



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

EXISTING PURCHASE TRANSACTIONS

The Group, as purchaser, has entered into the Existing Purchase Transactions with the Huaifu Group, as seller, in respect of purchase of cotton yarn, cotton blended yarn and top dyed melange yarn in the ordinary and usual course of business of the Group. The Board announces that the purchase of cotton yarn, cotton blended yarn and top dyed melange yarn under the Existing Purchase Transactions has become a continuing connected transaction of the Company as Tin Shing became the substantial Shareholder on 1 November 2019.

CONTINUING CONNECTED TRANSACTIONS

As the Group intends to continue carrying out the transactions under the Existing Purchase Transactions 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 2022 Purchase Framework Agreement on 29 November 2019, for a term of three years commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

LISTING RULES IMPLICATIONS

Before 1 November 2019, Huaifu Holding was not a connected person of the Company, and the Existing Purchase Transactions did not constitute continuing connected transactions of the Company. On 1 November 2019, Tin Shing completed the acquisition of 16.36% of the total number of issued Shares of the Company, therefore has become a substantial Shareholder and a connected person of the Company under the Listing Rules. Huaifu Holding, as holding company of Tin Shing, is an associate of Tin Shing and has become a connected person of the Company under the Listing Rules. Therefore the purchase of cotton yarn, cotton blended yarn and top dyed melange yarn under the Existing Purchase Transactions has become a continuing connected transaction of the Company and is subject to the reporting, announcement and annual review requirements under Rule 14A.60 of the Listing Rules.

The entering into of the 2022 Purchase Framework 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 under the Existing Purchase Transactions for the two months of November and December 2019 (upon Tin Shing has become the substantial Shareholder) will exceed 5%, according to Rule 14A.76(2) of the Listing Rules, the transactions under the Existing Purchase Transactions 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.

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 transactions contemplated under the 2022 Purchase Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 will exceed 5% on an annual basis and the annual consideration is more than HK\$10 million, the 2022 Purchase Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The EGM will be convened to consider and, if thought fit, approve the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps). To the best of the Directors' knowledge, information and belief, as at the date of this announcement, save for Tin Shing and its associates, no Shareholder is required to abstain from voting on the relevant resolutions to approve the Purchase Transactions and the Purchase Annual Caps at the EGM, pursuant to Rule 14A.36 of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps). The Company has appointed Donvex Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps).

A circular containing, among other things, (i) details of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps); (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be dispatched to the Shareholders on or before 31 January 2020.

No Director has any material interests in the transactions contemplated under the 2022 Purchase Framework Agreement, and accordingly had not abstained from voting on the relevant resolutions of the Board approving the 2022 Purchase Framework Agreement and the transactions contemplated thereunder.

EXISTING PURCHASE TRANSACTIONS

The Group, as purchaser, has entered into the Existing Purchase Transactions with the Huafu Group, as seller, in respect of purchase of cotton yarn, cotton blended yarn and top dyed melange yarn in the ordinary and usual course of business of the Group. The Board announces that the purchase of cotton yarn, cotton blended yarn and top dyed melange yarn under the Existing Purchase Transactions has become a continuing connected transaction of the Company as Tin Shing became the substantial Shareholder on 1 November 2019.

There is no framework agreement entered into by the Group and Huafu Group for the Existing Purchase Transactions. The Group and the Huafu Group enter into individual order or purchase agreement for each transaction under the Existing Purchase Transactions.

Historical Figures

The historical purchase amounts incurred by the Group from the Huafu Group for each of the four years ended 31 December 2015, 2016, 2017 and 2018 and the ten months ended 31 October 2019 are set out below:

Historical Amounts

	Year ended 31 December				Ten months ended
	2015	2016	2017	2018	31 October
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2019
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Purchase amounts under the Existing Purchase Transactions	410,776	336,621	354,553	363,042	170,818

The estimated annual purchase amount by the Group from the Huafu Group for the year ending 31 December 2019 is HK\$205 million.

Listing Rules Implications

Before 1 November 2019, Huafu Holding was not a connected person of the Company, and the Existing Purchase Transactions did not constitute continuing connected transactions of the Company. On 1 November 2019, Tin Shing completed the acquisition of 16.36% of the total number of issued Shares of the Company, therefore has become a substantial Shareholder and a connected person of the Company under the Listing Rules. Huafu Holding, as holding company of Tin Shing, is an associate of Tin Shing and has become a connected person of the Company under the Listing Rules. Therefore the purchase of cotton yarn, cotton blended yarn and top dyed melange yarn under the Existing Purchase Transactions has become a continuing connected transaction of the Company and is subject to the reporting, announcement and annual review requirements under Rule 14A.60 of the Listing Rules.

The Board estimates that the purchase amount for the two months of November and December 2019 (upon Tin Shing has become the substantial Shareholder) is approximately HK\$34.2 million, calculated based on the pro rata of two months against the estimated annual purchase amount of HK\$205 million for the year of 2019. 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 under the Existing Purchase Transactions for the two months of November and December 2019 (upon Tin Shing has become the substantial Shareholder) will exceed 5%, according to Rule 14A.76(2) of the Listing Rules, the transactions under the Existing Purchase Transactions 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.

CONTINUING CONNECTED TRANSACTIONS

2022 PURCHASE FRAMEWORK AGREEMENT

As the Group intends to continue carrying out the transactions under the Existing Purchase Transactions in the ordinary and usual course of business of the Group, the Company (for itself and other members of the Group) and Huafu Holding (for itself and other members of the Huafu Group) entered into the 2022 Purchase Framework Agreement on 29 November 2019, for a term of three years commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

Date

29 November 2019

Parties

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

Subject Matter

Pursuant to the 2022 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 to 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 2022 Purchase Framework Agreement. If there is any conflict between the terms of an individual order or purchase agreement and the 2022 Purchase Framework Agreement, the latter shall prevail.

Condition Precedent

The 2022 Purchase Framework Agreement is conditional upon the passing of an ordinary resolution at the EGM by the Independent Shareholders to approve the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps). If such condition is not fulfilled by 21 February 2020 or such later date as may be agreed by the Company and Huafu Holding in writing, the 2022 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 2022 Purchase Framework Agreement.

Term

The term of the 2022 Purchase Framework Agreement is three years, commencing from 1 January 2020 and expiring on 31 December 2022 (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 2022 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 Purchase Annual Caps for the transactions contemplated under the 2022 Purchase Framework Agreement for each of the three years ending 31 December 2022 are as follows:

	For the year ending 31 December		
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Purchase Annual Cap	600,000	600,000	600,000

In arriving at the proposed Purchase Annual Caps, the Company has made reference to the historical purchase amounts with the Huafu Group under the Existing Purchase Transactions for the four years ended 31 December 2015, 2016, 2017 and 2018 of approximately HK\$410.8 million, HK\$336.6 million, HK\$354.6 million and HK\$363.0 million respectively, and the ten months ended 31 October 2019 of approximately HK\$170.8 million. The Company has also considered the cotton price fluctuation and the fashion trend of the market, which is relatively difficult to predict.

Payment Terms

The purchase price, payment time and method, and other specific terms or conditions (if any) for the transactions contemplated under the 2022 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 transactions contemplated under each of the 2022 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 2022 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 the first A-share listed company in the textile dyeing industry in China. It is also a leading brand in the textile dyeing industry and 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 with a dominant market share in the world. Its top products are exported to dozens of countries and regions, such as Europe, the United States, Japan, Korea, Hong Kong, Macau and Southeast Asia. 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 2022 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 in the global market.

Based on the above, the Directors (excluding independent non-executive Directors whose views will be given after taking into account the advice of the Independent Financial Adviser) 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. The terms of the 2022 Purchase Framework Agreement, including the proposed Purchase 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 2022 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 Purchase 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 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 transactions under the 2022 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 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

As at the date of this announcement, Tin Shing held 16.36% of total number of issued Shares of the Company, therefore a substantial Shareholder and a connected person of the Company under the Listing Rules. Huafu Holding, as holding company of Tin Shing, is an associate of Tin Shing and a connected person of the Company under 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 transactions contemplated under the 2022 Purchase Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 will exceed 5% on an annual basis and the annual consideration is more than HK\$10 million, the 2022 Purchase Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The EGM will be convened to consider and, if thought fit, approve the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps). To the best of the Directors' knowledge, information and belief, as at the date of this announcement, save for Tin Shing and its associates, no Shareholder is required to abstain from voting on the relevant resolutions to approve the Purchase Transactions and the Purchase Annual Caps at the EGM, pursuant to Rule 14A.36 of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps). The Company has appointed Donvex Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps).

A circular containing, among other things, (i) details of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps); (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be dispatched to the Shareholders on or before 31 January 2020.

No Director has any material interests in the transactions contemplated under the 2022 Purchase Framework Agreement, and accordingly had not abstained from voting on the relevant resolutions of the Board approving the 2022 Purchase Framework Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“2022 Purchase Framework Agreement”	the purchase framework agreement dated 29 November 2019 entered into between the Company and Huafu Holding in relation to the Purchase Transactions
“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
“EGM”	an extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider, if thought fit, and approve by poll, amongst other things, the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps)
“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
“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, a company established under the laws of the PRC
“Huafu Group”	Huafu Holding and its subsidiaries from time to time
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. NG Kwok Tung, Mr. YING Wei and Mr. William LAM, formed to advise the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps)
“Independent Financial Adviser”	Donvex Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), is the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps)
“Independent Shareholders”	Shareholders who are not prohibited from voting at the EGM in respect with the 2022 Purchase Framework Agreement and the transactions contemplated thereunder (including the Purchase Annual Caps)
“Listing Rules”	the Rule Governing the Listing of Securities on the Stock Exchange
“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 for the three years ending 31 December 2022
“Purchase Annual Caps”	the annual caps for the Purchase Transactions under the 2022 Purchase Framework Agreement for each of the three years ending 31 December 2022
“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
“%”	per cent

By Order of the Board

Fountain Set (Holdings) Limited

ZHAO Yao

Chairman and Chief Executive Officer

Hong Kong, 29 November 2019

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.