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YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED

裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

INSIDE INFORMATION

(1) PROVISION FOR CONTRIBUTIONS TO AND ADJUSTMENTS OF EMPLOYEE BENEFIT PAYMENTS AND (2) PROFIT WARNING

This announcement is made by the Company pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board wishes to inform shareholders and potential investors of the Company that based on the information currently available to the Board, the Group decided to make provision for contributions to and adjustments of Employee Benefit Payments, which together will have a material adverse effect on the Group's financial results for the six months ended 30 June 2014.

The information contained in this announcement is only the preliminary assessment of the Company and has not been reviewed by the auditor of the Company. Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

Reference is made to the announcements of the Company dated 17 April 2014, 25 April 2014 and 20 May 2014 (the “**Previous Announcements**”). Unless otherwise defined herein, terms in this announcement shall have the same meanings as those ascribed to them in the Previous Announcements.

* For identification purposes only

As announced in the Previous Announcements, the Group has reviewed its employee benefits policy in China following the Gaobu Factory incident. After such review, the Board has recently decided to raise contributions to the Employee Benefit Payments (the “**Employee Benefit Contributions**”) for employees of the Group’s other factories in China, excluding the Gaobu Factory (the “**Other Factories**”). The main reasons for making the Employee Benefit Contributions are to assist the Group in staff retention and recruitment under the increasingly competitive labor market conditions in China so as to ensure the Group’s normal business operation and production in the Other Factories. Taking into account employees’ intention to apply for and make payments for their own part of the Employee Benefit Contributions as indicated in the results of survey received from the employees of the Other Factories, the Board estimates that a provision of approximately USD53 million will be made for the Employee Benefit Contributions for the Other Factories (the “**Provision for Employee Benefit Contributions**”).

In order for the Group to estimate the Provision for Employee Benefit Contributions, the Group had initiated communications with the relevant governmental authorities relating to the Employee Benefit Contributions, and conducted surveys with the employees of the Other Factories in respect of their intention to apply for and make payments for their own part of Employee Benefit Contributions. If the actual number of applications received exceeds those indicated in the survey results received from the employees of Gaobu Factory and the Other Factories, the Group may make further provision for the Employee Benefits Contributions in the future.

The amount of the Employee Benefit Contributions to be made for each employee by the Group is primarily determined with regard to the relevant employee’s length of service and wage. The actual contributions to be made by the Group will be subject to the actual number of applications received and the completion of relevant governmental procedures of such applications.

In addition, the Group has also decided to adjust the Employee Benefit Payments of employees of the Other Factories and provided such employees with a monthly living allowance. It is estimated that such adjustment to the Employee Benefit Payments and monthly living allowance for the employees of the Other Factories will increase the Group’s employee benefit expenses for the year ending 31 December 2014 by approximately USD46 million.

Set out below is a summary of the provisions for contributions to and adjustments of Employee Benefit Payments for Gaobu Factory and the Other Factories together with loss caused by the interruption of Gaobu Factory operations as a result of the strike as previously disclosed in the Previous Announcements and as disclosed in this announcement.

	(USD Million, approx.)	Note
Provision for additional Employee Benefit Payments of Gaobu Factory	37	This provision will be reflected in the Group's interim financial results ended 30 June 2014
Provision for Employee Benefit Contributions of Other Factories	53	This provision will be reflected in the Group's interim financial results ended 30 June 2014
Adjustment of Employee Benefit Payments and monthly living allowance of Gaobu Factory	31	Estimated incremental expenses for eight months from May to December 2014
Adjustment of Employee Benefit Payments and monthly living allowance of Other Factories	46	Estimated incremental expenses for eight months from May to December 2014
Loss directly caused by the interruption of Gaobu Factory operations as result of the strike	27	Including additional costs for air freight and other fixed costs, as well as loss of profit due to production disruptions

Out of the above, a total amount of approximately USD112 million will be reflected in the Group's financial results as the costs and expenses for the six months ended 30 June 2014. Accordingly, there will be material adverse impact on the Group's financial results for the same period.

The Company is in the process of preparing the interim results of the Group for the six months ended 30 June 2014. The statements made in this announcement is based on the preliminary assessment by the Board after reviewing and considering the unaudited consolidated management accounts of the Group for the six months ended 30 June 2014 currently available and which have not been finalized as at the date of this announcement. Further details of the financial information of the Group will be disclosed in the interim results announcement which is expected to be published on 13 August 2014.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board

Lu Chin Chu

Chairman

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Kuo Tai Yu, Mr. Kung Sung Yen, Mr. Chan Lu Min, Mr. Li I Nan, Steve, Mr. Lee Shao Wu, Mr. Tsai Ming-Lun, Ming and Mr. George Hong-Chih Liu.

Independent Non-executive Directors:

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).

Hong Kong, 5 August 2014

Website: <http://www.yueyuen.com>