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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

Reference is made to the announcements of Hengdeli Holdings Limited (the “**Company**”) dated 16 October 2017, 5 March 2018 and 29 March 2019 (the “**Announcements**”) in relation to the Master Services Agreement, Renewal Agreement and 2019 Renewal Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and Xinyu (for itself and on behalf of its subsidiaries) 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 2019 Renewal Agreement, i.e. 31 December 2019, the Company (for itself and on behalf of its subsidiaries) entered into a renewal agreement (the “**2020 Renewal Agreement**”) on 24 April 2020 with Xinyu (for itself and on behalf of its subsidiaries) for a further term of one year commenced on 1 January 2020 on substantially the same term as the Master Services Agreement.

The proposed annual cap (the “**Annual Cap**”) for the transactions contemplated under the 2020 Renewal Agreement for the year ending 31 December 2020 is approximately RMB38.0 million.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinyu 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 Xinyu Group in relation to the provision of the Services contemplated under the 2020 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 (other than the profits ratio) 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 2020 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.

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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 Renewal Agreement, i.e. 31 December 2019, the Company (for itself and on behalf of its subsidiaries) entered into a renewal agreement on 24 April 2020 with Xinyu (for itself and on behalf of its subsidiaries) for a further term of one year commenced on 1 January 2020 on substantially the same term as the Master Services Agreement.

The 2020 Renewal Agreement is a framework agreement. Specific terms of each transaction under the 2020 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 Xinyu Group.

Annual Cap

The Annual Cap is set as approximately RMB38.0 million, which is determined by the historical transaction amounts and the expected increasing demand for the Services by Xinyu Group.

It is expected that certain international brands working with Xinyu Group, which are not currently using the Group's Services, may consider using the Group's Services to design and decorate their brand counters in the retail shops of Xinyu Group during the year ending 31 December 2020. Therefore, the demand for the Services by Xinyu Group for the year ending 31 December 2020 is expected to increase compared to that for the year ended 31 December 2019.

Furthermore, there were delay in completion of certain decoration works carried out in 2019. Such delayed decoration works are expected to be completed in 2020, and after completion of work, the relevant invoices for the outstanding balance in relation to the delayed decoration works will be issued in 2020. As a result, such additional revenue in relation to the delayed decoration works is expected to be recognised during the year ending 31 December 2020.

Having considered, among others, all the factors stated above, our Directors decided to raise the Annual Cap to approximately RMB38.0 million.

2020 Renewal Agreement

Pursuant to the 2020 Renewal Agreement, the Group agreed to provide the Services to Xinyu Group and Xinyu Group agreed to purchase the Services from the Group. The term of the 2020 Renewal Agreement is one year, which was commenced on 1 January 2020 and will expire on 31 December 2020. The service fees charged to Xinyu 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 Xinyu 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 2020 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 Xinyu 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 Xinyu 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 2020 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 Xinyu 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 2020 Renewal Agreement.

REASONS FOR AND BENEFITS OF THE 2020 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 2020 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 Xinyu and abstained from voting on the relevant board resolutions for approving the 2020 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 2020 Renewal Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms; (ii) the terms of the 2020 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, Xinyu 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 Xinyu Group in relation to the provision of the Services contemplated under the 2020 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 (other than the profits ratio) 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 2020 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.

Xinyu is a private company established in the PRC indirectly and non-wholly owned by Mr. Zhang Yuping, our executive Director and the chairman of the board, and Xinyu 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, 24 April 2020

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 and Mr. Liu Xueling.