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福田實業(集團)有限公司

Fountain Set (Holdings) Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 420)

**DISCLOSEABLE TRANSACTION - DISPOSAL OF A SUBSIDIARY
AND
PROFIT WARNING**

DISCLOSEABLE TRANSACTION – DISPOSAL OF A SUBSIDIARY

On 29 February 2012, the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Company entered into the Agreement pursuant to which the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Sale Share and the Sale Loan, at the aggregate consideration of RMB90,000,000 and the Company has agreed to guarantee the due performance by the Vendor of its obligations and responsibilities under the Agreement.

As one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

PROFIT WARNING

The Board also advises the shareholders and investors of the Company that based on its unaudited management accounts for the four months ended 31 December 2011 and the trading performance of the Group from 1 January 2012, it is expected that the Group's results for the six months ended 29 February 2012 may record a loss, as compared with a profit for the corresponding period in 2011. The Board estimates that the unaudited consolidated loss for the six months ended 29 February 2012 would be around an approximate range from HK\$150,000,000 to HK\$160,000,000.

Shareholders of the Company and investors are advised to exercise caution when dealing in the shares of the Company.

DISCLOSEABLE TRANSACTION – DISPOSAL OF A SUBSIDIARY

THE AGREEMENT

On 29 February 2012, the Vendor, a wholly-owned subsidiary of the Company, the Purchaser and the Company entered into the Agreement pursuant to which the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Sale Share and the Sale Loan, and the Company has agreed to guarantee the due performance by the Vendor of its obligations and responsibilities under the Agreement.

Date

29 February 2012

Parties

- (a) Ocean Yarn Dyeing Factory Limited, a wholly-owned subsidiary of the Company, as vendor;
- (b) Maxy Rich Investments Limited, as purchaser; and
- (c) the Company, as guarantor of the Vendor.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons as defined under the Listing Rules.

Interests to be disposed of

Pursuant to the Agreement, the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Sale Share, representing the entire issued share capital of New Achieve, and the Sale Loan, representing the entire amount of shareholder's loan owing by New Achieve to the Vendor.

New Achieve is a company incorporated in the British Virgin Islands with limited liability. The principal activity of New Achieve is the holding of the entire issued share capital of Able Jubilee.

Able Jubilee is a company incorporated in Hong Kong with limited liability. The principal activity of Able Jubilee is the holding of the entire issued share capital of Jintian Machinery.

Jintian Machinery is a limited liability company established in the PRC. Jintian Machinery is principally engaged in the manufacturing of textile machineries at the industrial sites located at the Economic Development Area of the city of Jiangyin, the PRC with a total site area of approximately 69,000 square metres.

The unaudited consolidated net assets value of New Achieve as at 28 February 2012 was HK\$66,611,000. The unaudited consolidated net losses before and after tax of New Achieve for the year ended 31 August 2011 were HK\$11,775,000 and HK\$11,469,000 respectively. The unaudited consolidated net profits before and after tax of New Achieve for the year ended 31 August 2010 were HK\$26,453,000 and HK\$26,147,000 respectively.

Consideration

The aggregate consideration for the Sale Share and the Sale Loan is RMB90,000,000, out of which:

- (i) RMB75,600,000 is the consideration for the Sale Loan; and
- (ii) RMB14,400,000 is the consideration for the Sale Share.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser with reference to the market value of the assets owned and liabilities incurred by Jintian Machinery.

The Consideration is payable by the Purchaser by installments in the following manner:

- (1) 80% of the Consideration, being RMB72,000,000 (the “**First Installment**”), is payable by the Purchaser on the Completion Date; and
- (2) 20% of the Consideration, being RMB18,000,000 (the “**Second Installment**”), is payable by the Purchaser within the later of the following periods:
 - (a) within 10 Business Days after a payment settlement report has been issued by the relevant taxation authorities of the City of Jiangyin setting out the tax payment matters in respect of Jintian Machinery for year 2011; or
 - (b) within 90 days after the Completion Date.

The First Installment and the Second Installment shall be payable by the Purchaser to the Vendor by paying the HK\$ Equivalent of the relevant amounts into the bank account as stipulated by the Vendor in the Agreement. The First Installment and the Second Installment may be settled in its US\$ Equivalent upon agreement between the Vendor and the Purchaser.

Pursuant to the Agreement, if the payment settlement report issued by the relevant taxation authorities of the City of Jiangyin in respect of the tax payment matters of Jintian Machinery for year 2011 shows that there are unpaid tax liabilities, a corresponding amount shall be deducted from the Second Installment.

Further, if the Vendor or the Company has breached any of the Vendor’s warranties or their other undertakings under the Agreement, or New Achieve, Able Jubilee or Jintian Machinery has without obtaining the Purchaser’s written consent carried out the restricted activities specified in the Agreement prior to Completion, then:

- (i) if the Purchaser discovers such breach prior to the payment of the Consideration but decides to proceed to Completion, the Purchaser is entitled to deduct an amount equal to the loss (excluding any loss of profit) incurred by the Purchaser, New Achieve, Able Jubilee or Jintian Machinery from the Consideration after providing written evidence and issuing a demand letter in respect of such loss to the Vendor; and if the loss (excluding any loss of profit) exceeds the Consideration payable by the Purchaser, the Purchaser is entitled to provide written evidence and issue a demand letter to the Vendor claiming for such excess amount and the Vendor shall pay such excess amount to the Purchaser within 5 Business Days after the receipt of such demand letter;
- (ii) if the Purchaser discovers such breach after payment of the Consideration, the Purchaser is entitled to provide written evidence and issue a demand letter to the Vendor and the Vendor shall pay the amount of loss (excluding any loss of profit) incurred by the Purchaser, New Achieve, Able Jubilee or Jintian Machinery to the Purchaser within 5 Business Days after the receipt of such demand letter.

Conditions precedent

Completion is conditional upon the satisfaction (or waiver in writing by the Purchaser) of the following conditions on or before the Completion Date:

- (a) New Achieve, Able Jubilee and Jintian Machinery having completed the asset restructuring in accordance with the terms of the Agreement;
- (b) up to the Completion Date, neither the Vendor nor the Company has breached any of the Vendor's warranties or undertakings under the Agreement; and
- (c) up to the Completion Date, there having been no Material Adverse Change in respect of New Achieve, Able Jubilee and Jintian Machinery.

Completion

Completion shall take place on the Completion Date. In the event that Completion does not take place on or before the Completion Date, unless the parties agree otherwise in writing, the Agreement shall automatically terminate and the obligations and liabilities of the parties to the Agreement shall cease save in respect of the provisions which shall remain in force after the termination of the Agreement as stated therein.

After Completion, the Company will no longer have any interests in New Achieve, Able Jubilee and Jintian Machinery and all such companies will cease to be subsidiaries of the Company.

Guarantee

The Company has unconditionally and irrevocably as primary obligor guaranteed to the Purchaser the due performance by the Vendor of its obligations and responsibilities under the Agreement.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

As the production capacity of Jintian Machinery has been relocated to other manufacturing location of the Group, the disposal of Jintian Machinery provided the Group with an opportunity to realize its investment in the PRC and the Disposal will allow the Group to reallocate its resources to the Group's principal businesses, reduce gearing and increase the liquidity of the Group.

The terms of the Agreement were negotiated on an arm's length basis. The Directors are of the view that the terms of the Disposal are on normal commercial terms and are fair and reasonable and the Disposal is in the interests of the Company and its shareholders as a whole.

Based on the unaudited consolidated net book value of New Achieve as at 28 February 2012, after deducting relevant costs, it is estimated that the Group will record a gain from the Disposal of approximately HK\$43,818,000 in the second half of the financial year ending 31 August 2012. Based on the initial investment, it is estimated that the Group will record a gain from the Disposal of approximately HK\$17,829,000. It is intended that the net proceeds from the Disposal be used for loan repayment and general working capital of the Group.

GENERAL INFORMATION

The Group is principally engaged in the production and sales of knitted fabrics and also provides knitting, dyeing, printing and finishing services and is engaged in the sales of raw yarns, dyed yarns, sewing threads and garments.

The principal activity of the Vendor is investment holding.

The principal activity of the Purchaser is investment holding.

LISTING RULES IMPLICATIONS

As one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

PROFIT WARNING

The Board also advises the shareholders and investors of the Company that based on its unaudited management accounts for the four months ended 31 December 2011 and the trading performance of the Group from 1 January 2012, it is expected that the Group's results for the six months ended 29 February 2012 may record a loss, as compared with a profit for the corresponding period in 2011. The Board estimates that the unaudited consolidated loss for the six months ended 29 February 2012 would be around an approximate range from HK\$150,000,000 to HK\$160,000,000.

The Board considers that the loss to be incurred by the Group for the six months ended 29 February 2012 is mainly attributable to the following factors which were discussed under the Chairman's Statement in the annual report of the Company for the year ended 31 August 2011:

- (1) prices of cotton and cotton yarn have declined continuously and substantially since early 2011. As a result, the market price of knitted fabric also declined sharply. Given the declining market price and the fact that cotton / cotton yarn inventory held at the end of August 2011 by the Group were purchased earlier when market prices were higher, the gross profit of the Group in the 6 months ended 29 February 2012 would be adversely affected; and
- (2) difficult economic environment in North America and Europe caused by factors including high unemployment rate and concerns over default of European debts has led to lower consumer confidence and demand for textile products which in turn has adversely affected selling prices and sales volume during the period.

Cotton and cotton yarn prices have started to stabilize. Inventories that were purchased by the Group at relatively high prices would be mostly depleted by the end of February 2012. Therefore, the average costs of current cotton and cotton yarn inventory would start to co-relate with current market prices. In addition, unemployment rate and retail market sentiment in the United States appear to have stabilized with some signs of improvement. The board believes the profitability of the Group will improve substantially in the second half of the financial year ending 31 August 2012. In addition, the Group maintains sufficient liquidity to support ongoing operation.

The information contained in this section of the announcement is only based on a preliminary assessment by the Board based on information currently available to it, including the unaudited consolidated management accounts of the Group for the four months ended 31 December 2011, which have not yet been confirmed or reviewed by the auditor of the Group

or the audit committee of the Company, and the trading performance of the Group from 1 January 2012. Unaudited financial statements of the Group for the six months ended 29 February 2012 are expected to be reviewed by the Company's auditor and published before the end of April 2012.

Shareholders of the Company and investors are advised to exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

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| “Able Jubilee” | Able Jubilee Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of New Achieve |
| “Agreement” | the agreement dated 29 February 2012 entered into between the Vendor, the Purchaser and the Company pursuant to which the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Sale Share and the Sale Loan |
| “Board” | the board of Directors |
| “Business Day” | a day (excluding Saturdays, Sundays and public holidays) on which commercial banks in Hong Kong are generally open for business |
| “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 of Hong Kong Limited |
| “Completion” | the completion of the sale and purchase of the Sale Share and the Sale Loan under the Agreement pursuant to the terms and conditions thereof |
| “Completion Date” | the date of Completion of the Agreement, being a date falling within 10 Business Days after the date of the Agreement, to be further agreed between the Vendor and the Purchaser in writing and in any event be no later than 30 April 2012 |
| “Consideration” | RMB90,000,000, being the aggregate consideration payable by the Purchaser for the Sale Share and the Sale Loan |
| “Director(s)” | director(s) of the Company |
| “Disposal” | the disposal of the Sale Share and the Sale Loan by the Vendor to the Purchaser pursuant to the Agreement |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |

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| “HK\$ Equivalent” | in respect of an amount in RMB, means the HK\$ equivalent of such RMB amount determined with reference to the mid-point of the exchange rate for converting HK\$1 to RMB as published by the China Foreign Exchange Trade System (中國外匯交易中心) on the second PRC business day immediately preceding the relevant payment date |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Jintian Machinery” | 江陰金田機械有限公司 (Jiangyin Jintian Machinery Limited), a limited liability company established in the PRC and a wholly-owned subsidiary of Able Jubilee |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Material Adverse Change” | changes to the business, operation, assets or financial status of New Achieve, Able Jubilee and/or Jintian Machinery which in the reasonable assessment of the Purchaser has a material adverse effect on New Achieve, Able Jubilee and Jintian Machinery as a whole |
| “New Achieve” | New Achieve Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor |
| “PRC” | The People’s Republic of China |
| “Purchaser” | Maxy Rich Investments Limited, a company incorporated in the British Virgin Islands with limited liability |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sale Loan” | the shareholder’s loan in the principal amount of US\$12,000,000 (equivalent to approximately HK\$93,600,000) which will be outstanding and owing at Completion by New Achieve to the Vendor, which is unsecured, non-interest bearing and repayable on demand |
| “Sale Share” | 1 share of US\$1 (equivalent to approximately HK\$7.8) in New Achieve representing the entire issued share capital of New Achieve |
| “US\$” | United States dollars, the lawful currency of the United States of America |
| “US\$ Equivalent” | in respect of an amount in RMB, means the US\$ equivalent of such RMB amount determined with reference to the mid-point of the exchange rate for converting US\$1 to RMB as published by the China Foreign Exchange Trade System (中國外匯交易中心), on the second PRC business day immediately preceding the relevant payment date |

“Vendor” Ocean Yarn Dyeing Factory Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

“%” per cent.

By order of the board
Fountain Set (Holdings) Limited
Ha Chung Fong
Chairman

Hong Kong, 29 February 2012

English names of the PRC established companies in this announcement are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

In this announcement, US\$ has been converted into HK\$ at the rate of US\$1 = HK\$7.8 for illustration purpose only. No representation is made that any amounts in US\$ or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

As at the date of this announcement, the executive directors of the Company are Mr. Ha Chung Fong, Mr. Ha Kam On, Victor, Mr. Ha Hon Kuen and Dr. Yen Gordon; and the independent non-executive directors of the Company are Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, SBS, JP, and Mrs. Fung Yeh Yi Hao, Yvette.