

The Board (except Mr. Wong) considers that the terms and conditions of the HK Loan Agreement are on normal commercial terms and are fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

PRC Loan Agreement

Date: 31 March 2020

Parties: Mr. Wong (as borrower)
Guangzhou Xinhua (as lender)

Pursuant to the PRC Loan Agreement, Mr. Wong and Guangzhou Xinhua confirm that a sum of RMB16,760,277 (equivalent to approximately HK\$18,603,907) has been advanced by Guangzhou Xinhua to Mr. Wong and remain outstanding as at the date of the PRC Loan Agreement. Interest shall also be payable by Mr. Wong to Guangzhou Xinhua to be accrued at a rate of 2% per annum on the outstanding Current Account Receivables from the date of the PRC Loan Agreement.

It is agreed that the outstanding Current Account Receivables (together with the interest accrued thereon) shall be repaid by Mr. Wong within three years from the date of the PRC Loan Agreement. Mr. Wong has also undertaken in the PRC Loan Agreement that any repayment of the Shareholder's Loans which Mr. Wong receives from Tseyu International from time to time under the HK Loan Agreement shall, within 7 days upon receipt, be first applied to settle the outstanding Current Account Receivables due to Guangzhou Xinhua. The arrangement agreed under the PRC Loan Agreement shall only become effective subject to the PRC Loan Agreement and the transactions contemplated thereunder having been approved the Independent Shareholders at the EGM.

In consideration of (i) the unsecured interest-free Shareholder's Loans advanced by Mr. Wong to the Group, (ii) the undertaking given by Mr. Wong on the early repayment of the Current Account Receivables under the PRC Loan Agreement, and (iii) the interest income under the PRC Loan Agreement, the Board (excluding Mr. Wong and independent non-executive Directors who shall provide their view after taking into account the advice from the independent financial adviser) considers that the terms and conditions of the PRC Loan Agreement are on normal commercial terms and fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

IMPLICATION UNDER THE GEM LISTING RULES

As Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company, Mr. Wong is considered to be a connected person of the Company under the GEM Listing Rules.

As the Shareholder's Loans were provided by Mr. Wong to Tseyu International on normal commercial terms or better and are not secured by the assets of the Group, the Shareholder's Loans and the entering into of the HK Loan Agreement are fully exempt under Rule 20.88 of the GEM Listing Rules.

As one or more of the applicable percentage ratios for the transactions contemplated under the PRC Loan Agreement exceed 25% but are less than 100%, the transactions contemplated under the PRC Loan Agreement would constitute a major transaction under Chapter 19 of the GEM Listing Rules, and therefore subject to the reporting, announcement, circular and Shareholders' approval requirements.

In addition, as the applicable percentage ratios as defined in the GEM Listing Rules in respect of the PRC Loan Agreement and the transactions contemplated thereunder are more than 25% and the principal amount of the term loan under the PRC Loan Agreement is more than HK\$10,000,000, the PRC Loan Agreement and the transactions contemplated thereunder constitute financial assistances and connected transactions for the Company under Chapter 20 of the GEM Listing Rules and therefore subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, had abstained from voting on the resolutions of the Board approving the PRC Loan Agreement and the transactions contemplated thereunder.

GENERAL INFORMATION

The Company will convene the EGM in due course for the Independent Shareholders to consider and, if thought fit, approve the entering of the PRC Loan Agreement and the transactions contemplated thereunder. Mr. Wong, who has a material interest in the PRC Loan Agreement and the transactions contemplated thereunder, shall abstain from voting on the resolutions in respect of the PRC Loan Agreement and the transactions contemplated thereunder at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the PRC Loan Agreement. An independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the terms of the PRC Loan Agreement will also be appointed as soon as possible. None of the members of the Independent Board Committee has any interest in the PRC Loan Agreement and the transactions contemplated thereunder.

DESPATCH OF THE CIRCULAR

A circular of the EGM containing, among others, (i) details of the PRC Loan Agreement and the transactions contemplated thereunder; (ii) the advice and recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the PRC Loan Agreement; (iv) a notice convening the EGM; and (v) other information required under the GEM Listing Rules, will be dispatched to the shareholders after publication of this announcement on or before 23 April 2020.

REASONS FOR ENTERING INTO THE HK LOAN AGREEMENT AND THE PRC LOAN AGREEMENT

The Directors were not aware of the implications of the aforesaid historical current account transactions which involved payments from (i) Mr. Wong to Tseyu International and (ii) Guangzhou Xinhua to Mr. Wong under the GEM Listing Rules because the Directors mistakenly believed that the intra-group current accounts balances could be offset against each other on the consolidated basis and only the balance would be required to be taken into account when considering the GEM Listing Rules implications. The Directors only became aware that the outstanding historical payments from Guangzhou Xinhua to Mr. Wong may have constituted a non-exempt connected transaction pursuant to requirements under the GEM Listing Rules during the audit process of the Group's financial statements for the year ended 31 December 2019 when the management accounts of the Group for the year ended 31 December 2019 were finalised.

Upon becoming aware of the incidents, the management of the Group has sought professional advice from its advisors immediately as to the requirements under the GEM Listing Rules for the Current Accounts Receivables. The Company was informed that the Current Accounts Receivables would constitute a financial assistance from the Group to its connected person, and that the Company would not have complied in full with the requirements under Chapter 19 and Chapter 20 of the GEM Listing Rules. In the circumstances, the Company has immediately taken all initiatives to re-comply with the GEM Listing Rules as soon as it can. The Directors deeply apologise for any inconvenience that may have been caused by such incident.

REMEDIAL STEPS TAKEN

In order to prevent the occurrence of similar incidents, the Company will take steps to strengthen the internal controls over the accounting and payment procedures of all transactions with connected persons. The Company will engage legal advisers to provide training sessions for the Directors and relevant staff members so as to reinforce their knowledge regarding the rules and regulations in respect of connected transactions. The Company will also engage an internal control consultant to identify any deficiencies of our internal control policies for monitoring the connected transactions under the GEM Listing Rules and make recommendations to enhance the internal control policies. The management has also reviewed the relevant records of the Group and confirmed that no other connected transactions for the Company are not in full compliance with the GEM Listing Rules.

Having reviewed the available information (which included, but were not limited to the payment records), the Directors confirm that the PRC Loan Agreement and the transactions contemplated thereunder were entered into on terms not less favourable to the Group than terms available to or from Independent Third Parties. On this basis, the Directors (other than Mr. Wong who has excused himself from the relevant Board meeting and the independent non-executive Directors whose views will be contained in the circular after considering the advice from the independent financial adviser) consider that the terms of the PRC Loan Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Directors consider that the non-compliance is an isolated event and undertake to avoid the re-occurrence of similar events in future.

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and selling of high-performance sewing threads and broad categories of garment accessories.

INFORMATION OF GUANGZHOU XINHUA

Guangzhou Xinhua is a company established under the laws of the PRC with limited liability in 1993 and is principally engaged in the manufacturing and trading of sewing threads and broad categories of garment accessories.

INFORMATION OF MR. WONG

Mr. Wong is the chairman, an executive Director and controlling shareholder of the Company.

INFORMATION OF TSEYU INTERNATIONAL

Tseyu International is a company incorporated in Hong Kong with limited liability in 1978 and is principally engaged in the trading of sewing threads and broad categories of garment accessories.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Shen You Holdings Limited (申酉控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Current Account Receivables”	the intra-group current account balance due from Mr. Wong to Guangdong Xinhua
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the PRC Loan Agreement and the transactions contemplated thereunder
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guangzhou Xinhua”	廣州新華線業有限公司 (Guangzhou Xinhua Thread Company Limited*), a company established under the laws of the PRC, an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Loan Agreement”	the shareholder’s loan agreement dated 31 March 2020 entered into between Tseyu International and Mr. Wong in relation to the Shareholder’s Loans previously advanced by Mr. Wong to Tseyu International during the Relevant Period
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Board Committee”	an independent committee of the Board consisting of all independent non-executive Directors established for the purpose of advising the Independent Shareholders as to the fairness and reasonableness of the PRC Loan Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	the shareholders of the Company other than those who are required to abstain under the GEM Listing Rules from voting at the EGM for the resolution(s) approving the PRC Loan Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	third party(ies) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, are independent of and not acting in concert or connected with the Company and its connected persons or any of their respective associates
“Listing”	the listing of the Shares on GEM
“Mr. Wong”	Mr. Wong Kwok Wai, Albert, the Chairman, an executive Director and the chief executive officer of the Company
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Loan Agreement”	the loan agreement dated 31 March 2020 entered into between Guangzhou Xinhua and Mr. Wong in relation to the Current Account Receivables previously advanced by Guangzhou Xinhua to Mr. Wong
“Relevant Period”	the period from 15 December 2017, which is the date on which dealings in Shares of the Company first commence on GEM, to the date of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued share(s)
“Shareholder’s Loans”	the shareholder’s loans provided by Mr. Wong to Tseyu International from time to time during the Relevant Period
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Tseyu International” Tseyu International Trading Company Limited (至裕國際貿易有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

“%” percentage

By order of the Board
Shen You Holdings Limited
Chan Yiu Tung, Enoch
Executive Director

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Wong Kwok Wai, Albert and Mr. Chan Yiu Tung, Enoch; one non-executive Director, namely, Mr. Gao Biao; and three independent non-executive Directors, namely, Dr. Yeung Ngai Man, John, Mr. Sung Alfred Lee Ming and Mr. Zhang Guofu.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.shenyouholdings.com.

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1.00 to HK\$1.11. This exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

* *The English transliteration of the Chinese name is for identification purpose only*