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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)

UPDATE ON BUSINESS OPERATIONS OF THE GROUP

This announcement is issued by Fountain Set (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on a voluntary basis to provide its shareholders and public investors with the latest business and financial updates of the Group.

FURTHER REDUCTION IN PRODUCTION CAPACITY OF THE FABRIC MILL OPERATED BY JIANGYIN FUHUI

In 2023, the Group reduced the production volume of the fabric mill operated 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) and streamlined the production team of Jiangyin Fuhui. For details, please refer to the announcement of the Company dated 20 January 2023 and the annual report of the Company for the year ended 31 December 2022.

Jiangyin Fuhui has been loss-making since 2022. Decreased order volumes have hindered its production capacity from maintaining a standard level to cover the fixed costs of the fabric mill. Consequently, the excess fabric production capacity of Jiangyin Fuhui is projected to lead to a deterioration of both operation and financial performances in 2024.

Taking these circumstances into account and to mitigate further losses, the Group has decided to further reduce the fabric production capacity by solely maintaining fabric knitting production capacity at the fabric mill operated by Jiangyin Fuhui. Starting from February 2024, the Group has smoothly fulfilled all the existing orders. The remaining orders from Jiangyin Fuhui will be transferred to other fabric mills within the Group while Jiangyin Fuhui will continue accepting fabric knitting orders.

Jiangyin Fuhui will terminate the labour contracts or offer voluntary severance packages to all existing staff currently in service. Such compensation has been provisionally set aside within the fiscal year of 2023.

Since the remaining orders of Jiangyin Fuhui will be transferred to the other fabric mills within the Group, the further reduction in production capacity of the fabric mill operated by Jiangyin Fuhui will not have a significant impact on the overall order-taking of the Group. On the other hand, this decision will lead to a reduction in costs and an improvement in the Group's overall profitability and maintaining shareholders' interests.

By Order of the Board

Fountain Set (Holdings) Limited

LIU Xianfu

Chairman and Chief Executive Officer

Hong Kong, 5 February 2024

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, Ms. ZHAO Jianli 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 identification purposes only*