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HUNG FOOK TONG

HUNG FOOK TONG GROUP HOLDINGS LIMITED

鴻福堂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1446)

CONTINUING CONNECTED TRANSACTIONS

(1) EXCEEDING THE DE MINIMIS THRESHOLD;

AND

(2) ENTERING INTO THE 2021-2023 FRAMEWORK AGREEMENT

EXCEEDING THE DE MINIMIS THRESHOLD

Since June 2020, Taclon has from time to time engaged Concentric, being a connected person of the Company, as a supplier of certain OEM products including homemade rice, homemade dishes and homemade snack food to the Group. During the course of reviewing the historical transaction information of the Company, the Company noted that the aggregate amount of the Continuing Connected Transactions to the Group have reached approximately HK\$3.9 million and approximately HK\$5.7 million for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 respectively, which has each exceeded the de minimis threshold of HK\$3 million pursuant to Rule 14A.76 for fully exempt transaction.

ENTERING INTO THE 2021-2023 FRAMEWORK AGREEMENT

Given that the Company expects that the transaction amount of the Continuing Connected Transactions for each of the years ending 31 December 2021, 2022 and 2023 to be over the de minimis threshold of HK\$3 million for fully exempt transaction, on 9 June 2021, Taclon entered into the 2021-2023 Framework Agreement with Concentric, pursuant to which Taclon will, from time to time, appoint Concentric as a supplier of OEM products to the Group during the term from 9 June 2021 to 31 December 2023. The Company estimates that the Annual Caps for the Continuing Connected Transactions for the three years ending 31 December 2021, 2022 and 2023 will amount to approximately HK\$9,500,000, HK\$9,500,000 and HK\$9,500,000 respectively.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Concentric is wholly-owned by Mr. Chan Hiu Cheuk, being the son of Ms. Wong Pui Chu, an executive Director and a controlling shareholder of the Company. Accordingly, Concentric is a connected person of the Company and the Continuing Connected Transactions therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As each of the actual amounts of the Continuing Connected Transactions for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 was more than HK\$3 million but less than HK\$10 million, and each of the applicable percentage ratios under Rule 14.07 of the Listing Rules for each of the relevant periods was less than 25%, the Continuing Connected Transactions for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 were subject to the announcement, reporting and annual review requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of each of the Annual Caps are less than 25% and the annual consideration pursuant to the 2021-2023 Framework Agreement is more than HK\$3 million but less than HK\$10 million, the Continuing Connected Transactions contemplated under the 2021-2023 Framework Agreement and the Annual Caps are subject to the announcement, reporting and annual review requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

While the Company has conducted the Continuing Connected Transactions in its ordinary course of business, the Company did not fully comply with Chapter 14A to announce timely at the relevant time when the aggregate amount of the Continuing Connected Transactions exceeded HK\$3 million.

EXCEEDING THE DE MINIMIS THRESHOLD

Since June 2020, Taclon has from time to time engaged Concentric, being a connected person of the Company, as a supplier of certain OEM products including homemade rice, homemade dishes and homemade snack food to the Group. During the course of reviewing the historical transaction information of the Company, the Company noted that the aggregate amount of the Continuing Connected Transactions have reached approximately HK\$3.9 million and approximately HK\$5.7 million for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 respectively, which has each exceeded the de minimis threshold of HK\$3 million pursuant to Rule 14A.76 for fully exempt transaction but was each less than HK\$10 million and each of the applicable percentage ratios under Rule 14.07 of the Listing Rules was less than 25%. The Company should have complied with the announcement, reporting and annual review requirements set out in Chapter 14A the Listing Rules. However, due to inadvertent oversight, the Company regrets that these transactions were not announced timely at the relevant time when the aggregate amount of the Continuing Connected Transactions exceeded HK\$3 million.

ENTERING INTO THE 2021-2023 FRAMEWORK AGREEMENT

Given that the Company expects that the transaction amount of the Continuing Connected Transactions for each of the years ending 31 December 2021, 2022 and 2023 to be over the de minimis threshold of HK\$3 million for fully exempt transaction, on 9 June 2021, Taclon entered into the 2021-2023 Framework Agreement with Concentric, pursuant to which Taclon will, from time to time, engage Concentric as a supplier of OEM products to the Group during the term from 9 June 2021 to 31 December 2023.

2021-2023 Framework Agreement

(a) Principal terms

The principal terms of the 2021-2023 Framework Agreement are as follow:

Date: 9 June 2021

Parties: Taclon (as the purchaser) and Concentric (as the supplier)

Term: From 9 June 2021 to 31 December 2023

Subject matter: Taclon will, from time to time, engage Concentric as a supplier of OEM products to the Group

Pricing policy: The price of the provision of OEM products will be determined after arm's length negotiations, with reference to (i) the prevailing market price of similar OEM products, (ii) the specific requirements for each of the purchase order, and (iii) the terms offered by independent third parties to Taclon and/or terms offered by Concentric to independent third parties of similar OEM products.

Based on the principles under the 2021-2023 Framework Agreement, the relevant parties will enter into separate agreements which shall set out specific terms and conditions of each of the transactions. The Group will review the relevant transaction terms (including comparing with similar agreements entered into between the Group and independent third parties) to ensure that the terms provided by Concentric will not be less favourable to the Group than that offered by independent third parties.

(b) Historical transaction amounts

The historical transaction amounts of the Continuing Connected Transactions between the Group and Concentric for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 were approximately HK\$3.9 million and approximately HK\$5.7 million respectively.

(c) Annual Caps and basis of determination

For the years ending 31 December 2021, 2022 and 2023, the total transaction amount of the Continuing Connected Transactions shall not exceed the following caps:

	Annual Caps		
	For the year ending 31 December		
	2021	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total transaction amount	9,500 ^(Note)	9,500	9,500

Note: The Annual Cap for the year ending 31 December 2021 includes the total transaction amount of the Continuing Connected Transactions with Concentric for the period from 1 January 2021 to 8 June 2021 of approximately HK\$5.7 million.

The above Annual Caps were determined after consideration of:

- (i) historical transaction amount for the Continuing Connected Transactions for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021; and
- (ii) the Group's policy on mitigating the risk of reliance on a few suppliers for its OEM products.

REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION

As part of the business operation of the Group, the Group may from time to time purchase OEM products from outside suppliers when our management consider that it is more cost effective to purchase than manufacture the products by the Group itself. The OEM products will widen the spectrum of products available to customers at the Group's retail outlets and bring additional revenue to the Group.

ENHANCED INTERNAL CONTROL MEASURES

The Group currently has adopted the following internal control measures for connected transactions entered into between the Group and its connected persons:

- (i) the relevant personnel of the Group's business department will conduct regular investigations to review and assess whether the transactions contemplated under the relevant continuing connected transactions are conducted in accordance with the terms of their respective agreements;
- (ii) the procurement department of the Group will compare the price quotations from connected person to independent third parties. If in certain specific circumstances, there are less than two suitable independent third party suppliers for the OEM products, the Group will obtain one quotation from independent third party for comparison. The Group will not approve and accept the price quotation from connected person if the pricing terms offered by connected person is less favorable to the Group than those offered by independent supplier(s). The final acceptance of the price quotation provided by connected person shall be approved by designated member of senior management of the Group;

- (iii) the procurement department of the Group will monitor the aggregate amount of goods purchased from connected person on an ongoing basis to ensure that the annual caps or any de minimis thresholds are not exceeded;
- (iv) the independent non-executive Directors will review the implementation of the continuing connected transactions on an annual basis; and
- (v) the external auditor of the Company will conduct an annual review of the pricing and annual caps of the continuing connected transactions.

In addition to the internal control procedures already in place to ensure that the Continuing Connected Transactions will comply the Listing Rules, the Company has strengthened and will adopt the following enhanced internal control measures in relation to the Continuing Connected Transactions:

- (i) strengthen the reporting and monitoring procedures for the Annual Caps of the Continuing Connected Transactions and improve the process and frequency of data collection and cross checking to ensure the transaction amounts do not exceed the Annual Caps, including:
 - (a) requiring all departments to report all potential connected transactions, regardless of the amount involved, to the Group's company secretarial and compliance department which will assist in ensuring that all relevant requirements of the Listing Rules are complied with; and
 - (b) finance department of the Group will also assist in monitoring the aggregate amount of all continuing connected transactions on an ongoing basis to ensure that the relevant annual caps or any de minimis thresholds are not exceeded;
- (ii) arrange additional compliance training on connected transactions for Directors, senior management and the relevant personnel of the Company; and
- (iii) the Company's internal audit department will monitor the effectiveness and adequacy of the internal control measures, and will make recommendation and report to the audit committee of the Company on a regular basis.

INFORMATION ON THE PARTIES

Taclon

Taclon, an indirect wholly-owned subsidiary of the Company, is principally engaged in the manufacturing and wholesaling of herbal products as well as the holding of a lease of a production facility in the Tai Po Industrial Estate, Hong Kong. The Group is principally engaged in the production, retail, wholesale and distribution of Chinese herbal drinks and other drink products, Chinese-style soups, herbal tortoise plastron jelly and snacks under the Hung Fook Tong brand in Hong Kong, other areas in the People's Republic of China and overseas.

Concentric

Concentric is principally engaged in the manufacturing and wholesaling of food products.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Concentric is wholly-owned by Mr. Chan Hiu Cheuk, being the son of Ms. Wong Pui Chu, an executive Director and a controlling shareholder of the Company. Accordingly, Concentric is a connected person of the Company and the Continuing Connected Transactions therefore constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As each of the actual amounts of the Continuing Connected Transactions for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 was more than HK\$3 million but less than HK\$10 million, and each of the applicable percentage ratios for each of the relevant periods under Rule 14.07 of the Listing Rules was less than 25%, the Continuing Connected Transactions for the year ended 31 December 2020 and for the period from 1 January 2021 to 8 June 2021 were subject to the announcement, reporting and annual review requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of each of the Annual Caps are less than 25% and the annual consideration pursuant to the 2021-2023 Framework Agreement is more than HK\$3 million but less than HK\$10 million, the Continuing Connected Transactions contemplated under the 2021-2023 Framework Agreement and the Annual Caps are subject to the announcement, reporting and annual review requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

While the Company has conducted the Continuing Connected Transactions in its ordinary course of business, the Company did not fully comply with Chapter 14A to announce timely at the relevant time when the aggregate amount of the Continuing Connected Transactions exceeded HK\$3 million.

DEFINITIONS

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

“2021-2023 Framework Agreement”	the framework agreement dated 9 June 2021 entered into between Taclon and Concentric
“Annual Caps”	the maximum aggregate annual transaction amounts in respect of the Continuing Connected Transactions for the three years ending 31 December 2021, 2022 and 2023
“Board”	the board of Directors
“Company”	Hung Fook Tong Group Holdings Limited 鴻福堂集團控股有限公司, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1446)

“Concentric”	Concentric (HK) Food Limited 同心(香港)食品有限公司, a company incorporated in Hong Kong wholly-owned by Mr. Chan Hiu Cheuk, being the son of Ms. Wong Pui Chu, an executive Director and a controlling shareholder of the Company
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transaction(s)”	the supply of certain OEM products by Concentric including homemade rice, homemade dishes and homemade snack food to the Group
“Directors”	director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“OEM”	original equipment manufacturer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taclon”	Taclon Industries Limited 德隆工業有限公司, an indirect wholly-owned subsidiary of the Company
“%”	per cent

For and on behalf of
Hung Fook Tong Group Holdings Limited
Tse Po Tat
Chairman and Executive Director

Hong Kong, 9 June 2021

As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Dr. Szeto Wing Fu and Ms. Wong Pui Chu as executive Directors, and Mr. Kiu Wai Ming, Prof. Sin Yat Ming and Mr. Andrew Look as independent non-executive Directors.