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BONNY INTERNATIONAL HOLDING LIMITED

博尼国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1906)

EXCEEDING OF 2019 AND 2020 ANNUAL CAPS

During the preparation of the Group's annual report for the year ended 31 December 2019, it came to the attention of the Board that there was an inadvertent technical breach of Rule 14A.54 of the Listing Rules for failing to re-comply with the announcement and shareholders' approval requirements before certain Procurement Agreements were entered into which could have resulted in the exceeding of the Annual Caps. The relevant Procurement Agreements were subsequently cancelled.

BACKGROUND

Reference is made to the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transaction" in the prospectus of Bonny International Holding Limited (the "**Company**") dated 12 April 2019 (the "**Prospectus**"), containing details regarding the continuing connected transactions between Zhejiang Bonny Fashion Holding Group Co., Ltd.* (浙江博尼时尚控股集團有限公司) ("**Zhejiang Bonny**"), a wholly owned subsidiary of the Company, and Zhejiang Deshipu New Materials Technology Co., Ltd.* (浙江德施普新材料科技有限公司) ("**Deshipu**"). As set out in the Prospectus, Zhejiang Bonny had entered into a framework purchasing agreement (the "**Framework Purchasing Agreement**") with Deshipu. Subject to the Framework Purchasing Agreement, Zhejiang Bonny would enter into specific agreements ("**Procurement Agreements**") or place purchase orders with Deshipu for the procurement of polyamide. The maximum aggregate annual amount in respect of the procurement of polyamide from Deshipu for the years ended/ending 31 December 2019, 2020 and 2021 shall not exceed RMB30.0 million, RMB30.0 million and RMB30.0 million respectively (the "**2019 Annual Cap**", "**2020 Annual Cap**" and "**2021 Annual Cap**" respectively and each an "**Annual Cap**").

TRANSACTIONS UNDER THE FRAMEWORK PURCHASING AGREEMENT IN 2019 AND 2020

During the year ended 31 December 2019, Zhejiang Bonny entered into 32 Procurement Agreements with Deshipu, with an aggregate purchase amount of approximately RMB177.6 million. Pursuant to the terms and conditions of the Procurement Agreements, and in line with common industry practice, Zhejiang Bonny prepaid approximately RMB169.9 million upon the signing of the Procurement Agreements. 25 Procurement Agreements with an aggregate amount of approximately RMB174.5 million, including the one with a purchase price of RMB40.0 million, were subsequently cancelled and approximately RMB164.6 million prepaid under the cancelled Procurement Agreements were refunded by Deshipu to Zhejiang Bonny during the year ended 31 December 2019, whereas the remaining amount of approximately RMB5.3 million was used to offset payment for purchase of polyamide from Deshipu. The total purchase of polyamide from Deshipu was approximately RMB7.3 million (including VAT) for the year ended 31 December 2019.

During the first four months ended 30 April 2020, 19 Procurements Agreements were entered with an aggregate purchase price of approximately RMB81.0 million, and Zhejiang Bonny prepaid approximately RMB80.9 million upon the signing of the Procurement Agreements. 10 of these Procurement Agreements with an aggregate amount of approximately RMB60.1 million were subsequently cancelled and approximately RMB56.0 million were refunded, whereas the remaining amount of approximately RMB4.0 million will be used to offset payment for purchase of polyamide from Deshipu. The total purchase of polyamide from Deshipu was approximately RMB17.4 million (including VAT) for the four months ended 30 April 2020 and up to the date of this announcement and the Group plans to purchase the remaining amount of approximately RMB7.5 million (being the sum of the abovementioned non-refunded amount of approximately RMB4.0 million and the unutilized prepayment of approximately RMB3.5 million) of polyamide in May 2020.

During the year ended 31 December 2019 and the four months ended 30 April 2020, there were Procurement Agreements which has a purchase price exceeding the Annual Cap of RMB30.0 million. The purchase price of each of these Procurement Agreements is less than RMB15.1 million, save for two Procurement Agreements signed in April 2019 with a purchase price of approximately RMB40.0 million and in January 2020 with a purchase price of approximately RMB30.0 million, respectively. These agreements were subsequently cancelled and the prepaid purchase prices were fully refunded to the Group by batches. At various points of time, there were also overlapping of Procurement Agreements that were subsequently cancelled, where the purchase amount in aggregate also exceeded RMB30.0 million. The following table sets forth the maximum amount of aggregate purchase price

under Procurement Agreements which is not cancelled at the relevant time (the “**Maximum Aggregate Purchase Price**”) for the year ended 31 December 2019 and the four months ended 30 April 2020:

	Year ended 31 December 2019	Four months ended 30 April 2020
Maximum amount of aggregate purchase price under Procurement Agreements which is not cancelled at the relevant time	RMB58.2 million	RMB38.0 million

As a reference, the following table sets forth the maximum balance of prepayment by Zhejiang Bonny to Deshipu during the year ended 31 December 2019 and the four months ended 30 April 2020:

	Year ended 31 December 2019	Four months ended 30 April 2020
Maximum balance of prepayment to Deshipu	RMB72.9 million	RMB54.4 million

REASONS FOR EXCEEDING THE 2019 AND 2020 ANNUAL CAPS

In calculating the aggregate amount in respect of the Company’s procurement of polyamide from Deshipu (the “**Deshipu Procurements**”), under the mistaken belief of the management that only completed purchases shall be counted, the Company initially only took into consideration the completed purchases by the Group from Deshipu, which amounted to approximately RMB7.3 million (including VAT) for the year ended 31 December 2019, and RMB17.4 million (including VAT) for the four months ended 30 April 2020, respectively, and did not include any purchase price prepaid to Deshipu which were subsequently refunded under those cancelled Procurement Agreements. While the Procurement Agreements and the Deshipu Procurements were entered into under the framework of the Framework Purchasing Agreement, they had not been not separately approved by the board (“**Board**”) of directors (“**Directors**”) of the Company. However, after consulting with the Company’s compliance adviser and legal advisers subsequent to the financial year ended 31 December 2019, the Company understands that Rule 14A.54 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) shall be triggered when a Procurement Agreement was entered into and before the relevant Annual Cap was exceeded, irrespective of its subsequent cancellation. Therefore there was an inadvertent technical breach of Rule 14A.54 of the Listing Rules for failing to re-comply with the announcement and shareholders’ approval requirements before certain Procurement

Agreements were entered into which could have resulted in the exceeding of the Annual Caps, although such Procurement Agreements were subsequently cancelled. Since the total amount of purchase price paid by Zhejiang Bonny to Deshipu for completed transactions was well below the relevant Annual Cap throughout the year ended 31 December 2019 and the four months ended 30 April 2020, under the mistaken belief that only completed purchases shall be counted, the Company failed to detect the inadvertent breach until the consultation with the Company's compliance adviser and legal adviser subsequent to the financial year ended 31 December 2019 during the preparation of the Group's annual report for the year ended 31 December 2019.

The commercial rationale behind the entering into and subsequent cancellation of the Procurement Agreements was mainly to procure polyamide, which is the main raw material of the Company's seamless products, at the lowest price. During the year ended 31 December 2019 and the three months ended 31 March 2020, the market price of polyamide showed a consistent downward trend and hit recent lows. Therefore, it is believed that it would be in the interests of the Group to lock the purchase price of polyamide at such lower market price by entering into the Procurement Agreements and prepaying the purchase prices thereunder. The Group can store any unused polyamide as polyamide does not have an expiry date. At the same time, the Group enjoyed the flexibility of cancelling the orders before delivery if the prevailing market price of polyamide further decreased after the orders were placed. Such mechanism provide flexibility to Zhejiang Bonny in (i) maintaining and maximizing the profitability of existing sales orders and intended purchases from customers; and (ii) increasing competitiveness and maintaining stability of the Group's quotations with existing and potential customers for existing and future business needs.

The 2019 Annual Cap and the 2020 Annual Cap were exceeded mainly due to (i) the dropping market prices of polyamide during the year ended 31 December 2019 and up to April 2020; (ii) the overall negative market sentiment; and (iii) the less than expected sales orders received during the year ended 31 December 2019. As set out in the internal control measures for all continuing connected transactions of the Group including the transactions contemplated under the Framework Purchasing Agreement, each consideration for the Procurement Agreement shall be calculated and monitored by the procurement department before sending to the finance department for payment and the internal audit department will conduct compliance audit on procurement business process. As there were lots of Procurement Agreements throughout the year ended 31 December 2019 and the four months ended 30 April 2020, the Procurement Agreements were not timely reported to the internal audit department and the internal audit department mistakenly assumed that all cancelled Procurement Agreements would not be included in the total annual purchase amount and therefore did not report to the Board. The Group failed to realise the large amount of prepayment made to Deshipu may exceed the relevant Annual Caps during the year ended 31 December 2019 and the four months ended 30 April 2020 until this was identified when the Group's auditors were finalising the Group's annual results for the year ended 31 December 2019, which itself was delayed and impeded due to the outbreak of COVID-19,

and carrying out the annual review of its continuing connected transactions for such period. Due to the uncertainties of whether the cancelled Procurement Agreements shall be counted towards the Annual Cap, such issues were also raised and discussed in the Board meeting.

REMEDIAL ACTIONS

The Board, having been fully informed of the facts of the Deshipu Procurements and the Procurement Agreements, considers that the failure to comply with Listing Rules was inadvertent and can be avoided going forward. The Company takes the incident very seriously and has taken the following actions to prevent similar events from re-occurring and to ensure the applicable Listing Rules requirements will be complied with going forward.

- (a) the Company will arrange for regular trainings for its employees, including the business operation, finance, securities affairs and internal audit departments, to strengthen their familiarity of the Listing Rules and enhance their awareness of the compliance with the relevant internal control procedures relating to the Group's continuing connected transactions;
- (b) the Group will endeavor to recruit one suitable and experienced personnel as the financial controller, who will lead the Company's internal audit department and external internal audit consultant to monitor the effectiveness and adequacy of the internal control measures (in particular, the transactions with connected parties), and will make recommendation and report to the audit committee of the Company on a monthly basis;
- (c) all future Procurement Agreements with Deshipu for the procurement of polyamide, as well as any new form of business with any connected person, shall be subject to the prior approval of both the audit committee and the Board, which will be jointly responsible with various internal departments of the Company (including the business operation, finance, securities affairs and internal audit departments) for the compliance of the terms under the relevant agreements, in particular, the effect on the aggregate annual amount of each transaction. Starting from 1 May 2020, the Company will not make any prepayment to Deshipu without the prior approval of the audit committee and the Board. If the actual transaction amount reaches 75% of the annual cap at any time, the matter shall promptly be escalated to the chief financial officer, who will seek advice from the audit committee of the Company and the Board for appropriate measures, including but not limited to revising the annual cap in accordance with the requirements of the Listing Rules, if necessary;

- (d) the Company will seek advices of external professional advisers, including but not limited to the compliance advisor, from time to time with respect to the continual compliance with the Listing Rules prior to entering into any connected transactions and notifiable transactions; and
- (e) the audit committee of the Company will appoint a professional firm for one year to conduct a regular review on all the transactions with each connected party, including but not limited to Deshipu, and report the result and findings, if any, to the audit committee on a monthly basis. The Company also agree such appointment of a professional firm and will make recommendation, if necessary. Upon the end of the term of engagement, the audit committee will consider if it is necessary to continue engaging the professional firm.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14A.54 of the Listing Rules, before an annual cap for the continuing connected transactions is exceeded, the Company is required to re-comply with the requirements under Chapter 14A of the Listing Rules.

As the Maximum Aggregate Purchase Price for each the year ended 31 December 2019 and the four months ended 30 April 2020 exceeded their respective Annual Cap, the highest applicable percentage ratio in respect of the Maximum Aggregate Purchase Price for each the year ended 31 December 2019 and the four months ended 30 April 2020 exceeded 5% and the respective Maximum Aggregate Purchase Price exceeded HK\$10,000,000, accordingly the transactions were subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. However, since the relevant Procurement Agreements have already been cancelled and aggregated purchased amount of polyamide from Deshipu in each of 2019 and 2020 were still within the respective Annual Cap, the Company will not seek the ratification of the relevant Procurement Agreements from independent shareholders.

GENERAL

Information about the Company and the Group

The Company is an investment holding company.

The Group is primarily engaged in the manufacturing and sales of brassieres, functional sportswear, panties and thermal underwear. The Group operates two segments through its subsidiaries. Original design manufacturer (ODM) sales segment is engaged in the provision of one-stop in-house intimate wear manufacturing solutions to ODM customers. Branded sales segment is engaged in the sales of branded intimate wears mainly under Bonny and U+Bonny brands through self-operated retail outlets as well as franchised retail outlets. The Group distributes its products within domestic market and overseas markets.

Information about Deshipu

Deshipu is a limited liability company established in the People's Republic of China (the "PRC") on 16 December 2010. It is engaged in the research and development, production and sales of polyamide. Deshipu is wholly owned by Bode Holding Co. Ltd., a company established in the PRC with its entire equity interest being held by Mr. Jin Guojun ("Mr. Jin") during the year ended 31 December 2019 until such equity interest was transferred by Mr. Jin to his sister and a PRC Company owned by his sister and her husband in December 2019. Therefore, Deshipu is an associate of Mr. Jin and hence a connected person of the Company. As such, Mr. Jin has a material interest in the transactions contemplated under the Framework Purchasing Agreement.

By order of the Board
Bonny International Holding Limited
Jin Guojun
Chairman

Hong Kong, 11 May 2020

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Jin Guojun and Mr. Zhao Hui, two non-executive Directors, namely, Ms. Gong Lijin and Mr. Luo Weixing, and three independent non-executive Directors, namely, Mr. Li Youxing, Mr. Wang Jian and Mr. Zhang Senquan.

* For identification purpose only