



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 2019 Announcement in relation to the continuing connected transactions under the 2022 Purchase Framework Agreement entered into between the Company (for itself and other members of the Group) and Huaifu Holding (for itself and other members of the Huaifu Group).

RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

As the 2022 Purchase Framework Agreement will expire on 31 December 2022 and the Group intends to continue carrying out the Existing Purchase Transactions under the 2022 Purchase Framework Agreement in the ordinary and usual course of business of the Group, the Company (for itself and other members of the Group) and Huaifu Holding (for itself and other members of the Huaifu Group) entered into the 2025 Purchase Framework Agreement on 13 December 2022, for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

LISTING RULES IMPLICATIONS

As Huaifu Holding's wholly-owned subsidiary, Tin Shing, holds 211,966,000 Shares, representing 17.30% of the total number of issued Shares, Huaifu Holding is an associate of Tin Shing and a connected person of the Company. Thus, the 2025 Purchase Framework Agreement and the Purchase Transactions contemplated thereunder constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) (other than the profit ratio) for the Purchase Transactions contemplated under the 2025 Purchase Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are more than 0.1% but less than 5%, the 2025 Purchase Framework Agreement and the Purchase Transactions contemplated thereunder are subject to the reporting, announcement 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.

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RENEWAL OF THE EXISTING CONTINUING CONNECTED TRANSACTIONS

2025 Purchase Framework Agreement

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Date

13 December 2022

Parties

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

Subject Matter

Pursuant to the 2025 Purchase Framework Agreement, Huafu Holding agreed to, or procure its subsidiaries to, supply cotton yarn, cotton blended yarn, top dyed melange yarn and other products that maybe needed by the Group. The cotton yarn, cotton blended yarn, top dyed melange yarn and other products that maybe needed to be purchased by the Group will be used for the manufacture of textile products of the Group.

The Group and the Huafu Group will enter into individual orders or purchase agreements setting out specific terms of the Purchase Transactions. The terms of the individual orders or purchase agreements will be consistent with the principles and the terms of the 2025 Purchase Framework Agreement. If there is any conflict between the terms of an individual order or purchase agreement and the 2025 Purchase Framework Agreement, the latter shall prevail.

Condition Precedent

The 2025 Purchase Framework Agreement is conditional upon the publication of this announcement by the Company.

Term

The term of the 2025 Purchase Framework Agreement is three years, commencing from 1 January 2023 and expiring on 31 December 2025 (both days inclusive).

Pricing Policy

As a general principle, the price and terms of the individual order in respect of the 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 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 Huafu Group in providing such products.

Given that none of the products under the 2025 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 personnel of procurement department of the Group and compared against the quotation from the Huafu Group to ensure that the prices for the products to be procured from the Huafu Group are comparable to the prices for such products being offered by independent third parties. Upon receipt of the initial quotations from the Huafu 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 personnel of procurement department of the Group and compared with the offer of the Huafu Group and purchases will only be made from the Huafu Group if the price and terms offered are more competitive 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.

Annual Caps

The proposed Annual Caps for the Purchase Transactions contemplated under the 2025 Purchase Framework Agreement for each of the three years ending 31 December 2025 are as follows:

	For the year ended 31 December		
	2023	2024	2025
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Annual Caps	40,000	40,000	40,000

In arriving at the proposed Annual Caps, the Company has made reference to (i) the historical purchase amounts with the Huafu Group under the Existing Purchase Transactions for the three years ended 31 December 2019, 2020 and 2021 and the ten months ended 31 October 2022 of approximately HK\$31.2 million, HK\$88.9 million, HK\$35.7 million and nil respectively; (ii) the boycotting of cotton produced in Xinjiang by customers in different countries since early 2020, certain laws passed in the United States in relation to restricting the import of cotton from Xinjiang in July 2020 and the subsequent banning of import of cotton produced in Xinjiang in January 2021 in the United States led to a lower level of demand for the Group's cotton; and (iii) the difficulty in predicting the fluctuation in cotton price and the future trend of the fashion market.

The historical transaction amounts under the Existing Purchase Transactions for the three years ended 31 December 2021 and the ten months ended 31 October 2022 are as follows:

	For the year ended 31 December			For the 10 months ended 31 October
	2019	2020	2021	2022
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Unaudited)
Historical transaction amounts under the 2022 Purchase Framework Agreement	31,209	88,861	35,697	0

As at the date of this announcement, the annual caps under the 2022 Purchase Framework Agreement for the two years ended 31 December 2021 and the year ending 31 December 2022 have not been exceeded.

Payment Terms

The purchase price, payment time and method, and other specific terms or conditions (if any) for the Purchase Transactions contemplated under the 2025 Purchase Framework Agreement 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, the Purchase Transactions contemplated under each of the 2025 Purchase Framework Agreement 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.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PURCHASE TRANSACTIONS

The entering into of the 2025 Purchase Framework Agreement will enable the Group to continue to secure a long-term stable supply of such products and the Group has established an excellent cooperation relationship with the Huafu Group from the previous transactions since 1995.

The Huafu Group is principally engaged in the business of manufacture and sales of high-grade new-type yarns, with the capability of providing cotton cultivation, processing and sales, technical research on fiber and yarn spinning; and colour design services, Huafu Fashion Co., Ltd.* (華孚時尚股份有限公司) is a listed company on the Shenzhen Stock Exchange (stock code: 002042.SZ). It is also one of the leading brands in the textile dyeing industry and prior to the boycotting of cotton produced in Xinjiang, it was one of the largest new-type yarn suppliers and manufacturers in the world.

The dope-dyed yarn under the brand of “Huafu (華孚)” has become an international brand in the textile dyeing industry. Its top products are exported to dozens of countries and/or regions. Taking into consideration of the quality and the pricing of the products offered by the Huafu Group, the Board is of the view that the Huafu Group has competitive strengths over other independent suppliers of similar products in the PRC and considers that the 2025 Purchase Framework Agreement will enable the Group to obtain stable supply of cotton yarn, cotton blended yarn and top dyed melange yarn related to the production of fabrics and enhance its position as one of the leading fabric suppliers to fabrics manufacturers.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Purchase Transactions will continue to be entered into in the ordinary and usual course of business of the Group and on normal commercial terms; and that the terms of the 2025 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.

INTERNAL CONTROL MEASURES

To ensure the purchase price and payment terms of relevant products offered by the Huafu Group under the 2025 Purchase Framework Agreement 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 will not be exceeded, the Group will adopt the following internal control measures:

- (i) the pricing policy for 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 Purchase Transactions contemplated under the 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 Purchase Transactions under the 2025 Purchase Framework Agreement 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 Purchase Transactions contemplated under the 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.

INFORMATION ON THE PARTIES

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.

The Huafu Group

The Huafu Group is principally engaged in the business of manufacture and sales of high-grade new-type yarns. Huafu Holding is held as to 50% by Ms. Chen Lingfen and 50% by Mr. Sun Weiting respectively, both are PRC entrepreneurs.

LISTING RULES IMPLICATIONS

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GENERAL

No Director has any material interests in the Purchase Transactions contemplated under the 2025 Purchase Framework Agreement, and accordingly had not abstained from voting on the relevant resolutions of the Board approving the 2025 Purchase Framework Agreement and the Purchase Transactions contemplated thereunder.

DEFINITIONS

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

“2019 Announcement”	the announcement dated 29 November 2019 of the Company in relation to the 2022 Purchase Framework Agreement
“2022 Purchase Framework Agreement”	the purchase framework agreement dated 29 November 2019 entered into between the Company and Huafu Holding in relation to the Existing Purchase Transactions
“2025 Purchase Framework Agreement”	the purchase framework agreement dated 13 December 2022 entered into between the Company and Huafu Holding in relation to the Purchase Transactions
“Annual Caps”	the annual caps for the Purchase Transactions under the 2025 Purchase Framework Agreement for each of the three years ending 31 December 2025
“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
“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
“Director(s)”	the director(s) of the Company
“Existing Purchase Transactions”	the existing purchase of cotton yarn, cotton blended yarn and top dyed melange yarn, by members of the Group from members of the Huafu Group from time to time under the 2022 Purchase Framework Agreement
“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

“Huafu Holding”	Huafu Holding Co., Ltd. (華孚控股有限公司), a company established under the laws of the PRC
“Huafu Group”	Huafu Holding and its subsidiaries from time to time
“Listing Rules”	the Rule Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macao Special Administrative Region of the PRC
“PRC”	the People’s Republic of China
“Purchase Transactions”	the purchase of cotton yarn, cotton blended yarn, top dyed melange yarn and other products that maybe needed, by members of the Group from members of the Huafu Group from time to time under the 2025 Purchase Framework Agreement for three years ending 31 December 2025
“Share(s)”	Share(s) of the Company
“Shareholders”	holder of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Tin Shing”	Hong Kong Tin Shing Trading Limited (香港天成貿易有限公司), a company incorporated in Hong Kong with limited liability and a substantial Shareholder
“United States”	United States of America
“Xinjiang”	Xinjiang Uyghur Autonomous Region, the PRC
“%”	per cent

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

Hong Kong, 13 December 2022

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.