



福田實業(集團)有限公司
Fountain Set (Holdings) Limited

(Incorporated in Hong Kong with limited liability) (Stock Code: 420)

INSIDE INFORMATION LAND RESUMPTION

This announcement is made by Fountain Set (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

BACKGROUND

Reference is made to the notice received (the “**Government Notice**”) from Jiangyin City, People’s Government House Expropriation Management Office* (江陰市人民政府房屋徵收管理辦公室) dated 25 March 2021, by Jiangyin Fuhui Textile Company Limited* (江陰福匯紡織有限公司) (“**Jiangyin Fuhui**”), an indirect wholly-owned subsidiary of the Company. According to the Government Notice, Jiangyin Fuhui, among the others, was informed that, its property located at number 9 and 12, Xiaoshan Road, Jiangyin City* (江陰市蕭山路9號及12號), the People’s Republic of China (the “**PRC**”), with a site area of approximately 453,988 square meters in total (the “**Land**”), was subject to resumption by the local government of Jiangyin City People’s Government Chengdong Subdistrict Office* (江陰市人民政府城東街道辦事處) (the “**Local Government**”).

The Company has sought legal advice from its PRC lawyers in relation to the Government Notice and was advised by the PRC lawyers that Jiangyin Fuhui would be bound to surrender the Land in accordance with the relevant laws and regulations of the PRC and Jiangyin Fuhui would have no discretion to act in an opposite manner.

RESUMPTION OF LAND

The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company would like to announce that on 19 November 2023, Jiangyin Fuhui entered into a land resumption agreement with the Local Government, in respect of resumption (the “**Land Resumption**”) of the land use rights of part of the Land at number 12, West District, Xiaoshan Road, Jiangyin City (the “**Government Acquired Land**”) together with all buildings, structures (the “**Land Buildings**”) and attachments thereat (the “**Land Resumption Agreement**”). Pursuant to the Land Resumption Agreement, Jiangyin Fuhui shall surrender the land use rights of the Government Acquired Land to the Local Government.

Details of the Land Resumption

The Government Acquired Land

The Government Acquired Land is situated at number 12, West District, Xiaoshan Road, Jiangyin City, the PRC* (江陰市蕭山路西區12號) with a site area of approximately 119,408 square meters, representing approximately 26% of the total site area of the Land. The Land Buildings erected thereat have a total building area of 62,607 square meters. As of the date of this announcement, the Government Acquired Land is currently used mainly for non-production purposes and is used as the living areas of the employees, including employee dormitories, canteens, recreational activity centers, an idle garment factory, a water treatment center for auxiliary production, and some idle lands.

Land Resumption Agreement, Compensation and Payment Terms

Pursuant to the Land Resumption Agreement, the total compensation payable to Jiangyin Fuhui for the Land Resumption is RMB259,051,981 (the “**Total Compensation**”).

The Total Compensation shall be payable by the Local Government to Jiangyin Fuhui in the following manner:

- 20% of the Total Compensation shall be paid after entering into the Land Resumption Agreement and Jiangyin Fuhui delivers the land use certificates, real estate certificates or other relevant certificates or materials of the Government Acquired Land to the Local Government, and cooperate with the Local Government in the cancellation procedures of the land certificate and real estate certificate, expected to be completed by 20 December 2023;
- 40% of the Total Compensation shall be paid after the relocation of the Government Acquired Land by Jiangyin Fuhui, expected to be completed by 31 December 2023, subject to the passing of the Local Government’s inspection; and
- 40% of the Total Compensation shall be paid after the cancellation of all relevant certificates, demolition of housing structures on the Government Acquired Land and the issuance of a qualifying soil pollution investigation report produced by a third party. Both parties agree to complete the above work tasks and the final installment will be settled by the Local Government, expected to be completed by 31 December 2024.

Since the Government Acquired Land is currently used mainly for non-production purposes, the Company is confident that the passing of the soil pollution investigation report produced by a third party will be smoothly obtained and the Land Resumption will be completed as scheduled.

The Land Resumption Agreement has become effective upon the signing by both parties.

Information of the parties to the Land Resumption Agreement

The Company is an investment holding company and the principal business of the Group primarily includes the production and sale of knitted fabrics, production and sale of garments and provision of knitting, dyeing, printing and finishing services.

Jiangyin Fuhui is an indirect wholly-owned subsidiary of the Company, which 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. As of the date of this announcement, Jiangyin Fuhui has approximately 490 full-time employees and 300 part-time employees.

The Local Government is the local authority under the People's Government of Jiangyin City, Wuxi County, the PRC and, for the purpose of the Land Resumption, it is the transferee of the Government Acquired Land.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Local Government is a governmental authority of the PRC and is a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Impact of the Land Resumption

According to the latest audited financial statements of the Company as of 31 December 2022, the net book value of the assets subject to the Land Resumption was in the amount of approximately HK\$24,000,000. In view of the Total Compensation of approximately RMB259,051,981 (equivalent to HK\$280,050,472.68), taking into account the relocation-related expenses and employee compensation and other expenses, the Group expects the estimated net income before tax from the Land Resumption to be within the range of approximately HK\$130,000,000 to HK\$180,000,000 (the "**Net Income**"). The Net Income does not take into account any corporate income tax and other related tax expenses that may be payable in the PRC. The actual amount of the Net Income and entry time to be recorded by the Group are still subject to audit, hence, it may differ from the above estimated amount. Since the Total Compensation is expected to be received in batches from December 2023 to December 2024, it is expected that the Net Income may have an impact on the financial statements of the year of 2023 and/or 2024.

As mentioned above, the Government Acquired Land is used mainly as the living areas of the employees and is not for production purposes. Jiangyin Fuhui is expected to function normally after the Land Resumption. Hence, as compared with the current production capacity level, the Land Resumption will not have a material impact on the Group's overall production capacity. At the same time, the Land Resumption is expected to have the following impacts on the Group's financial status and operations: (1) the scale of assets and depreciation expenses will be reduced, resulting in a reduction in costs and improvement in profitability; and (2) the Group will obtain asset replacement compensation, supplementing the Group's cash flows, reducing external financing costs and providing cash guarantee for the Group's current operations and future overall layout.

Taking into account the aforesaid, the Board is of the view that the Land Resumption is fair and reasonable in the interests of the Company and its shareholders as a whole and would not have any material adverse effect to core businesses of the Group.

As for the remaining portion of the Land, that is, number 9, Xiaoshan Road, Jiangyin City, with a site area of approximately 334,580 square meters, the Company will continue working with the Local Government to proceed the Land Resumption plan.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By Order of the Board
Fountain Set (Holdings) Limited
LIU Xianfu
Chairman and Chief Executive Director

Hong Kong, 21 November 2023

As at the date of this announcement, the Board comprises 5 executive Directors, namely Mr. LIU Xianfu (Chairman and Chief Executive Officer), Dr. LI Gang, Mr. YAU Hang Tat Andrew, Mr. ZHAO Yao and Mr. ZHANG Zheng; 2 non-executive Directors, namely Dr. YEN Gordon (Non-executive Vice Chairman) and Mr. TAO Yongming; and 4 independent non-executive Directors, namely Mr. NG Kwok Tung, Mr. YING Wei, Mr. William LAM and Mr. WONG Kwong Chi.

For the purpose of illustration only, the amounts denominated in RMB have been translated into HK\$ using the exchange rate of RMB1: HK\$1.08. Such translation should not be construed as a representation that the amounts quoted could have been or could be or will be converted at the stated rate or at any other rates at all.

* For identification purposes only