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

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

## CONTINUING CONNECTED TRANSACTIONS FINANCIAL SERVICES AGREEMENT

The Board is pleased to announce that on 14 July 2022, the Company entered into the Financial Services Agreement with COFCO Finance, pursuant to which COFCO Finance will provide the Deposit Services, the Loan Services and the Other Financial Services to the Group for a term of three years.

### LISTING RULES IMPLICATIONS

COFCO is a controlling Shareholder interested in 465,262,000 Shares, representing approximately 37.98% of the number of issued Shares as at the date hereof. COFCO Finance is an indirect wholly-owned subsidiary of COFCO and is therefore an associate of COFCO and a connected person of the Company under the Listing Rules. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Deposit Services are conducted on normal commercial terms or better terms and the applicable percentage ratios (other than the profits ratio) in respect of the Deposit Services are more than 0.1% but less than 5%, the Deposit Services are subject to the reporting, announcement and annual review requirements and are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

Since the Loan Services are conducted on normal commercial terms or better terms to the Group where no security over the assets of the Group will be granted in respect of the financial assistance given by COFCO Finance the Loan Services are fully exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Listing Rules and the relevant disclosures are included herein to keep the Shareholders apprised.

As the Other Financial Services are conducted on normal commercial terms or better terms to the Group and the applicable percentage ratios (other than the profits ratio) in respect of the Other Financial Services are less than 0.1%, the Other Financial Services are de minimis transactions and fully exempt from the

reporting, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

The Board is pleased to announce that on 14 July 2022, the Company entered into the Financial Services Agreement with COFCO Finance, pursuant to which COFCO Finance will provide the Deposit Services, the Loan Services and the Other Financial Services to the Group for a term of three years.

The Group will utilise the services of COFCO Finance on a voluntary and non-exclusive basis and is not obliged to engage COFCO Finance for any particular services, or at all under the Financial Services Agreement.

## **THE FINANCIAL SERVICES AGREEMENT**

The principal terms of the Financial Services Agreements are set out as follows:

### **Date**

14 July 2022

### **Parties**

- (a) the Company; and
- (b) COFCO Finance

### **Term**

The Financial Services Agreement will be valid for a term of three (3) years, from 14 July 2022 to 13 July 2025.

### **Major terms**

#### *(a) Deposit Services*

COFCO Finance will provide the Deposit Services to the Group pursuant to the Financial Services Agreement. The Group will open and maintain deposit accounts with COFCO Finance.

The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard deposit rates promulgated by the PBC from time to time. The interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the standard deposit rates promulgated by the PBC for the same type of deposits for the same period and will not be lower than the interest rates offered by the major PRC commercial banks for the same type of deposits for the same period.

For funds deposited by the Group with COFCO Finance, COFCO Finance shall deposit all such funds into commercial banks officially approved by the State, including China Construction Bank, Bank of China and Bank of Communications, etc.

In the event that the Group suffers any financial loss by reason of the default of

COFCO Finance, COFCO Finance shall compensate the Group for such loss suffered by the Group.

*(b) Loan Services*

COFCO Finance will provide comprehensive Loan Services to the Group pursuant to the Financial Services Agreement such as loans, discounted bills services, etc.

The interest rates to be charged by COFCO Finance for the provision of the Loan Services to the Group will be determined by the parties to the Financial Services Agreement in accordance with the interest rates promulgated by the PBC from time to time. The interest rates on the Loan Services to be offered by COFCO Finance to the Group will not be higher than the interest rates offered by the major financial institutions in the PRC (including but not limited to PRC commercial banks and PBC) for the same type of loans for the same period.

In the event that COFCO Finance proposes to provide the Group with loan secured by assets of the Group, the Company shall ensure that it has fully complied with all requirements under the Listing Rules prior to obtaining such loan.

*(c) Other Financial Services*

COFCO Finance will provide the Other Financial Services to the Group in accordance with the scope of services of COFCO Finance which include a wide range of services covered in COFCO Finance's business scope other than the Deposit Services and the Loan Services, for example, financial and financing consultation services, credit appraisal and related consulting services, and settlement services.

The service fees to be charged by COFCO Finance in connection with the Other Financial Services will not be higher than the fees charged by the major financial institutions in the PRC for the same types of services provided to the Group. The Board estimates that the maximum amount of the fees to be charged by COFCO Finance for the Other Financial Services shall not exceed the equivalent of HK\$500,000 (equivalent to approximately RMB400,000) on an annual basis.

**Undertakings of COFCO Finance**

Under any of the following circumstances, COFCO Finance will notify the Group in writing within ten working days and will take measures to avoid further losses:

- (1) if COFCO Finance suffers from a bank run of its deposits, or if it fails to pay large amount of debts when they are due, large amount of loans or large amount guaranteed advances are overdue, major failure of computer systems, substantial assets have been robbed or defrauded or the directors or senior managers of COFCO Finance are involved in material breaches of relevant rules and regulations or are involved in criminal proceedings or other material adverse events have occurred;
- (2) material organizational changes or material business risks have occurred that

affect or may affect the normal operations of COFCO Finance;

- (3) the shareholder loans owed by the shareholders of COFCO Finance have been overdue for more than 6 months;
- (4) major events such as when COFCO Finance is subject to administrative penalties or orders issued by CBIRC or other regulatory authorities; and
- (5) other major events which may bring significant security risks to the Group's deposit.

### **Measures of determining the pricing terms**

To ensure that the pricing terms of individual transactions under the Deposit Services, the Loan Services and the Other Financial Services will be made in accordance with the pricing principles as stated above, the Group and COFCO Finance shall carry out the measures below:

With respect to the Group, an internal assessment mechanism on checking and comparing the deposit and lending rates, handling and other service fees offered by COFCO Finance versus the ones offered by the PBC, major PRC commercial banks and/or other financial institutions will be established.

For example, an analysis and assessment will be conducted between (1) the deposit and lending rates offered by COFCO Finance; and (2) the prevailing interest rates offered by at least three major PRC commercial banks, the PBC and/or other financial institutions to the Group before the Group deposits with or obtains loans from COFCO Finance. Such interest rates will be checked again every fortnight and/or regularly while the Group places deposits with COFCO Finance.

In the event that any of the relevant interest rates or handling or service fees quoted from the major PRC commercial banks, the PBC and/or other financial institutions on similar type of services is better than those offered by COFCO Finance, the Group will inform COFCO Finance to adjust the interest rates or the handling or service fees to ensure the interest rates or handling or service fees of COFCO Finance is on normal commercial terms or better terms to the Group.

### **Termination**

The Financial Services Agreement may be terminated by mutual agreement between the parties or by any one party with 30 days' prior notice in writing to the other party.

### **Annual caps**

In respect of the Deposit Services, the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the Financial Services Agreement shall not exceed RMB55 million or its equivalent on

any day throughout the term of the Financial Services Agreement (the “**Deposit Annual Caps**”).

In respect of the Other Financial Services, the maximum fees payable by the Group for the Other Financial Services to be provided by COFCO Finance pursuant to the Financial Services Agreement shall not exceed HK\$500,000 or its equivalent (the “**Other Financial Services Annual Caps**”, together with the Deposit Annual Caps, the “**Annual Caps**”) on an annual basis.

The Annual Caps were determined with reference to the following:

- (i) the Board has considered the Deposit Annual Caps in the amount of RMB55 million on a daily basis after considering the expected amounts of cash available for deposit from 2022 to 2025, the anticipated cash flow demand based on the current scale and operation of the business of the Group and the business plans of the Group for the next three years;
- (ii) the need to maintain necessary capital expenditures in order to meet the Group’s needs arising from the expected year on year expansion of the scale and development of the businesses of the Group, which is anticipated to lead to a corresponding increase in demand for deposit services;
- (iii) the expected increase in interest income generated from the Group’s deposit balances with COFCO Finance in the next three years;
- (iv) the Board considered the handling fees and/or service fees charged by major PRC commercial banks and/or other financial institutions to the Group for similar types of services in relation to the Other Financial Services was approximately HK\$350,000, HK\$250,000 and HK\$420,000 in the three years ended 31 December 2021; and
- (v) for the Other Financial Services, the Board considered the estimated service fees for similar services provided by major PRC commercial banks and/or other financial institutions of approximately HK\$500,000 per annum which is the Other Financial Services Annual Caps.

As such, the Board is of the view that the Deposit Annual Caps and the Other Financial Services Annual Caps shall be the amounts indicated above.

## **INFORMATION OF THE GROUP**

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.

## **INFORMATION OF COFCO FINANCE**

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBC. It is

subject to the supervision of CBIRC. COFCO Finance is authorized to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provision of loans and financing leases.

## **REASONS FOR AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT**

COFCO Finance is a non-banking financial institution approved and regulated by PBC and CBIRC, and is authorized to provide various kinds of financial services to COFCO and its member companies in the PRC, including deposit-taking and loan services. The main reasons for the Group to enter into the Financial Services Agreement with COFCO Finance are as follows:

- (a) the use of COFCO Finance as a vehicle to manage the funds of the Group would allow more sources for financing and improve the efficiency of the use of the Group's funds;
- (b) the Financial Services Agreement will not preclude the Group from using the financial services offered by other financial institutions which the Group has discretion in choosing as it thinks fit and appropriate in the interests of the Company and its Shareholders as a whole. When required, the Group will solicit for quotations from major commercial banks and/or other financial institutions in respect of similar transactions for comparison and consideration;
- (c) the interest rates of the Deposit Services and the Loan Services offered, and the handling fees and other service fees in connection with the Other Financial Services charged, by COFCO Finance to the Group will be equal to or more favourable, on a case by case basis, than those offered to the Group by any third party;
- (d) COFCO Finance is regulated by PBC and CBIRC, and it provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risk can be prevented through the implementation of the risk control measures as stipulated in the Financial Services Agreement;
- (e) the arrangements under the Financial Services Agreement would help reduce finance costs, accelerate the turnover of capital and reduce trading costs and expenses, thus enhancing the profitability of the Group; and
- (f) the arrangements under the Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group, thus enhancing the capital management and control of the Group.

The Directors (including the independent non-executive Directors) consider that the

terms of the Financial Services Agreement are fair and reasonable, the transactions contemplated under the Financial Services Agreement are on normal commercial terms or better terms to the Group and in the ordinary and usual course of the Group and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

No Director has any material interests in the transactions contemplated under the Financial Services Agreement and accordingly had not abstained from voting on the relevant resolutions of the Board approving the Financial Services Agreement and the transactions contemplated thereunder.

## **INTERNAL CONTROL PROCEDURES**

In addition to the annual review by the auditors and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, as part of the Group's internal control systems to ensure that the transactions between the Group and its connected persons are conducted in accordance with the terms of the Financial Services Agreement, the Company will implement the following internal control arrangements:

- (a) The finance department of the Company will periodically monitor the market interest rates with independent third parties in respect of comparable types of financial services.
- (b) The finance department of the Company and each member of the Group has a designated person to record the entering into of continuing connected transactions.
- (c) The finance department of the Company will prepare a "Summary of Continuing Connected Transactions" each quarter and organize meetings regularly to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of their respective continuing connected transaction master agreements. After the "Summary of Continuing Connected Transactions" has been reviewed by the relevant departments of the Company and the management, it will be submitted to the Audit Committee of the Company and the Board for further review.
- (d) The audit department will check the accounting records and supporting documents from time to time to ensure the prices are in compliance with the pricing principle under the Financial Services Agreement.
- (e) Each relevant member of the Group shall monitor its own utilisation of the portion of the annual transaction cap amount allocated to it by the Company (the "**Designated Amount**"). If the annual transaction amount of a relevant member of the Group reaches 80% of its Designated Amount, or is expected to exceed its Designated Amount within three months, such member shall inform the relevant personnel in the finance department and legal department of the Company immediately and the Company shall determine the appropriate actions to be taken, such as (a) require such member not to

enter any further transactions which would cause the Designated Amount to be exceeded; (b) increase the Designated Amount allocated to such member by reducing the Designated Amount(s) allocated to other member(s); or (c) if the accumulative annual transaction amount of the Group will exceed the relevant annual caps, the relevant member(s) of the Group shall provide sufficient reasons and cooperate with the Company to revise the relevant annual caps and comply with the relevant requirements of the Listing Rules.

The Board is of the view that the Group has implemented effective internal control procedures as set out above to ensure that the pricing and other contract terms of the transactions under the Financial Services Agreement will be conducted on normal commercial terms and no less favourable to the Group than the terms available from independent third parties in accordance with the Financial Services Agreement.

### **LISTING RULES IMPLICATIONS**

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As the Deposit Services are conducted on normal commercial terms or better terms and the applicable percentage ratios (other than the profits ratio) in respect of the Deposit Services are more than 0.1% but less than 5%, the Deposit Services are subject to the reporting, announcement and annual review requirements and are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

Since the Loan Services are conducted on normal commercial terms or better terms to the Group where no security over the assets of the Group will be granted in respect of the financial assistance given by COFCO Finance, the Loan Services are fully exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Listing Rules and the relevant disclosures are included herein to keep the Shareholders apprised.

As the Other Financial Services are conducted on normal commercial terms or better terms to the Group and the applicable percentage ratios (other than the profits ratio) in respect of the Other Financial Services are less than 0.1%, the Other Financial Services are de minimis transactions and fully exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.



## DEFINITIONS

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

“associate(s)”	has the same meaning as ascribed thereto under the Listing Rules
“Board”	the board of Directors of the company
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“COFCO”	COFCO Corporation (中糧集團有限公司), a state-owned company established in the PRC which is currently under the purview of State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會), and a controlling shareholder of the company
“COFCO Finance”	COFCO Finance Company Limited (中糧財務有限責任公司), a company established in the PRC on 24 September 2002 with limited liability and an indirect wholly-owned subsidiary of COFCO
“Company”	Fountain Set (Holdings) Limited (福田實業(集團)有限公司), a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 420)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Deposit Services”	the deposit and related services to be provided by COFCO Finance to the Group under the Financial Services Agreement
“Director(s)”	the director(s) of the Company
“Financial Services Agreement”	the financial services agreement dated 14 July 2022 between the Company and COFCO Finance in relation

	to the Deposit Services, the Loan Services and the Other Financial Services for a term of three years
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.
“Loan Services”	the comprehensive loan and related services to be provided by COFCO Finance to the Group under the Financial Services Agreement
“Other Financial Services”	apart from the Deposit Services and the Loan Services, other financial services as detailed in this announcement to be provided by COFCO Finance to the Group under the Financial Services Agreement
“PBC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares in the share capital of the Company
“Shareholders”	registered holder(s) of fully-paid share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board  
**Fountain Set (Holdings) Limited**  
**LIU Xianfu**  
Chairman

Hong Kong, 14 July 2022

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Kwai Chung  
New Territories  
Hong Kong

*As at the date of this announcement, the Board comprises 5 executive Directors, namely Mr. LIU Xianfu (Chairman), Mr. SUN Fuji (Chief Executive Officer), Mr. ZHAO Yao, Mr. YAU Hang Tat Andrew and Mr. ZHANG Zheng; 2 non-executive Directors, namely Dr. YEN Gordon (Non-executive Vice Chairman) and Mr. TAO Yongming; and 4 independent non-executive Directors, namely Mr. NG Kwok Tung, Mr. YING Wei, Mr. William LAM and Mr. WONG Kwong Chi.*