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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

ANNOUNCEMENT RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

As the Group intends to continue carrying out the transactions under the Master Services Agreement in the ordinary and usual course of business of the Group after expiration of the 2022 Renewal Agreement, i.e. 31 December 2022, on 31 March 2023, the Company (for itself and on behalf of its subsidiaries) entered into the 2023 Renewal Agreement with Primetime (for itself and on behalf of its subsidiaries) for a further term of one year commenced on 1 January 2023 on substantially the same term as the Master Services Agreement.

The Annual Cap for the transactions contemplated under the 2023 Renewal Agreement for the year ending 31 December 2023 is RMB20.0 million.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Primetime was an indirectly and non-wholly owned company of Mr. Zhang Yuping, our executive Director and the chairman of the board, and thus a connected person of the Company. Accordingly, the transactions between the Group and Primetime Group in relation to the provision of the Services contemplated under the 2023 Renewal Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Annual Cap is more than 0.1% but less than 5%, the transactions contemplated under the 2023 Renewal Agreement are only subject to reporting, annual review and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

Reference is made to the announcements of Hengdeli Holdings Limited (the “**Company**”) dated 16 October 2017, 5 March 2018, 29 March 2019, 24 April 2020, 4 June 2021 and 29 April 2022 (the “**Announcements**”) in relation to the Master Services Agreement, Renewal Agreement, 2019 Renewal Agreement, 2020 Renewal Agreement, 2021 Renewal Agreement and 2022 Renewal Agreement for the provision of the Services. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Announcements.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

As the Group intends to continue carrying out the transactions under the Master Services Agreement in the ordinary and usual course of business of the Group after expiration of the 2022 Renewal Agreement, i.e. 31 December 2022, on 31 March 2023, the Company (for itself and on behalf of its subsidiaries) entered into a renewal agreement (the “**2023 Renewal Agreement**”) with Primetime Group Co., Ltd* (盛時鐘錶集團股份有限公司) (“**Primetime**”, and together with its subsidiaries, “**Primetime Group**”) (for itself and on behalf of its subsidiaries) for a further term of one year commenced on 1 January 2023 on substantially the same term as the Master Services Agreement.

The 2023 Renewal Agreement is a framework agreement. Specific terms of each transaction under the 2023 Renewal Agreement are to be determined by on a case-by-case basis and a separate agreement is to be entered into by the Group and Primetime Group.

Annual Cap

The Annual Cap is set as RMB20.0 million, which is determined by the Directors with reference to, among other things:

- (a) the historical transaction amounts between the Group and Primetime Group in relation to the provision of the Services;
- (b) the expected demand for the Services by Primetime Group; and
- (c) the prevailing general business environment in the PRC, which is in the progress of recovery from the COVID-19 pandemic.

Shareholders and potential investors should note that the Annual Cap should not be construed as an assurance or forecast by the Company of the Group’s revenue, profitability or business prospects.

From 1 January 2023 to the date of this announcement, the aggregate transaction amount between the Group and Primetime Group in relation to the provision of the Services is approximately RMB2 million.

2023 Renewal Agreement

Pursuant to the 2023 Renewal Agreement, the Group agreed to provide the Services to Primetime Group and Primetime Group agreed to purchase the Services from the Group. The term of the 2023 Renewal Agreement is one year, which was commenced on 1 January 2023 and will expire on 31 December 2023. The service fees charged to Primetime Group shall be no less favourable to the Group than those offered to independent third parties.

Pricing Policies

Each individual shop's design, decoration, style and position vary from each other and the service fee for each transaction is determined by the Group and Primetime Group on a case-by-case basis through arm's length negotiations adopting the same pricing policies as applicable to independent third parties for the Services and the service fee is determined based on the estimated cost plus a reasonable profit margin of not less than 10%.

The major cost components for the Services are (a) costs of decoration materials; and (b) labour costs. When sourcing decoration materials, the Group obtains certain quotations from independent suppliers and selects the supplier who is able to provide the decoration materials in a timely manner with a reasonable price. Labour is arranged through the Group's internal project manager, who is responsible for overseeing and coordinating the workers. Based on the details such as quantity and skills of workers required, types and expected duration of works, the Group's project manager will recruit the suitable numbers and quality of workers in the market. The workers are generally paid by daily rate. When negotiating the wages of workers, the Group will take into account information of the average daily wages of workers providing similar Services published by the local governmental authority.

Other factors which might affect the costs will be taken into account. Such factors include:

- (a) *specifications, particulars and complexity of the Services* – these will directly affect the types and quality of the decoration materials to be used, and the quantity and skills of the workers required, all these in turn will have a direct impact on the cost components;
- (b) *estimated duration and delivery schedule of the Services* – if a project is required to be delivered within a short and tight schedule, the labour costs are expected to be higher as there will be over-time charges and more workers have to be employed than that for similar Services with normal delivery schedule; and
- (c) *location and positioning of the shop* – a shop locates and positions itself as a high-end one would look for decoration materials with better quality. In addition, more skilful workers are to be employed. The overall costs for such Services are expected to be higher.

Internal Control

In order to ensure that (i) the terms of the 2023 Renewal Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable to the Company and its shareholders taken as a whole; and (ii) the service fees charged to Primetime Group are no less favourable to the Group than those offered to independent third parties, the Group has adopted the following measures:

- (a) the quotation department of the relevant Group company shall review all the fee quotations in relation to the provision of the Services (to both the Primetime Group and independent third parties) and ensure that each fee quotation is determined in accordance with the aforesaid pricing policies;

- (b) before the relevant Group company entering into the individual agreement in relation to a transaction under the 2023 Renewal Agreement, the operation department of the relevant Group company shall cross-check and ensure that each fee quotation is fair and reasonable, and the service fees offered to Primetime Group are no less favourable to the Group than those offered to independent third parties;
- (c) the general manager of the relevant Group company has been designated to conduct final review on and approve the fee quotations; and
- (d) the Company's external auditor and the audit committee of the Company shall conduct review on the pricing and the Annual Cap of the continuing connected transactions under the 2023 Renewal Agreement.

REASONS FOR AND BENEFITS OF THE 2023 RENEWAL AGREEMENT

In consistent with the Group's past business and operation of providing the Services, the Company (for itself and on behalf its subsidiaries) entered into the 2023 Renewal Agreement, which is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors but excluding Mr. Zhang Yuping, who are interested in Primetime and abstained from voting on the relevant board resolutions for approving the 2023 Renewal Agreement and the transactions contemplated thereunder) are of the view that (i) the renewal of the Master Services Agreement and the entry into the 2023 Renewal Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms; (ii) the terms of the 2023 Renewal Agreement are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (iii) the basis of determining the Annual Cap is fair and reasonable.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Primetime was an indirectly and non-wholly owned company of Mr. Zhang Yuping, our executive Director and the chairman of the board, and thus a connected person of the Company. Accordingly, the transactions between the Group and Primetime Group in relation to the provision of the Services contemplated under the 2023 Renewal Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Annual Cap is more than 0.1% but less than 5%, the transactions contemplated under the 2023 Renewal Agreement are only subject to reporting, annual review and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

GENERAL

The Company is an investment holding company and its subsidiaries are the retailers of internationally renowned watch brands and manufacturers of watch accessories.

Primetime Group Co., Ltd* (盛時鐘錶集團股份有限公司) is a private company established in the PRC and is being held as to 35.00% by Best Corporate Limited, which in turn is indirectly and wholly-owned by Mr. Zhang Yuping, our executive Director and the chairman of the board. To the best knowledge of the Directors having made reasonable enquiry, as at the date of this announcement, the remaining 65.00% interest in Primetime is being held by a total of 39 shareholders with each of them holding no more than 5.00% of interest in it. Primetime Group is principally engaged in (i) the retail sale of mid to high-end internationally renowned watch brands in the PRC; (ii) the wholesale of mid-end internationally renowned watch brands in the PRC; and (iii) the provision of after-sale service.

By Order of the Board
Hengdeli Holdings Limited
Lee Shu Chung, Stan
Executive Director

Hong Kong, 31 March 2023

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive Director is Mr. Shi Zhongyang; and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William, Mr. Liu Xueling and Ms. Qian Weiqing.

* For identification purpose only