



福田實業(集團)有限公司  
Fountain Set (Holdings) Limited

(Incorporated in Hong Kong with limited liability) (Stock Code: 420)

## RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2015 Announcement and Circular in relation to, among others, the following continuing connected transactions between the Company and the relevant parties:

- (1) the 2018 Material Purchase Framework Agreement;
- (2) the 2018 AH Master Sales Agreement; and
- (3) the 2018 FM Master Sales Agreement.

### RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS

The 2018 CCT Agreements will expire on 31 December 2018. As the Group intends to continue carrying out the transactions under the 2018 CCT Agreements in the ordinary and usual course of business of the Group, the Company (for itself and other members of the Group) entered into the 2021 Material Purchase Framework Agreement, the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement on 22 November 2018, for a term of three years commencing from 1 January 2019 to 31 December 2021 (both days inclusive).

### LISTING RULES IMPLICATIONS

Chinatex is a controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules. Accordingly, members of the Chinatex Group are associates of Chinatex and hence connected persons of the Company under the Listing Rules. Accordingly, the entering into of the 2021 Material Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Mr. Hirdaramani is a director and substantial shareholder of a non-wholly owned subsidiary of the Company and hence a connected person of the Company under the Listing Rules. The AH Group comprises companies which Mr. Hirdaramani and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors. Accordingly, members of the AH Group are associates of Mr. Hirdaramani and hence connected persons of the Company at the subsidiary level. It follows that the entering into of the 2021 AH Master Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Mr. Omar is a director and substantial shareholder of a non-wholly owned subsidiary of the Company and hence a connected person of the Company under the Listing Rules. The FM Group comprises companies which Mr. Omar and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors. Accordingly, members of the FM Group are associates of Mr. Omar and hence connected persons of the Company at the subsidiary level. It follows that the entering into of the 2021 FM Master Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since none of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) (other than the profit ratio) for the transactions contemplated under the 2021 Material Purchase Framework Agreement for each of the three financial years ending 31 December 2021 will exceed 5% on an annual basis, according to Rule 14A.76 of the Listing Rules, the 2021 Master Purchase Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement, as (i) each of the AH Group and the FM Group is a connected person at the subsidiary level of the Company; (ii) the continuing connected transactions contemplated under each of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement are on normal commercial terms; and (iii) the Board (including all the independent non-executive Directors) has approved the continuing connected transactions and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, according to Rule 14A.101 of the Listing Rules, the continuing connected transactions contemplated under each of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under each of the 2021 CCT Agreements are in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of each of the 2021 CCT Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Director has any material interests in the transactions contemplated under the 2021 CCT Agreements and accordingly had not abstained from voting on the relevant resolutions proposed at the Board meeting approving the 2021 CCT Agreements and the transactions contemplated thereunder.

## **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the 2015 Announcement and Circular in relation to, among others, the following continuing connected transactions between the Company and the relevant parties:

- (1) the 2018 Material Purchase Framework Agreement;
- (2) the 2018 AH Master Sales Agreement; and
- (3) the 2018 FM Master Sales Agreement.

The 2018 CCT Agreements will expire on 31 December 2018. As the Group intends to continue carrying out the transactions under the 2018 CCT Agreements in the ordinary and usual course of business of the Group, the Company (for itself and other members of the Group) entered into the 2021 Material Purchase Framework Agreement, the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement on 22 November 2018, for a term of three years commencing from 1 January 2019 to 31 December 2021 (both days inclusive).

The principal terms of each of the 2021 CCT Agreements are set out as follows:

### **(i) 2021 MATERIAL PURCHASE FRAMEWORK AGREEMENT**

#### **Date**

22 November 2018

## **Parties**

- (i) the Company (as purchaser); and
- (ii) Chinatex (as seller)

## **Subject Matter**

Pursuant to the 2021 Material Purchase Framework Agreement, the Chinatex Group agreed to, or procure its subsidiaries to, supply yarns, cotton and other materials for the manufacture of fabric, garments and cooking oil and foodstuffs to the Group. The yarns, cotton and other materials for the manufacture of fabric and garments to be purchased by the Group will be used for the manufacture of textile products, whereas the cooking oil and foodstuffs will be used for the provision of meals to the employees of the Group.

The Group and the Chinatex Group will enter into individual orders or purchase agreements setting out specific terms of the Chinatex Purchase Transactions. The terms of the individual orders or purchase agreements will be consistent with the principles and the terms of the 2021 Material Purchase Framework Agreement. If there is any conflict between the terms of an individual order or purchase agreement and the 2021 Material Purchase Framework Agreement, the latter shall prevail.

## **Condition Precedent**

The 2021 Material Purchase Framework Agreement is conditional upon the passing of an ordinary resolution at the general meeting by the Shareholders to approve the 2021 Material Purchase Framework Agreement and the transactions contemplated thereunder (if required). If such condition is not fulfilled by 31 December 2018 or such later date as may be agreed by the Company and Chinatex in writing, the 2021 Material Purchase Framework Agreement shall terminate with immediate effect and none of the parties thereto shall have any rights against the other party except in relation to any antecedent breach of the 2021 Material Purchase Framework Agreement.

## **Term**

Three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive).

## Pricing Policy

As a general principle, the price and terms of the individual order in respect of the Chinatex Purchase Transactions will be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers.

Subject to the general principle disclosed above, the Group will also take into account the following factors when determining the purchase price payable by the Group under the individual orders in respect of the Chinatex Purchase Transactions: (i) the prevailing market prices of similar products obtained through internal checks and research conducted by the Company; (ii) the quality and prices of the products offered by other independent third party suppliers; and (iii) the expected cost to be incurred by the Chinatex Group in providing such products. In addition to the above, the Group will semi-annually obtain market prices of the products through publicly available sources.

Given that none of the products under the 2021 Material Purchase Framework Agreement has a fixed unit price, in determining the purchase price for an individual order, the Group will invite quotations from at least three independent suppliers to get a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by qualified personnel of the Group and compared against the quotation from the Chinatex Group to ensure that the prices for the products to be procured from the Chinatex Group are comparable to the prices for such products being offered by independent third parties. Upon receipt of the initial quotations from the Chinatex Group and the independent suppliers, the Group will then invite each of the suppliers to submit a revised offer based on preliminary feedback provided by the Group. The revised offers will then again be reviewed and evaluated from both the technical and commercial perspectives by qualified personnel of the Group and compared with the offer of the Chinatex Group and purchases will only be made from the Chinatex Group if the price and terms offered are competitive and comparable and no less favourable to the Group than those offered by independent third party suppliers.

In addition, the Group will make reference to the China Statistical Yearbook which contains price indices of certain commodities such as cotton and cooking oil.

## Annual Caps

The proposed annual caps for the transactions contemplated under the 2021 Material Purchase Framework Agreement for the three years ending 31 December 2021 are as follows:

	<b>For the year ended 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Annual Cap under the 2021 Material Purchase Framework Agreement	63,000	63,000	63,000

The Company made reference to the actual transaction amounts under the Chinatex Purchase Transactions for the two years ended 31 December 2017 of approximately HK\$29.1 million and HK\$25.7 million, respectively and the ten months ended 31 October 2018 of approximately HK\$10.5 million when arriving at the proposed annual caps for the three years ending 31 December 2021. Due to the lower than expected demand for Modale yarn (the only yarn purchased from Chinatex) since 2016, the transaction amounts under the Chinatex Purchase Transactions for the two years ended 31 December 2017 were, and the expected transaction amount for the year ending 31 December 2018 will be, lower than those as estimated in 2015, rendering the over-estimation of the annual caps for each of the three years ended/ending 31 December 2018 than the actual transaction amounts. On this basis, the transaction amounts of the Chinatex Purchase Transactions for the three years ending 31 December 2021 are not expected to deviate a lot from the transaction amounts for the three years ended/ending 31 December 2018 and the Company fixed the proposed annual caps at HK\$63,000,000 for each of the three years ending 31 December 2021 with an appropriate buffer to allow any unexpected increase in demand for yarn and cotton during the term of the 2021 Material Purchase Framework Agreement.

The historical transaction amount under the Chinatex Purchase Transactions for the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2018 are as follows:

	<b>Year ended 31 December</b>		<b>31 October</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)
Historical transaction amount under the 2018 Material Purchase Framework Agreement	29,130	25,672	10,508

As at the date of this announcement, the annual caps under the 2018 Material Purchase Framework Agreement for the three years ended/ending 31 December 2018 have not been exceeded.

### **Reasons for and benefits of entering into the Chinatex Purchase Transactions**

Given that the 2018 Material Purchase Framework Agreement will expire on 31 December 2018, the entering into of the 2021 Material Purchase Framework Agreement will enable the Group to continue to secure a long-term stable supply of such materials and the Group has established an excellent cooperation relationship with the Chinatex Group from the previous Chinatex Purchase Transactions.

The Chinatex Group is directly wholly-owned by COFCO Corporation and is one of the 500 largest enterprises in the PRC. It has two core businesses, namely, textiles business and grains and oils business. COFCO Corporation is in turn under the direct administration of the SASAC. Taking into consideration of the quality of the products offered by the Chinatex Group, the Board is of the view that the Chinatex Group has competitive strengths over other independent suppliers of similar products in the PRC and considers that the 2021 Material Purchase Framework Agreement will enable the Group to obtain stable supply of yarns, cotton and other materials related to the production of fabrics and garments and enhance its position as one of the leading fabric suppliers to garment manufacturers in the global market.

Based on the above, the Directors are of the view that the Chinatex Purchase Transactions have been and will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of the 2021 Material Purchase Framework Agreement, including the proposed annual caps, were negotiated on an arm's length basis and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **(ii) 2021 AH MASTER SALES AGREEMENT**

#### **Date**

22 November 2018

#### **Parties**

- (i) the Company (as seller); and
- (ii) Mr. Hirdaramani (as purchaser)

## **Subject Matter**

Pursuant to the 2021 AH Master Sales Agreement, the Company agreed to, or procure members of the Group to, supply fabrics, yarns and similar items to members of the AH Group from time to time during the term of the 2021 AH Master Sales Agreement.

The Group and the AH Group will enter into individual sales contracts, sales agreements or purchase orders setting out specific terms of the AH Sales Transactions. The terms of such individual sales contracts, sales agreements or purchase orders will be consistent with the principles and the terms of the 2021 AH Master Sales Agreement. If there is any conflict between the terms of an individual sale contract, sale agreement or purchase order and the 2021 AH Master Sales Agreement, the latter shall prevail.

## **Condition Precedent**

The 2021 AH Master Sales Agreement is conditional upon the passing of an ordinary resolution at the general meeting by the Shareholders to approve the 2021 AH Master Sales Agreement and the transactions contemplated thereunder (if required). If such condition is not fulfilled by 31 December 2018 or such later date as may be agreed by the Company and Mr. Hirdaramani in writing, the 2021 AH Master Sales Agreement shall terminate with immediate effect and none of the parties thereto shall have any rights against the other party except in relation to any antecedent breach of the 2021 AH Master Sales Agreement.

## **Term**

Three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive).

## **Pricing Policy**

As a general principle, the price and terms of the individual sales contracts, sales agreements or purchase orders in respect of the AH Sales Transactions will be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers.

Subject to the general principle disclosed above, the sales department of the Group will also take into account the following factors when determining the selling price under the individual sales contracts, sales agreements or purchase orders in respect of the AH Sales Transactions: (i) the prevailing market prices of the products to be sold by the Group to the AH Group; (ii) the quality and prices of the products available in the market; and (iii) the expected cost to be incurred by the Group in providing such products.



In considering the above three factors, the Group will evaluate and assess the scope of the relevant order and prepare a detailed cost calculation with reference to the cost of materials, products and labors, quotations of the Group provided to other independent third party customers to ensure that the prices of the products of the Group offered to the AH Group are competitive and comparable to those being offered to independent third party customers of the Group and no less favourable to the Group. The evaluation and assessment of orders received and the preparation of costs calculations are mainly prepared by the Group's sales department and subject to final approval by the head of the sales department. Additionally, the sales department will normally compare the Group's prices with the range of selling price of similar products charged by at least two competitors of the Group in the market on a case-by-case basis which depends on whether such competitors have updated their selling price quotations. Selling prices charged by competitors are widely available as there are many fabric suppliers in the market competing for attractive selling prices and the Group will select a few suppliers which are comparable to the Group in terms of size and product range as indicators given the wide range of fabric products provided and the large number of fabric suppliers in the market. Some of the Group's customers will also provide the Group with selling prices they obtained from other fabric and yarn suppliers when negotiating the selling price with the Group.

The 2021 AH Master Sales Agreement does not provide a pre-determined profit margin for the products under the AH Sales Transactions as the profit margin depends on many circumstantial factors such as the then prevailing market price of the products and the cost of raw materials at the relevant time, both of which can fluctuate depending on the conditions of the market at the time. Additionally, the Group may accept orders with lower profit margins in certain circumstances, such as when production capacity is not fully utilised or if the customer is making bulk purchases. The above factors will be considered by the Group's sales department in determining the selling prices for all products under the AH Sales Transactions and will be subject to the final approval of the head of the sales department. The assistant senior manager of the Group's internal audit department and the senior vice president of the Group will also supervise and monitor to ensure that all AH Sales Transactions are conducted in accordance with such pricing policy.

Further, the Group has a standard pricing policy for its sales which is applicable to all customers. In setting or revising the pricing for the products, market prices are obtained through, among other things, recent transactions of the Group, enquiry with other industry players and researches on industry websites. The prices for the products to be sold to the AH Group under the 2021 AH Master Sales Agreement will be governed by such pricing policy and will not be less than the price of similar products sold by the Group to independent customers.

## Annual Caps

The proposed annual caps for the transactions contemplated under the 2021 AH Master Sales Agreement for the three years ending 31 December 2021 are as follows:

	<b>For the year ended 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Annual Cap under the 2021 AH Master Sales Agreement	350,000	400,000	400,000

The proposed annual caps for the three years ending 31 December 2021 were determined with reference to (i) the underestimated historical transaction amounts under the AH Sales Transactions for the two years ended 31 December 2017 and the ten months ended 31 October 2018; (ii) a 5% increase in cotton consumption in the year 2017 and the increasing demand of cotton in the global market as reported by the United States Department of Agriculture, which in turn will increase the sales of the products of the AH Group; (iii) the tariff preferential policy under several Generalised Scheme of Preferences (GSP) agreements signed by Sri Lanka with Japan, the US, Canada, the EU, Norway, Turkey and New Zealand, which in turn will increase the export sales of the raw materials of the Group in the coming years as the Group has production facilities in Sri Lanka; and (iv) the additional tariff concession gained by apparel sector under the GSP Plus policy, which in turn has increased the export sales of AH Group to the US and the EU since its relaunch in 2017 and will continue to benefit the AH Group in the coming years.

The historical transaction amount under the AH Sales Transactions for the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2018 are as follows:

	<b>Year ended 31 December</b>		<b>31 October</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical transaction amount under the 2018 AH Master Sales Agreement	(Audited) 160,263	(Audited) 145,641	(Unaudited) 89,555

As at the date of 31 December 2016, the transaction amount received by the Company under the 2018 AH Master Sales Agreement for the year ended 31 December 2016 was approximately HK\$160,260,000, which exceeded the annual cap for the year ended 31 December 2016 of HK\$150,000,000 by approximately HK\$10,260,000, or approximately 6.84% of the 2016 AH annual cap. The Shareholders at the material time approved the revised annual caps of HK\$300,000,000 for the year ended 31 December 2017 and HK\$350,000,000 for the year ended 31 December 2018 at the extraordinary general meeting of the Company held on 23 March 2017. For more details, please refer to the announcement of the Company dated 26 January 2017 and the circular of the Company dated 8 March 2017.

As at the date of this announcement, the revised annual caps under the 2018 AH Sales Agreement for the three years ended/ending 31 December 2018 have not been exceeded.

### **Reasons for and benefits of entering into the AH Sales Transactions**

The Group has been entering into the AH Sales Transactions with the AH Group for over 20 years and the sales to the AH Group has generated a stable source of revenue for the Group in the past years, which accounted for approximately 2.5%, 2.5% and 2.1% of the Group's total revenue for the three years ended 31 December 2017, respectively. Taking into consideration of the stable and well-established cooperation history and strategic business relationship between the Group and the AH Group, the Board considers that the 2021 AH Master Sales Agreement will facilitate the Group to maintain existing revenue stream and business which in turn will benefit the Group's revenue growth and future development.

Based on the above, the Directors are of the view that the AH Sales Transactions have been and will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of the 2021 AH Master Sales Agreement, including the proposed annual caps, were negotiated on an arm's length basis and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **(iii) 2021 FM MASTER SALES AGREEMENT**

#### **Date**

22 November 2018

#### **Parties**

- (i) the Company (as seller); and
- (ii) Mr. Omar (as purchaser)

## **Subject Matter**

Pursuant to the 2021 FM Master Sales Agreement, the Company agreed to, or procure members of the Group to, supply fabrics, yarns and similar items to the FM Group from time to time during the term of the 2021 FM Master Sales Agreement.

The Group and the FM Group will enter into individual sales contracts, sales agreements or purchase orders setting out specific terms of the FM Sales Transactions. The terms of the individual sales contracts, sales agreements or purchase orders will be consistent with the principles and the terms of the 2021 FM Master Sales Agreement. If there is any conflict between the terms of an individual sale contract, sale agreement or purchase order and the 2021 FM Master Sales Agreement, the latter shall prevail.

## **Condition Precedent**

The 2021 FM Master Sales Agreement is conditional upon the passing of an ordinary resolution at the general meeting by the Shareholders to approve the 2021 FM Master Sales Agreement and the transactions contemplated thereunder (if required). If such condition is not fulfilled by 31 December 2018 or such later date as may be agreed by the Company and Mr. Omar in writing, the 2021 FM Master Sales Agreement shall terminate with immediate effect and none of the parties thereto shall have any rights against the other party except in relation to any antecedent breach of the 2021 FM Master Sales Agreement.

## **Term**

Three years commencing from 1 January 2019 and expiring on 31 December 2021 (both days inclusive).

## **Pricing Policy**

As a general principle, the price and terms of the individual sales contracts, sales agreements or purchase orders in respect of the FM Sales Transactions will be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers.

The Group will evaluate and assess the scope of the relevant order and prepare a detailed cost calculation with reference to the cost of materials, products and labors, quotations of the Group provided to other independent third party customers to ensure that the prices of the products of the Group offered to the FM Group are competitive and comparable to those being offered to independent third party customers of the Group and no less favourable to the Group. The evaluation and assessment of orders received and the preparation of costs calculations are mainly prepared by the Group's sales department and subject to final approval by the head of the sales department. Additionally, the sales department will normally compare the Group's prices with the range of selling price of similar products charged by at least two competitors of the Group in the market on a case-by-case basis which depends on whether such competitors have updated their selling price quotations. Selling prices charged by competitors are widely available as there are many fabric suppliers in the market competing for attractive selling prices and the Group will select a few suppliers which are comparable to the Group in terms of size and product range as indicators given the wide range of fabric products provided and the large number of fabric suppliers in the market, and some of the Group's customers will also provide the Group with selling prices they obtained from other fabric suppliers when negotiating the selling price with the Group.

The 2021 FM Master Sales Agreement does not provide a predetermined profit margin for the products under the FM Sales Transactions as the profit margin depends on many circumstantial factors such as the then prevailing market price of the products and the cost of raw materials at the relevant time, both of which can fluctuate depending on the conditions of the market at the time. Additionally, the Group may accept orders with lower profit margins in certain circumstances, such as when production capacity is not fully utilised or if the customer is making bulk purchases. The above factors will be considered by the Group's sales department in determining the selling prices for all products under the FM Sales Transactions and will be subject to the final approval of the head of the sales department. The assistant general manager of the Group's internal audit department and the senior vice president of the Group will also supervise and monitor to ensure that all FM Sales Transactions are conducted in accordance with such pricing policy.

Further, the Group has a standard pricing policy for its sales which is applicable to all customers. In setting or revising the pricing for the products, market prices are obtained through, among other things, recent transactions of the Group, enquiry with other industry players and researches on industry websites. The prices for the products to be sold to the FM Group under the 2021 FM Master Sales Agreement will be governed by such pricing policy and will not be less than the price of similar products sold by the Group to independent customers.

## Annual Caps

The proposed annual caps for the transactions contemplated under the 2021 FM Master Sales Agreement for the three years ending 31 December 2021 are as follows:

	<b>For the year ended 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Annual Cap under the 2021 FM Master Sales Agreement	350,000	400,000	400,000

The proposed annual caps for the three years ending 31 December 2021 were determined with reference to (i) the underestimated historical transaction amounts under the FM Sales Transactions for the two years ended 31 December 2017 and the ten months ended 31 October 2018; (ii) a 5% increase in cotton consumption in the year 2017 and the increasing demand of cotton in the global market as reported by the United States Department of Agriculture, which in turn will increase the sales of the products of the FM Group; (iii) the tariff preferential policy under several Generalised Scheme of Preferences (GSP) agreements signed by Sri Lanka with Japan, the US, Canada, the EU, Norway, Turkey and New Zealand, which in turn will increase the export sales of the raw materials of the Group in the coming years as the Group has production facilities in Sri Lanka; and (iv) the additional tariff concession gained by apparel sector under the GSP Plus policy, which in turn has increased the export sales of FM Group to the US and the EU since its relaunch in 2017 and will continue to benefit the FM Group in the coming years.

The historical transaction amount under the FM Sales Transactions for the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2018 are as follows:

	<b>Year ended 31 December</b>		<b>31 October</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical transaction amount under the 2018 FM Master Sales Agreement	183,354	177,841	180,293

The Shareholders approved revised annual caps of HK\$300,000,000 for the year ended 31 December 2017 and HK\$350,000,000 for the year ended 31 December 2018 at the extraordinary general meeting of the Company held on 23 March 2017. For more details, please refer to the announcement of the Company dated 26 January 2017 and the circular of the Company dated 8 March 2017.

As at the date of this announcement, the revised annual caps under the 2018 FM Sales Agreement for the three years ended/ending 31 December 2018 have not been exceeded.

### **Reasons for and benefits of entering into the FM Sales Transactions**

The Group has been entering into the FM Sales Transactions with the FM Group for over 20 years and the sales to the FM Group has generated a stable source of revenue for the Group in the past years, which accounted for approximately 3.2%, 2.8% and 2.6% of the Group's total revenue for the three years ended 31 December 2017, respectively. Taking into consideration of the stable and well-established cooperation history and strategic business relationship between the Group and the FM Group, the Board considers that the 2021 FM Master Sales Agreement will facilitate the Group to maintain existing revenue stream and business which in turn will benefit the Group's revenue growth and future development.

Based on the above, the Directors are of the view that the FM Sales Transactions have been and will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of the 2021 FM Master Sales Agreement, including the proposed annual caps, were negotiated on an arm's length basis and are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

### **PAYMENT TERMS**

The purchase price, payment time and method, and other specific terms or conditions (if any) for the transactions contemplated under each of the 2021 CCT Agreements shall be fixed by relevant parties in the individual agreements, individual contracts or purchase orders on a case-by-case basis. Depending on the particular products to be purchased or supplied, the transactions contemplated under each of the 2021 CCT Agreements will normally be settled in the form of cash payment on a monthly, quarterly or agreed period basis and shall be consistent with the payment terms in the market.

Regarding the AH Sales Transactions and the FM Sales Transactions, the Group usually allows a credit period ranging from 30 days to 60 days to its customers. The payment terms offered under each of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement will be in line with the payment terms offered by the Group to its independent third party customers.

### **INTERNAL CONTROL MEASURES**

To ensure the purchase price and payment terms of relevant products offered by Chinatex, Mr. Hirdaramani and Mr. Omar under the 2021 CCT Agreements are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than available from the independent third parties, and the annual caps under the continuing connected transactions will not be exceeded, the Group has adopted and will continue to adopt the following internal control measures:



- (i) the pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the relevant personnel and management of the Group in charge to ensure all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policy of the Group and will not be prejudicial to the interests of the Company and its Shareholders as a whole;
- (ii) the relevant personnel and management of the Group will conduct regular checks to review and assess whether individual transactions contemplated under continuing connected transactions are conducted in accordance with the terms of its respective agreement and will also regularly review whether the price charged/paid for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy;
- (iii) the independent non-executive Directors will review the transactions contemplated under all continuing connected transactions of the Company and the auditors of the Group will also conduct an annual review on the pricing terms and annual caps thereof;
- (iv) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s); and
- (v) the Company will continue to engage the independent auditors to review the transactions under the 2021 CCT Agreements in compliance with the annual reporting and review requirements under the Listing Rules.

Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the transactions contemplated under all continuing connected transactions have been and will be conducted on normal commercial terms and in accordance with the pricing policy of the Group and not prejudicial to the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Chinatex is a controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules. Accordingly, members of the Chinatex Group are associates of Chinatex and hence connected persons of the Company under the Listing Rules. Accordingly, the entering into of the 2021 Material Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.



Mr. Hirdaramani is a director and substantial shareholder of a non-wholly owned subsidiary of the Company and hence a connected person of the Company under the Listing Rules. The AH Group comprises companies which Mr. Hirdaramani and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors. Accordingly, members of the AH Group are associates of Mr. Hirdaramani and hence connected persons of the Company at the subsidiary level. It follows that the entering into of the 2021 AH Master Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Mr. Omar is a director and substantial shareholder of a non-wholly owned subsidiary of the Company and hence a connected person of the Company under the Listing Rules. The FM Group comprises companies which Mr. Omar and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors. Accordingly, members of the FM Group are associates of Mr. Omar and hence connected persons of the Company at the subsidiary level. It follows that the entering into of the 2021 FM Master Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since none of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) (other than the profit ratio) for the transactions contemplated under the 2021 Material Purchase Framework Agreement for each of the three financial years ending 31 December 2021 will exceed 5% on an annual basis, according to Rule 14A.76 of the Listing Rules, the 2021 Master Purchase Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement, as (i) each of the AH Group and the FM Group is a connected person at the subsidiary level of the Company; (ii) the continuing connected transactions contemplated under each of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement are on normal commercial terms; and (iii) the Board (including all the independent non-executive Directors) has approved the continuing connected transactions and confirmed that the terms of the continuing connected transactions are fair and reasonable and that the continuing connected transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, according to Rule 14A.101 of the Listing Rules, the continuing connected transactions contemplated under each of the 2021 AH Master Sales Agreement and the 2021 FM Master Sales Agreement are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **INFORMATION ON THE GROUP AND THE CONNECTED PERSONS**

The Group is principally engaged in the production and sale of knitted fabrics, production and sale of garments and provision of knitting, dyeing, printing and finishing services. To the best knowledge of the Directors:

- (i) the Chinatex Group is principally engaged in the business of manufacturing and sale of yarns, cotton, garments and oil and foodstuff;
- (ii) the AH Group is principally engaged in the business of manufacturing and exporting of knit and woven apparel for men, women and children; and
- (iii) the FM Group is principally engaged in the business of manufacturing, exporting and distributing of apparel for men, women, and children.

## **GENERAL**

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under each of the 2021 CCT Agreements are in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of each of the 2021 CCT Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Director has any material interests in the transactions contemplated under the 2021 CCT Agreements and accordingly had not abstained from voting on the relevant resolutions proposed at the Board meeting approving the 2021 CCT Agreements and the transactions contemplated thereunder.

## **DEFINITIONS**

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

“2015 Announcement and Circular”	the announcement dated 18 November 2015 and the circular dated 11 December 2015 of the Company in relation to certain 2018 CCT Agreements
“2018 AH Master Sales Agreement”	the master sales agreement dated 18 November 2015 entered into between the Company and Mr. Hirdaramani in relation to the AH Sales Transactions

“2018 CCT Agreements”	the 2018 AH Master Sales Agreement, the 2018 FM Master Sales Agreement and the 2018 Material Purchase Framework Agreement
“2018 FM Master Sales Agreement”	the master sales agreement dated 18 November 2015 entered into between the Company and Mr. Omar in relation to the FM Sales Transactions
“2018 Material Purchase Framework Agreement”	the material purchase framework agreement dated 18 November 2015 entered into between the Company and Chinatex in relation to the Chinatex Purchase Transactions
“2021 AH Master Sales Agreement”	the master sales agreement dated 22 November 2018 entered into between the Company and Mr. Hirdaramani in relation to the AH Sales Transactions
“2021 CCT Agreements”	the 2021 AH Master Sales Agreement, the 2021 FM Master Sales Agreement and the 2021 Material Purchase Framework Agreement
“2021 FM Master Sales Agreement”	the master sales agreement dated 22 November 2018 entered into between the Company and Mr. Omar in relation to the FM Sales Transactions
“2021 Material Purchase Framework Agreement”	the material purchase framework agreement dated 22 November 2018 entered into between the Company and Chinatex in relation to the Chinatex Purchase Transactions
“AH Group”	companies which Mr. Hirdaramani and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors
“AH Sales Transactions”	the sale of fabrics, yarns and similar items by members of the Group to members of the AH Group from time to time
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors, and in this announcement, references to the “Board” shall mean the board of directors of the Company or a duly authorised committee thereof for the time being, including the independent non-executive directors of the Company

“Chinatex”	中國中紡集團有限公司 (Chinatex Corporation Limited), a state-owned enterprise established under the laws of the PRC, a controlling shareholder of the Company and is interested in approximately 36.16% of the Shares as at the date of this announcement
“Chinatex Group”	Chinatex and its subsidiaries from time to time
“Chinatex Purchase Transactions”	the purchase of yarns, cotton and other materials related to the production of fabrics, garments and oil and foodstuff by members of the Group from members of the Chinatex Group from time to time
“COFCO Corporation”	中糧集團有限公司 (COFCO Corporation), a state wholly-owned enterprise established in the PRC and a direct wholly-owned subsidiary of the SASAC
“Company”	Fountain Set (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 420)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EU”	the European Union
“FM Group”	companies which Mr. Omar and his associates and relatives individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors
“FM Sales Transactions”	the sale of fabrics, yarns and similar items by members of the Group to members of the FM Group from time to time
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rule Governing the Listing of Securities on the Stock Exchange
“Mr. Hirdaramani”	Mr. Anil Kumar Lalchand Hirdaramani, a director and substantial shareholder of a non-wholly owned subsidiary of the Company and accordingly a connected person of the Company under the Listing Rules
“Mr. Omar”	Mr. Feroz Omar, a director and substantial shareholder of a non-wholly owned subsidiary of the Company and accordingly a connected person of the Company under the Listing Rules
“PRC”	the People’s Republic of China
“relative(s)”	has the meaning ascribed to it in the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of the State Council of the PRC)
“Share(s)”	Share(s) of the Company
“Shareholders”	holder of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board

**Fountain Set (Holdings) Limited**

**ZHAO Yao**

*Chairman and Chief Executive Officer*

Hong Kong, 22 November 2018

*As at the date of this announcement, the Board comprises 4 executive Directors, namely Mr. ZHAO Yao (Chairman and Chief Executive Officer), Mr. LIU Xianfu, Mr. TAO Yongming and Mr. YAU Hang Tat Andrew; 2 non-executive Directors, namely Dr. YEN Gordon (Non-executive Vice Chairman) and Mr. SUN Fuji; and 3 independent non-executive Directors, namely Mr. NG Kwok Tung, Mr. YING Wei and Mr. William LAM.*