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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **Fountain Set (Holdings) Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

PROPOSALS FOR (1) RE-ELECTION OF RETIRING DIRECTORS; (2) GENERAL MANDATES TO ISSUE AND BUY BACK SHARES; (3) REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS; AND NOTICE OF ANNUAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders



Donvex Capital Limited
富域資本有限公司

Capitalised terms used in the lower portion of this cover and the inside cover shall have the same respective meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 4 to 14 of this circular.

The notice of the AGM to be held at Block A, 6th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong on Thursday, 29 June 2023 at 9:30 a.m. is set out on pages 35 to 38 of this circular. **The Company reminds Shareholders who are unable to attend the AGM but wish to exercise his/her/its voting rights that he/she/it must appoint the chairman of the AGM as his/her/its proxy to vote on the relevant resolution at the AGM.** Please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours (excluding any public holiday in Hong Kong) before the time appointed for holding the AGM or the adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM or the adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked. Food, beverages and/or souvenir will not be offered in the AGM.

6 June 2023

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This circular is prepared in both English and Chinese. In the event of any inconsistency, the English text of this circular shall prevail.

DEFINITIONS

In this circular, the following expressions have the following respective meanings unless the context otherwise requires:

“AGM”	the annual general meeting of the Company to be held at Block A, 6th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong on Thursday, 29 June 2023 at 9:30 a.m.;
“Announcement”	the announcement of the Company dated 15 May 2023 relating to, inter alia, the entering into of the Supplemental Agreements and the revision of the Existing Annual Caps;
“Articles of Association”	the articles of association of the Company, and a reference to an “Article” is a reference to a provision in the Articles of Association;
“associate”	has the meaning ascribed to it in the Listing Rules;
“Audit Committee”	the audit committee of the Board;
“Board”	the board of Directors;
“Buy-back Mandate”	the general and unconditional mandate to be granted to the Directors authorising the buy-back by the Company on the Stock Exchange of Shares not exceeding 10% of the aggregate number of the issued Shares as at the date of passing the resolution approving such mandate;
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會);
“Chinatex”	中國中紡集團有限公司 (Chinatex Corporation Limited), a state-owned enterprise established under the laws of the PRC, a controlling Shareholder and is interested in approximately 39.05% of the Shares as at the Latest Practicable Date;
“Chinatex Group”	Chinatex and its subsidiaries from time to time;
“Chinatex Supplemental Agreement”	the supplemental agreement dated 15 May 2023 between the Company and Chinatex to the Existing Material Purchase Framework Agreement;
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“COFCO”	COFCO Corporation (中糧集團有限公司), a state-owned company established in the PRC which is currently under the purview of SASAC, and a controlling Shareholder;
“COFCO Finance”	COFCO Finance Company Limited (中糧財務有限責任公司), a company established in the PRC on 24 September 2002 with limited liability and an indirect wholly-owned subsidiary of COFCO;
“COFCO Finance Supplemental Agreement”	the supplemental agreement dated 15 May 2023 between the Company and COFCO Finance to the Existing Financial Services Agreement;
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
“Company”	Fountain Set (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 420);
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules;
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Deposit Services”	the deposit and related services to be provided by COFCO Finance to the Group under the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement);
“Director(s)”	the director(s) of the Company;
“ED(s)”	the executive Director(s);

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“Existing Annual Caps”	collectively, the Existing Chinatex Annual Caps and the Existing Deposit Annual Cap;
“Existing CCTs”	collectively, the continuing connected transactions under the Existing Material Purchase Framework Agreement and the Existing Financial Services Agreement;
“Existing Chinatex Annual Caps”	the existing annual caps for the transactions under the Existing Material Purchase Framework Agreement as disclosed in the announcement of the Company dated 16 December 2021;
“Existing Deposit Annual Cap”	the existing annual cap for the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the Existing Financial Services Agreement;
“Existing Financial Services Agreement”	the financial services agreement dated 14 July 2022 between the Company and COFCO Finance in relation to the Deposit Services, the Loan Services and the Other Financial Services for a term of three years;
“Existing Material Purchase Framework Agreement”	the material purchase framework agreement dated 16 December 2021 between the Company and Chinatex in relation to the purchase of yarns, cotton and other materials related to the production of fabrics, garments and cooking oil and foodstuffs by members of the Group from members of the Chinatex Group from time to time;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Ng Kwok Tung, Mr. Ying Wei, Mr. William Lam and Mr. Wong Kwong Chi;
“Independent Financial Adviser” or “Donvex Capital”	Donvex Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements and the Revised Annual Caps;
“Independent Shareholders”	Shareholders who are not prohibited from voting at the AGM;
“INED(s)”	the independent non-executive Director(s);
“Issue Mandate”	the general and unconditional mandate to be granted to the Directors to exercise the powers of the Company to allot, issue and deal with Shares not exceeding 20% of the aggregate number of the issued Shares as at the date of passing the resolution approving such mandate;
“Latest Practicable Date”	5 June 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Services”	the comprehensive loan and related services to be provided by COFCO Finance to the Group under the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement);
“NED(s)”	the non-executive Director(s);
“Nomination Committee”	the nomination committee of the Board;
“Other Financial Services”	apart from the Deposit Services and the Loan Services, other financial services covered in COFCO Finance’s scope of services (including but not limited to financial and financing consultation services, credit appraisal and related consulting services and settlement services) to be provided by COFCO Finance to the Group under the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement);
“PBC”	People’s Bank of China (中國人民銀行);

DEFINITIONS

“PRC”	the People’s Republic of China and, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Remuneration Committee”	the remuneration committee of the Board;
“Retiring Directors”	the Directors, namely Mr. LI Gang, Mr. NG Kwok Tung, Mr. YING Wei and Mr. William LAM who are subject to retirement at the AGM according to the Articles of Association;
“Revised Annual Caps”	collectively, the Revised Chinatex Annual Caps and the Revised Deposit Annual Cap;
“Revised Chinatex Annual Caps”	the revised annual caps for the transactions under the Existing Material Purchase Framework Agreement as set out in the Chinatex Supplemental Agreement;
“Revised Deposit Annual Cap”	the revised annual cap for the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the COFCO Finance Supplemental Agreement;
“SASAC”	國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of the State Council of the PRC);
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	registered holder(s) of fully-paid Shares;
“Shares”	ordinary shares in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreements”	collectively, the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Takeovers Code”	the Code on Takeovers and Mergers as amended from time to time and administered by the SFC;
“USA”	the United States of America;
“Year”	the year ended 31 December 2022; and
“%”	percentage or per cent.

LETTER FROM THE BOARD



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

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

Executive Directors:

Mr. LIU Xianfu (*Chairman and Chief Executive Officer*)
Mr. LI Gang
Mr. YAU Hang Tat Andrew
Mr. ZHAO Yao
Mr. ZHANG Zheng

Registered office:

Block A, 6th Floor
Eastern Sea Industrial Building
29-39 Kwai Cheong Road
Kwai Chung
New Territories
Hong Kong

Non-executive Directors:

Dr. YEN Gordon (*Non-executive Vice Chairman*)
Mr. TAO Yongming

Independent Non-executive Directors:

Mr. NG Kwok Tung
Mr. YING Wei
Mr. William LAM
Mr. WONG Kwong Chi

6 June 2023

To the Shareholders

Dear Sir or Madam,

**PROPOSALS FOR
(1) RE-ELECTION OF RETIRING DIRECTORS;
(2) GENERAL MANDATES TO ISSUE AND BUY BACK SHARES;
(3) REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS;
AND
NOTICE OF ANNUAL GENERAL MEETING**

1. INTRODUCTION

The purpose of this circular is to provide you with requisite information regarding certain resolutions to be proposed at the AGM and the notice of the AGM. The proposed resolutions include (i) re-election of the Retiring Directors; (ii) grant of general mandates to issue and buy back Shares; and (iii) revision of the Existing Annual Caps for the Existing CCTs.

2. RE-ELECTION OF RETIRING DIRECTORS

Presently, the Board comprises 11 Directors, of which 5 are EDs, namely Mr. LIU Xianfu, Mr. LI Gang (“**Mr. LI**”), Mr. YAU Hang Tat Andrew, Mr. ZHAO Yao and Mr. ZHANG Zheng; 2 are NEDs, namely Dr. YEN Gordon and Mr. TAO Yongming; and 4 are INEDs, namely Mr. NG Kwok Tung (“**Mr. NG**”), Mr. YING Wei (“**Mr. YING**”), Mr. William LAM (“**Mr. LAM**”) and Mr. WONG Kwong Chi.

In accordance with Article 102(A) of the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third or any other number subject to such manner of rotation as may be required by the statutes, the Listing Rules or other codes, rules and regulations prescribed from time to time by the applicable regulatory authority, shall retire from office. The same Article also provides that the Directors to retire in every year shall be those who have been the longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Accordingly, Mr. NG, Mr. YING and Mr. LAM will retire by rotation at the AGM. All of them, being eligible, have offered themselves for re-election at the AGM.

LETTER FROM THE BOARD

According to Article 93 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board) and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. Accordingly, Mr. LI, who was appointed as an ED and the vice president of the Company with effect from 1 June 2023, will hold office until the AGM and being eligible, has offered himself for re-election at the AGM.

Further, pursuant to the code provision as set out in paragraph B.2.3 of Part 2 - Principles of Good Corporate Governance, Code Provisions and Recommended Best Practices of the Corporate Governance Code contained in Appendix 14 to the Listing Rules, any further appointment of an INED serving more than 9 years should be subject to a separate resolution to be approved by the Shareholders. Since Mr. NG has been serving as an INED for more than 9 years, a separate resolution will be proposed for his re-election at the AGM.

Mr. NG has confirmed to the Company his independence based on the independence criteria as set out in Rule 3.13 of the Listing Rules. Having considered the requirements and obligations of the INEDs, including the independence criteria to be taken into account in assessing his independence under Rule 3.13 of the Listing Rules, the Nomination Committee, which is responsible for, amongst other matters, assessing the independence of the INEDs, is satisfied that Mr. NG continues to be independent. Hence, the Board considers that the long service of Mr. NG would not affect his exercise of independent judgements.

The Nomination Committee reviewed the structure, size and diversity of the Board to reflect an appropriate mix of skills, experience and diversity that are relevant to the Company's strategy, governance and business and contribute to the Board's effectiveness and efficiency.

Procedures and Process for Nomination of Directors

The Nomination Committee will recommend to the Board for the appointment of Directors (including an INED) in accordance with the following procedures and process:

- i. the Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- ii. the Nomination Committee may consult any source it considers appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from a third party agency firm and proposals from the Shareholders with due consideration given to the criteria which include but are not limited to:
 - (a) diversity in the aspects of, amongst others, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
 - (b) commitment for responsibilities of the Board in respect of available time and relevant interest;
 - (c) qualifications, including accomplishment and experience in the relevant industries in which the Group's business is involved;
 - (d) independence;
 - (e) reputation for integrity;
 - (f) potential contributions that the individual can bring to the Board; and
 - (g) plan(s) in place for the orderly succession of the Board;
- iii. the Nomination Committee may adopt any process it considers appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third party reference checks;
- iv. the Nomination Committee will consider a broad range of candidates who are in and outside of the Board's circle of contacts;
- v. upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- vi. the Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate;

LETTER FROM THE BOARD

- vii. the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and where a Director is considered, the Remuneration Committee will make the recommendation to the Board on the policy and structure for the remuneration;
- viii. the Board may arrange for the selected candidate to be interviewed by the members of the Board, who are not members of the Nomination Committee and the Board will thereafter deliberate and decide the appointment as the case may be; and
- ix. all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

The re-elections of the Retiring Directors has been reviewed by the Nomination Committee which made recommendation to the Board that the re-elections shall be proposed for Shareholders' approval at the AGM.

In addition, the Nomination Committee had evaluated the performance of each of the Retiring Directors (except Mr. LI whose appointment took effect on 1 June 2023) for the Year based on the nomination policy of the Company and found their performance satisfactory. The Nomination Committee is also of the view that based on the perspectives, skills and experience of the Retiring Directors, they can bring further contributions to the Board and its diversity. The Nomination Committee has assessed the independence of all INEDs, in particular, Mr. NG who has served the Board for more than 9 years. The Board is satisfied that all INEDs satisfy the criteria set out in Rule 3.13 of the Listing Rules. The Board, with the recommendation of the Nomination Committee, has proposed that the Retiring Directors stand for re-election as Directors at the AGM. As a good corporate governance practice, each of the Retiring Directors abstained from voting at the relevant Board meeting or on the written resolutions in respect of the proposition of his recommendation for re-election by the Shareholders. The Board believes that the continuous appointment of the Retiring Directors contributes to the stability and diversity of the Board.

Pursuant to Rule 13.74 of the Listing Rules, the listed issuer shall disclose the details required under Rule 13.51(2) of the Listing Rules of any director(s) proposed to be re-elected or proposed new director in the notice or accompanying circular to its shareholders of the relevant general meeting, if such re-election or appointment is subject to shareholders' approval at that relevant general meeting. The requisite details of the Retiring Directors are set out in Appendix I to this circular.

3. GENERAL MANDATES TO ISSUE AND BUY BACK SHARES

It will be proposed at the AGM to grant to the Directors (i) an Issue Mandate to allot, issue and deal with Shares up to a limit equal to 20% of the aggregate number of the issued Shares as at the date of passing the relevant resolution and adding to such general mandate so granted to the Directors any Shares representing the aggregate number of the Shares bought back by the Company under the Buy-back Mandate; and (ii) a Buy-back Mandate to buy back Shares not exceeding 10% of the aggregate number of the Shares in issue as at the date of passing the relevant resolution.

As at the Latest Practicable Date, a total of 1,225,026,960 Shares were in issue. Subject to the passing of the proposed resolutions granting the Issue Mandate and the Buy-back Mandate to the Directors and on the basis that no Shares will be issued and/or bought back and cancelled by the Company prior to the AGM, the Company would be allowed under (i) the Issue Mandate to issue a maximum of 245,005,392 Shares, representing 20% of the aggregate number of the issued Shares as at the date of the AGM; and (ii) the Buy-back Mandate to buy back a maximum of 122,502,696 Shares, representing 10% of the aggregate number of the issued Shares as at the date of the AGM.

The Issue Mandate and the Buy-back Mandate would expire at the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held; or (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors.

An explanatory statement, as required by the Listing Rules to be given to the Shareholders in connection with the Buy-back Mandate, is set out in Appendix II to this circular.

4. REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

References are made to:

- i the announcement of the Company dated 16 December 2021 in relation to, among other things, the Existing Material Purchase Framework Agreement between the Company and Chinatex whereby the Chinatex Group agreed to supply yarns, cotton and other materials to the Group for the manufacture of fabric, garments and cooking oil and foodstuffs;
- ii the announcement of the Company dated 14 July 2022 in relation to the Existing Financial Services Agreement between the Company and COFCO Finance whereby COFCO Finance agreed to provide the Deposit Services, the Loan Services and the Other Financial Services to the Group; and
- iii the Announcement in relation to the Supplemental Agreements dated 15 May 2023 and the proposed revision of the Existing Annual Caps.

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As disclosed in the Announcement, on 15 May 2023, the Company entered into (i) the Chinatex Supplemental Agreement with Chinatex to revise the Existing Chinatex Annual Caps and (ii) the COFCO Finance Supplemental Agreement with COFCO Finance to revise the Existing Deposit Annual Cap. Save for the revision of the Existing Chinatex Annual Caps and the Existing Deposit Annual Cap, all other terms and conditions under the Existing Material Purchase Framework Agreement and the Existing Financial Services Agreement remain unchanged.

The principal terms of the Existing Material Purchase Framework Agreement and the Existing Financial Services Agreement are set out in the announcements of the Company dated 16 December 2021 and 14 July 2022, respectively.

CHINATEX SUPPLEMENTAL AGREEMENT AND REVISION OF THE EXISTING CHINATEX ANNUAL CAPS

The principal terms of the Chinatex Supplemental Agreement are set out as follows:

Date

15 May 2023

Parties

- (1) the Company; and
- (2) Chinatex

Subject Matter

Pursuant to the Chinatex Supplemental Agreement, upon the approval by the Independent Shareholders at the AGM, the Existing Chinatex Annual Caps shall be revised to the Revised Chinatex Annual Caps under the Chinatex Supplemental Agreement as follows:

	For the year ended/ending 31 December		
	2022	2023	2024
	HK\$'000	HK\$'000	HK\$'000
Existing Chinatex Annual Caps	63,000	63,000	63,000
Revised Chinatex Annual Caps	63,000	363,000	363,000

Historical Transaction Amounts

The historical transaction amounts for the transactions under the Existing Material Purchase Framework Agreement (and its preceding agreement) for the four years ended 31 December 2022 and the three months ended 31 March 2023 are set out as follows:

	For the year ended 31 December				For the three months ended
	2019	2020	2021	2022	31 March 2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Historical transaction amounts	22,924	6,507	1,224	18,461	3,386

Basis for Determining the Revised Chinatex Annual Caps

The Revised Chinatex Annual Caps were determined primarily based on arm's length negotiations between the Company and Chinatex with reference to, among other things:

- (i) an expected substantial increase in purchase volume of yarns and cotton from the Chinatex Group from approximately HK\$18.5 million in 2022 to approximately HK\$300 million in 2023 and 2024 as the percentage of yarns and cotton to be purchased from the Chinatex Group as opposed to other suppliers is expected to increase for the reasons below:
 - (a) the Chinatex Group has established warehouses located in the same cities of the factories of members of the Group in Jiangsu and Guangdong Provinces to supply yarns and cotton to members of the Group. As a result of the close proximity between the Chinatex Group's warehouses and the Group's factories, it is expected that the Group will be able to save the transportation time and rental cost of warehouses and that the Group will be able to purchase yarns and cottons from the Chinatex Group on a just-in-time basis when the Group is in need of the same; and

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- (b) while the prices of yarns and cotton are expected to be volatile in 2023 and 2024 due to the ongoing Russian-Ukrainian war, the Chinatex Group will provide yarns and cotton to the Group at relatively steady prices, which will help the Group control the cost of manufacturing the products, providing the Group with incentive to purchase yarns and cotton from the Chinatex Group; and
- (ii) an appropriate buffer of 15% to 20% for contingencies such as unforeseeable fluctuations in prices of yarns and cottons in 2023 and 2024 and higher than expected demand of the Group's products.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Revised Chinatex Annual Caps are fair and reasonable taking into account the above factors.

Pricing Policy

As a general principle, the price and terms of the individual order in respect of the transactions under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement will be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers.

Subject to the general principle above, the Group will also take into account the following factors when determining the purchase price payable by the Group under the individual orders in respect of the transactions under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement: (i) the prevailing market prices of similar products obtained through internal checks and research conducted by the Company; (ii) the quality and prices of the products offered by other independent third party suppliers; and (iii) the expected cost to be incurred by the Chinatex Group in providing such products. In addition to the above, the Group will semi-annually obtain market prices of the products through publicly available sources.

Given that none of the products under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement has a fixed unit price, in determining the purchase price for an individual order, the Group will invite quotations from at least three independent suppliers to get a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by the procurement manager who is in charge of the procurement department of the Group and compared against the quotation from the Chinatex Group to ensure that the prices for the products to be procured from the Chinatex Group are comparable to the prices for such products being offered by independent third parties. Upon receipt of the initial quotations from the Chinatex Group and the independent suppliers, the Group will then invite each of the suppliers to submit a revised offer based on preliminary feedback provided by the Group. The revised offers will then again be reviewed and evaluated from both the technical and commercial perspectives by the procurement manager and compared with the offer of the Chinatex Group and purchases will only be made from the Chinatex Group if the price and terms offered are competitive and comparable and no less favourable to the Group than those offered by independent third party suppliers.

In addition, the Group will make reference to China Statistical Yearbook (中國統計年鑒) which contains price indices of certain commodities such as cotton and cooking oil. China Statistical Yearbook (中國統計年鑒) is published by National Bureau of Statistics of the PRC (中華人民共和國統計局) on an annual basis, which contains data for the relevant year at the national level and local levels of province, autonomous region and municipality directly under the Central Government and comprehensively reflects the economic and social development of the PRC.

Internal Control Measures

To ensure the purchase price and payment terms of relevant products offered by the Chinatex Group under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than those available from the independent third parties, and the Revised Chinatex Annual Caps will not be exceeded, the Group has adopted and will continue to adopt the following internal control measures:

- (1) the pricing policy will be supervised and monitored by the procurement department of the Group to ensure all the transactions under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement are conducted on normal commercial terms and in accordance with the pricing policy and will not be prejudicial to the interests of the Company and its Shareholders as a whole;
- (2) the procurement department of the Group will conduct regular checks to review and assess whether individual transactions are conducted in accordance with the terms of its respective agreement and will also regularly review whether the price charged/paid for a specific transaction is fair and reasonable and in accordance with the pricing policy;
- (3) the INEDs will review all continuing connected transactions of the Company and the auditors of the Group will also conduct an annual review on the pricing terms and annual caps thereof;
- (4) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s); and
- (5) the Company will continue to engage the independent auditors to review the transactions under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement in compliance with the annual reporting and review requirements under the Listing Rules.

LETTER FROM THE BOARD

Based on the above, the Directors consider that the internal control mechanism is effective to ensure that the transactions under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement have been and will be conducted on normal commercial terms and in accordance with the pricing policy of the Group and not prejudicial to the interests of the Company and the Shareholders as a whole.

COFCO FINANCE SUPPLEMENTAL AGREEMENT AND REVISION OF THE EXISTING DEPOSIT ANNUAL CAP

The principal terms of the COFCO Finance Supplemental Agreement are set out as follows:

Date

15 May 2023

Parties

- (1) the Company; and
- (2) COFCO Finance

Subject Matter

Pursuant to the COFCO Finance Supplemental Agreement, upon the approval by the Independent Shareholders at the AGM, the Existing Deposit Annual Cap shall be revised to the Revised Deposit Annual Cap under the COFCO Finance Supplemental Agreement as follows:

**Maximum daily balance of deposits (including accrued interests)
placed by the Group with COFCO Finance**
RMB'000

Existing Deposit Annual Cap	55,000
Revised Deposit Annual Cap	155,000

Historical Transaction Amounts

For the period between 14 July 2022 and 31 March 2023, the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance was RMB55 million.

Basis for Determining the Revised Deposit Annual Cap

The Revised Deposit Annual Cap was determined primarily based on arm's length negotiations between the Company and COFCO Finance with reference to, among other things:

- (i) as at 31 March 2023, the transaction amount of the Deposit Services under the Existing Financial Services Agreement reached approximately RMB55 million, representing approximately 100% of the Existing Deposit Annual Cap;
- (ii) the financial services arrangements offered by COFCO Finance were newly established in July 2022 and the Group commenced to utilise such services under the Existing Financial Services Agreement on a trial basis. The financial services arrangement and related systems have been developed into an efficient cash management platforms which can potentially handle a larger volume of transactions;
- (iii) as at 31 December 2020, 2021 and 2022, the Group had average working capital of the Company's subsidiaries in the PRC of approximately RMB145 million. For the reasons that (a) the Group is expected to increase the amount of deposit placed with COFCO Finance for the purpose of centralising the management of daily funds under the COFCO's regulations and (b) the interest rates paid by COFCO Finance to the members of the Group are more favourable when compared with the interest rates promulgated by PBC and those offered by the major PRC commercial banks, and as such the Group has the incentive to place more deposit with COFCO Finance to increase the returns to the Group, the Group expects to increase the percentage of its funds placed with COFCO Finance from currently approximately 39% to 100% subject to the approval of the Revised Deposit Annual Cap by the Shareholders at the AGM; and
- (iv) an appropriate buffer of approximately 10.7% (representing the compound annual growth rate of the Group's revenue from 2020 to 2022) for allowing a more than expected increase in revenue generated by the Group in 2023 to 2025 and thus the deposit amount and deposit interest during the remaining term of the Existing Financial Services Agreement.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Revised Deposit Annual Cap is fair and reasonable taking into account the above factors.

LETTER FROM THE BOARD

Pricing Principles and Measures for Determining the Pricing Terms

Regarding the Deposit Services, the interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard deposit rates promulgated by the PBC from time to time. The interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the standard deposit rates promulgated by the PBC for the same type of deposits for the same period and will not be lower than the interest rates offered by the major PRC commercial banks for the same type of deposits for the same period.

For Loan Services, the interest rates to be charged by COFCO Finance for the provision of the Loan Services to the Group will be determined by the parties in accordance with the interest rates promulgated by the PBC from time to time. The interest rates on the Loan Services to be offered by COFCO Finance to the Group will not be higher than the interest rates offered by the major financial institutions in the PRC (including but not limited to PRC commercial banks and PBC) for the same type of loans for the same period.

As for the Other Financial Services, the service fees to be charged by COFCO Finance will not be higher than the fees charged by the major financial institutions in the PRC for the same types of services provided to the Group.

The major PRC commercial banks and financial institutions as referred to above include Bank of China, Industrial and Commercial Bank of China and China Construction Bank, all being named in the list of systemically important banks (系統重要性銀行名單) issued by PBC and CBIRC in September 2022. As such, the Company is of the view that such major PRC commercial banks and financial institutions are suitable for assessment purpose. The Company will review the list of major PRC commercial banks and financial institutions on a monthly basis and/or when the PBC and CBIRC update the list of systemically important banks or when the PBC adjusts the interest rates in relation to the services under the Existing Financial Services Agreement as supplemented by the COFCO Finance Supplemental Agreement.

To ensure that the pricing terms of individual transactions under the Deposit Services, the Loan Services and the Other Financial Services will be made in accordance with the above pricing principles, the Group and COFCO Finance shall carry out the measures below:

With respect to the Group, an internal assessment mechanism on checking and comparing the deposit and lending rates, handling and other service fees offered by COFCO Finance versus the ones offered by the PBC, major PRC commercial banks and/or other financial institutions will be established.

For example, an analysis and assessment will be conducted between (1) the deposit and lending rates offered by COFCO Finance; and (2) the prevailing interest rates offered by at least three major PRC commercial banks, the PBC and/or other financial institutions to the Group before the Group deposits with or obtains loans from COFCO Finance. Such interest rates will be checked again every fortnight and/or regularly while the Group places deposits with COFCO Finance.

In the event that any of the relevant interest rates or handling or service fees quoted from the major PRC commercial banks, the PBC and/or other financial institutions on similar type of services is better than those offered by COFCO Finance, the Group will inform COFCO Finance to adjust the interest rates or the handling or service fees to ensure the interest rates or handling or service fees of COFCO Finance is on normal commercial terms or better terms to the Group.

Internal Control Procedures

In addition to the annual review by the auditors and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, as part of the Group's internal control systems to ensure that the transactions between the Group and COFCO Finance are conducted in accordance with the terms of the Existing Financial Services Agreement as supplemented by the COFCO Finance Supplemental Agreement, the Company will implement the following internal control arrangements:

- (1) The finance department of the Company will periodically monitor the market interest rates with independent third parties in respect of comparable types of financial services.
- (2) The finance department of the Company and each member of the Group has a designated person to record the entering into of continuing connected transactions.
- (3) The finance department of the Company will prepare a summary of the transactions each quarter and organise meetings regularly to review and assess whether the relevant transactions are conducted in accordance with the terms of the Existing Finance Services Agreements as supplemented by the COFCO Finance Supplemental Agreement. After the said summary has been reviewed by the internal audit department of the Company and the management, it will be submitted to the audit committee of the Company and the Board for further review.
- (4) The audit department will check the accounting records and supporting documents from time to time to ensure the pricing terms are in compliance with the pricing principles under the Existing Finance Services Agreements as supplemented by the COFCO Finance Supplemental Agreement.

LETTER FROM THE BOARD

- (5) Each relevant member of the Group shall monitor its own utilisation of the portion of the transaction cap amount allocated to it by the Company (the "**Designated Amount**"). If the transaction amount of a relevant member of the Group reaches 80% of its Designated Amount, or is expected to exceed its Designated Amount within three months, such member shall inform the relevant personnel in the finance department and legal department of the Company immediately and the Company shall determine the appropriate actions to be taken, such as (a) require such member not to enter any further transactions which would cause the Designated Amount to be exceeded; (b) increase the Designated Amount allocated to such member by reducing the Designated Amount(s) allocated to other member(s); or (c) if the accumulative annual transaction amount of the Group will exceed the relevant annual caps, the relevant member(s) of the Group shall provide sufficient reasons and cooperate with the Company to revise the relevant cap and comply with the relevant requirements of the Listing Rules.
- (6) The finance department of the Company will keep checking to ensure the undertakings of COFCO Finance (as stated below) will remain in place.

Undertakings of COFCO Finance

In addition, COFCO Finance has undertaken to the Company in the Existing Financial Services Agreement that it will notify the Group in writing within ten working days and will take measures to avoid further losses under any of the following circumstances :-

- (i) if COFCO Finance suffers from a bank run of its deposits, or if it fails to pay large amount of debts when they are due, large amount of loans or large amount guaranteed advances are overdue, major failure of computer systems, substantial assets have been robbed or defrauded or the directors or senior managers of COFCO Finance are involved in material breaches of relevant rules and regulations or are involved in criminal proceedings or other material adverse events have occurred;
- (ii) material organizational changes or material business risks have occurred that affect or may affect the normal operations of COFCO Finance;
- (iii) the shareholder loans owed by the shareholders of COFCO Finance have been overdue for more than 6 months;
- (iv) major events such as when COFCO Finance is subject to administrative penalties or orders issued by CBIRC or other regulatory authorities; and
- (v) other major events which may bring significant security risks to the Group's deposit.

The Board is of the view that the Group has implemented effective internal control procedures as set out above to ensure that the pricing and other contract terms of the transactions under the Existing Financial Services Agreement as supplemented by the COFCO Finance Supplemental Agreement will be conducted on normal commercial terms and no less favourable to the Group than the terms available from independent third parties.

GENERAL INFORMATION

Information of the Company and the Group

The Company is a public limited company incorporated in Hong Kong and an investment holding company.

The Group 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.

Information of Chinatex and Chinatex Group

Chinatex is directly wholly owned by COFCO and is a state-owned enterprise established in the PRC. COFCO is a state-owned enterprise established in the PRC and is a direct wholly-owned subsidiary of SASAC.

The Chinatex Group is principally engaged in the business of manufacturing and sale of yarns, cotton, garments and oil and foodstuff.

Information of COFCO Finance

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBC. It is subject to the supervision of CBIRC. COFCO Finance is authorized to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provision of loans and financing leases.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENTS

Chinatex Supplemental Agreement

The Chinatex Group is directly wholly-owned by COFCO and is one of the 500 largest enterprises in the PRC. It has two core businesses, namely, textiles business and grains and oils business. COFCO is in turn under the direct administration of the SASAC. Taking into consideration of the quality of the products offered by the Chinatex Group, the Board is of the view that the Chinatex Group has competitive strengths over other independent suppliers of similar products in the PRC and considers that the Existing Material Purchase Framework Agreement enables the Group to continue to secure a long-term stable supply of yarns, cotton and other materials related to the production of fabrics and garments and enhance its position as one of the leading fabric suppliers to garment manufacturers in the global market.

Based on the reasons set out in the paragraph headed “Basis for Determining the Revised Chinatex Annual Caps” above, it is anticipated that the purchase volume of yarns and cotton from the Chinatex Group by the members of the Group will increase. Therefore, the Existing Chinatex Annual Caps for the years ending 31 December 2023 and 2024 may be exceeded. As such, the Directors propose to revise the Existing Chinatex Annual Caps for the two years ending 31 December 2024. The Board considers that the Chinatex Supplemental Agreement and the Revised Chinatex Annual Caps will facilitate the Group to satisfy the increasing demand for yarns and cotton. The Company will continue to carry out adequate supervision over the transaction amounts in respect of the relevant annual caps going forward with a view to ensuring that necessary measures and appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.

COFCO Finance Supplemental Agreement

The Company and COFCO Finance entered into the Existing Financial Services Agreement in relation to provision of the Deposit Services, the Loan Services and the Other Financial Services by COFCO Finance to the Group with a term from 14 July 2022 to 13 July 2025. The series of transactions contemplated under the Existing Financial Services Agreement are entered into on normal commercial terms which are fair and reasonable.

As at 31 March 2023, the transaction amount of the Deposit Services under the Existing Financial Services Agreement reached approximately RMB55 million, representing approximately 100% of the Existing Deposit Annual Cap. In addition, as the Group’s business scale is expected to grow, its deposit amount and deposit interest will continue to increase correspondingly. Therefore, the proposed transaction amount of the Deposit Services may exceed the Existing Deposit Annual Cap. As such, the Directors propose to revise the Existing Deposit Annual Cap. The Board considers that the COFCO Finance Supplemental Agreement and the Revised Deposit Annual Cap will facilitate the Group to satisfy the increasing demand for Deposit Services.

General

The terms of the Existing Material Purchase Framework Agreement (as supplemented by the Chinatex Supplemental Agreement) and the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement) have been arrived at after arm’s length negotiations by the Company with each of Chinatex and COFCO Finance. The Directors (excluding all the independent non-executive Directors who will give their opinion based on the recommendations from the Independent Financial Adviser) have confirmed that the transactions contemplated under the Existing Material Purchase Framework Agreement (as supplemented by the Chinatex Supplemental Agreement) (including the Revised Chinatex Annual Caps) and the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement) (including the Revised Deposit Annual Cap) are fair and reasonable, on normal commercial terms or better terms and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the Supplemental Agreements and the transactions contemplated thereunder, and none of the Directors was required to abstain from voting on the Board resolutions approving the Supplemental Agreements and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

Chinatex, a wholly-owned subsidiary of COFCO, is a controlling Shareholder and hence a connected person of the Company under the Listing Rules. Accordingly, members of the Chinatex Group are associates of Chinatex and hence connected persons of the Company under the Listing Rules. Accordingly, the entering into of the Existing Material Purchase Framework Agreement, the Chinatex Supplemental Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

COFCO is a controlling Shareholder interested in 478,352,000 Shares, representing approximately 39.05% of the number of issued Shares as at the Latest Practicable Date. COFCO Finance is an indirect wholly-owned subsidiary of COFCO and is therefore an associate of COFCO and a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Existing Financial Services Agreement, the COFCO Finance Supplemental Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company intends to revise the annual caps for continuing connected transactions, the Company will be required to re-comply with relevant provisions of Chapter 14A of the Listing Rules in respect of the relevant continuing connected transactions.

LETTER FROM THE BOARD

As the highest of the applicable percentage ratios in respect of the Revised Chinatex Annual Caps for the transactions contemplated under the Existing Material Purchase Framework Agreement as supplemented by the Chinatex Supplemental Agreement is higher than 5% on an annual basis, the entering into of the Chinatex Supplemental Agreement is subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Deposit Services are conducted on normal commercial terms or better terms and the highest of the applicable percentage ratios in respect of the Revised Deposit Annual Cap for the transactions contemplated under the Existing Financial Services Agreement as supplemented by the COFCO Finance Supplemental Agreement is higher than 5% on an annual basis, the entering into of the COFCO Finance Supplemental Agreement is subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. NG Kwok Tung, Mr YING Wei, Mr. William LAM and Mr. WONG Kwong Chi, being all of the INEDs, has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Supplemental Agreements (including the Revised Annual Caps), after taking into account the recommendations of the Independent Financial Adviser.

Donvex Capital has been appointed as the Independent Financial Adviser to the Company to provide the Independent Board Committee and the Independent Shareholders with independent advice in connection with the Supplemental Agreements (including the Revised Annual Caps).

5. THE AGM

A notice convening the AGM to be held on Thursday, 29 June 2023 is set out on pages 35 to 38 of this circular.

A form of proxy in connection with the AGM is also enclosed with this circular. The Company reminds Shareholders who wish to exercise his/her/its voting rights that he/she/it must appoint the chairman of the AGM as his/her/its proxy to vote on the relevant resolutions at the AGM. Please complete the form of proxy and return it to the Company's share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours (excluding any public holiday in Hong Kong) before the time appointed for holding the AGM or the adjournment thereof.

As at the Latest Practicable Date, COFCO (being the holding company of each of Chinatex and COFCO Finance) and its associates are interested in 478,352,000 Shares, representing approximately 39.05% of the issued Shares, and are required to abstain from voting on the relevant resolutions approving the Supplemental Agreements and the transactions contemplated thereunder at the AGM.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder will be required to abstain from voting on the relevant resolutions approving the Supplemental Agreements and the transactions contemplated thereunder at the AGM.

6. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, save for resolutions which relate purely to a procedural or an administrative matter to be voted on by a show of hands, any vote of the Shareholders at a general meeting must be taken by poll. Therefore, all the resolutions put to the vote at the AGM will be voted on by way of poll. The chairman of the AGM will explain the detailed procedures for conducting a poll at the commencement of the AGM.

After the conclusion of the AGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

7. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

LETTER FROM THE BOARD

8. RECOMMENDATION

The Directors (including the INEDs) consider that the Supplemental Agreements are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms thereof together with the Revised Annual Caps are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole, and therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Supplemental Agreements.

In addition, the Board is of the opinion that the re-election of the Retiring Directors and the granting of General Mandates to the Directors to issue and buy back Shares are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of all the relevant resolutions to be proposed at the AGM.

9. GENERAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Fountain Set (Holdings) Limited
LIU Xianfu
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

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

6 June 2023

To the Independent Shareholders

Dear Sir or Madam,

REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 6 June 2023 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders on whether the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement is in the interests of the Company and the Shareholders as a whole. Donvex Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement.

Your attention is drawn to the letter from the Board and the letter from Donvex Capital containing its advice to us and the Independent Shareholders as set out in the Circular respectively.

Having considered, among other things, the factors and reasons considered by, and the opinion of Donvex Capital, we are of the opinion that the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Chinatex Supplemental Agreement and the COFCO Finance Supplemental Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the AGM.

Yours faithfully,

Mr. NG Kwok Tung

Mr YING Wei

Mr. William LAM

Mr. WONG Kwong Chi

Independent Board Committee

LETTER FROM THE DONVEX CAPITAL

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 2502, 25/F
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

6 June 2023

The Independent Board Committee and the Independent Shareholders of
Fountain Set (Holdings) Limited

Dear Sir/Madam,

REVISION OF EXISTING ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to:

- (i) the revision of the Existing Chinatex Annual Caps pursuant to the Chinatex Supplemental Agreement; and
- (ii) the revision of the Existing Deposit Annual Cap pursuant to the COFCO Finance Supplemental Agreement,

(collectively, "**the Revision of Existing Annual Caps**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 6 June 2023 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As stated in the Letter from the Board, on 15 May 2023, the Company entered into (i) the Chinatex Supplemental Agreement with Chinatex to revise the Existing Chinatex Annual Caps; and (ii) the COFCO Finance Supplemental Agreement with COFCO Finance to revise the Existing Deposit Annual Cap.

As at the Latest Practicable Date, Chinatex is a controlling Shareholder indirectly holding 478,352,000 Shares, representing approximately 39.05% of the issued Shares. Therefore, Chinatex is a connected person of the Company. Accordingly, members of the Chinatex Group are associates of Chinatex and hence connected persons of the Company under the Listing Rules. As such, the Chinatex Supplemental Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, COFCO is the parent company of Chinatex directly holding 100% equity interest in Chinatex. As such, COFCO is the controlling Shareholder. COFCO Finance is an indirect wholly-owned subsidiary of COFCO and is therefore an associate of COFCO and a connected person of the Company under the Listing Rules. Accordingly, the COFCO Finance Supplemental Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company intends to revise the annual caps for the continuing connected transactions, the Company will be required to re-comply with relevant provisions of Chapter 14A of the Listing Rules in respect of the relevant continuing connected transactions.

As the highest of the applicable percentage ratios in respect of the Revised Chinatex Annual Caps is higher than 5% but less than 25% on an annual basis, the Revised Chinatex Annual Caps are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratios in respect of the Revised Deposit Annual Cap is higher than 5% but less than 25% on an annual basis, the Revised Deposit Annual Cap is subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the AGM. Any shareholder with a material interest in the Revision of Existing Annual Caps and his close associates will abstain from voting on the ordinary resolutions for approving the Revision of Existing Annual Caps at the AGM. As COFCO has a material interest in the Revision of Existing Annual Caps, COFCO and its associates will abstain from voting on the relevant resolutions for approving the Supplemental Agreements and the transactions contemplated thereunder at the AGM. Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the relevant resolutions approving the Supplemental Agreements and the transactions contemplated thereunder at the AGM.

LETTER FROM THE DONVEX CAPITAL

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. NG Kwok Tung, Mr. YING Wei, Mr. William LAM and Mr. WONG Kwong Chi, has been established to advise the Independent Shareholders on (i) whether the terms of the Supplemental Agreements are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; (ii) whether the Revised Annual Caps are on normal commercial terms or better terms and in the ordinary and usual course of business of the Company; and (iii) how the Independent Shareholders should vote at the AGM. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as financial adviser to the Group and its respective connected persons in the past two years immediately preceding the Latest Practicable Date.

In the past two years immediately preceding the Latest Practicable Date, we have not acted as the independent financial adviser to independent board committee and independent shareholders of the Company.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Revision of Existing Annual Caps. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the AGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Revision of Existing Annual Caps and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Revision of Existing Annual Caps and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information of the parties

1. *The Group*

The Group 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.

The tables below set forth a summary of the consolidated financial information of the Group for the year ended 31 December 2021 ("**FY2021**") and the year ended 31 December 2022 ("**FY2022**") as extracted from the final results announcement of the Company for FY2022:

LETTER FROM THE DONVEX CAPITAL

	FY2021 <i>HK\$'000</i> (Audited)	FY2022 <i>HK\$'000</i> (Audited)
Total revenue	6,751,277	6,053,645
(Loss)/Profit after taxation	270,258	(93,164)
	As at	
	31 December 2021	31 December 2022
	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i> (Audited)
Total assets	5,748,390	5,046,765
Total liabilities	1,989,292	1,622,998
Net assets	3,759,098	3,423,767

Revenue

The revenue of the Group decreased from approximately HK\$6,751 million for FY2021 to approximately HK\$6,054 million for FY2022, which was mainly due to the decrease in the revenue from the production and sales of dyed fabrics and yarns as a result of the reduction in foreign orders for textile and apparel due to Russia-Ukraine war for FY2022.

Profit after taxation

The Group has turned around from consolidated profit after taxation of approximately HK\$270 million for FY2021 to consolidated loss after taxation of approximately HK\$93 million for FY2022, which was mainly due to (i) the reduction of consumers' purchasing power as a result of COVID-19 pandemic, overall global inflation, and Russia-Ukraine war; and (ii) a one-off redundancy compensation paid to certain employees of the Group.

Total assets

The consolidated total assets of the Group decreased from approximately HK\$5,748 million as at 31 December 2021 to approximately HK\$5,046 million as at 31 December 2022, which was mainly due to the decrease in the inventories.

Total liabilities

The consolidated total liabilities of the Group decreased from approximately HK\$1,989 million as at 31 December 2021 to approximately HK\$1,623 million as at 31 December 2022. Such decrease was mainly due to the fact that the Group's trade and bill payables turnover period shortened in FY2022.

Net assets

The net assets of the Group decreased from approximately HK\$3,759 million as at 31 December 2021 to approximately HK\$3,424 million as at 31 December 2022, which was mainly due to the decrease in the profit after taxation of the Group in FY2022.

2. Chinatex and the Chinatex Group

As at the Latest Practicable Date, Chinatex is a directly wholly-owned subsidiary of COFCO, a state-owned enterprise established in the PRC and a direct wholly-owned subsidiary of SASAC.

The Chinatex Group is principally engaged in the business of manufacturing and sale of yarns, cotton, garments and oil and foodstuff.

3. COFCO Finance

COFCO Finance is a non-banking financial institution established in the PRC in 2002 and holds a finance license granted by CBIRC. As at the Latest Practicable Date, COFCO Finance is an indirect wholly-owned subsidiary of COFCO. It is subject to the supervision of CBIRC. COFCO Finance is authorized to provide services such as (a) financial consultation services, credit appraisal and consulting services and agency business services; (b) deposit services, loans and bills acceptance and discounting; (c) payment and receipt settlement; and (d) loans and financing leases.

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The tables below set forth a summary of the key financial information of COFCO Finance for FY2021, FY2022, the three months ended 31 March 2022 (“**3M2022**”), and three months ended 31 March 2023 (“**3M2023**”):

	FY2021 <i>RMB'000</i> (Audited)	FY2022 <i>RMB'000</i> (Audited)	3M2022 <i>RMB'000</i> (Unaudited)	3M2023 <i>RMB'000</i> (Unaudited)
Net interest income	272,007	237,433	77,927	57,982
Profit after taxation	163,288	153,455	76,282	78,456

	31 December 2021 <i>RMB'000</i> (Audited)	As at 31 December 2022 <i>RMB'000</i> (Audited)	31 March 2023 <i>RMB'000</i> (Unaudited)
Total assets	28,290,428	32,943,454	34,251,161
Total liabilities	23,914,245	28,413,223	29,640,681
Net assets	4,376,183	4,530,231	4,610,480

Net interest income

The net interest income of COFCO Finance decreased from approximately RMB272 million for FY2021 to approximately RMB237 million for FY2022, which was mainly due to the increase in the interest expenses paid for the deposits from COFCO and its subsidiaries.

The net interest income of COFCO Finance decreased from approximately RMB78 million for 3M2022 to approximately RMB58 million for 3M2023, which is mainly due to the increase in the interest expenses paid for the deposits from COFCO and its subsidiaries.

Profit after taxation

The profit after taxation of COFCO Finance decreased from approximately RMB163 million for FY2021 to approximately RMB153 million for FY2022, which is mainly due to the decrease in the net interest income.

The profit after taxation of COFCO Finance increased from approximately RMB76 million for 3M2022 to approximately RMB78 million for 3M2023, which is mainly due to the reverse of the expected credit loss as a result of the decrease in the amount of loans.

Total assets

The total assets of COFCO Finance amounted to approximately RMB28,290 million as at 31 December 2021, approximately RMB32,943 million as at 31 December 2022 and approximately RMB34,251 million as at 31 March 2023. The overall increase is mainly due to the increase in the deposits with banks and other financial institutions.

Total liabilities

The total liabilities of COFCO Finance amounted to approximately RMB23,914 million as at 31 December 2021, approximately RMB28,413 million as at 31 December 2022 and approximately RMB29,641 million as at 31 March 2023. The overall increase is mainly due to the increase in the deposit from COFCO and its subsidiaries.

As a financial institution regulated by CBIRC, COFCO Finance is required to operate in compliance with Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法)(the “**Measures**”) to prevent possible financial risk, including credit risk. Pursuant to the Measures, it requires the following:

- (i) in the event that COFCO Finance falls into financial difficulty, COFCO undertakes that they would provide financial support to COFCO Finance to satisfy its capital need, such as additional capital injection into COFCO Finance, to restore its financial position; and
- (ii) COFCO Finance is required to comply with certain financial ratio requirements set by CBIRC from time to time. As provided by the Company, the below table sets out the key financial ratios of COFCO Finance as at 31 December 2022 and 31 March 2023 respectively:

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Financial ratios	Requirements of CBIRC	As at 31 December 2022	As at 31 March 2023
Capital adequacy ratio	Not less than 10.5%	17.89%	18.71%
Inter-bank borrowing balance to total capital ratio	Not more than 100%	0.00%	0.00%
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	13.61%	0.00%
Total amount of investment to total capital ratio	Not more than 70%	6.89%	27.09%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.04%	0.04%

As set out in the table above, COFCO Finance complied with the key financial ratio requirements set by CBIRC as at 31 December 2022 and 31 March 2023.

In addition, pursuant to the article of association of COFCO Finance, in the event that COFCO Finance has financial difficulties, COFCO undertakes that it will provide financial support to COFCO Finance to resolve the financial difficulties by COFCO Finance. Based on the above, there is no limit to the provision of working capital by COFCO under such circumstances.

As such, we are of the view that the Measures would mitigate the credit risk exposed to the Company when COFCO Finance provides Deposit Services to the Group.

Assessment on the undertaking of COFCO

In our assessment on the sufficiency of the undertaking by COFCO, we have reviewed (a) the management account as at/for the three months ended 31 March 2023 of COFCO; (b) the breakdown of the balance of bank credit facility of COFCO as at 31 March 2023; and (c) the latest credit rating report of COFCO issued on 15 July 2022 by China Lianhe Credit Rating Co., Ltd. (聯合資信評估股份有限公司), one of the major credit rating agencies approved by China Securities Regulatory Commission to carry out credit rating service. We noted that:

- (i) the net working capital, which is calculated by current assets (excluding bank balances and cash) less current liabilities (excluding interest-bearing debt), of COFCO Finance amounted to approximately RMB2,196 million as at 31 March 2023, representing approximately 11% of the net working capital of COFCO of approximately RMB19,803 million as at 31 March 2023. As such, the working capital of COFCO Finance is relatively insignificant to the working capital of COFCO. In the event that COFCO Finance has any financial difficulties, the financial support to be provided by COFCO will not have significant adverse impact on its financial position. Such financial support will not lead to financial distress of COFCO or non-compliance with the Measures. Therefore, the undertaking by COFCO is meaningful and practical;
- (ii) the bank balances and cash of COFCO as at 31 March 2023 amounted to approximately RMB2,707 million and the balance of unused bank credit facility of COFCO as at 31 March 2023 amounted to approximately RMB518,000 million, the sum of which is sufficient to cover the Revised Deposit Annual Cap of RMB155 million; and
- (iii) the corporate credit rating of COFCO is “AAA” (based on the aforementioned credit rating report), indicating that COFCO has a strong capacity to meet financial commitments with a remote risk of default.

As such, we are of the view that COFCO has the capacity to provide financial support to COFCO Finance to restore its financial position in the event that COFCO Finance falls into financial difficulty.

B. Chinatex Supplemental Agreement and revision of the Existing Chinatex Annual Caps

1. Background

On 16 December 2021, the Company entered into the Existing Material Purchase Framework Agreement with Chinatex, pursuant to which the Chinatex Group agreed to supply yarns, cotton and other materials to the Group for the manufacture of fabric, garments and cooking oil and foodstuffs for a term of three years commencing from 1 January 2022 to 31 December 2024.

On 15 May 2023, the Company entered into the Chinatex Supplemental Agreement with Chinatex to revise the Existing Chinatex Annual Caps. Save for the revision of the Existing Chinatex Annual Caps, all other terms and conditions under the Existing Material Purchase Framework Agreement remain unchanged.

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2. *Reasons for and benefits of the revision of the Existing Chinatex Annual Caps*

As stated under the section headed “B. Chinatex Supplemental Agreement and revision of the Existing Chinatex Annual Caps – 5. Analysis on the Revised Chinatex Annual Caps” below, taking into account (i) the saving of the transportation time relating to yarns and cotton and the rental cost of warehouses by the Group due to the establishment of specialized warehouses located in the same cities of the factories of the Group by the Chinatex Group; and (ii) the predetermined fixed price of yarns and cotton provided by the Chinatex Group to the Group, the Directors expected that the purchase volume of yarns and cotton from the Chinatex Group by the Group will increase in FY2023 and FY2024. As such, the Existing Chinatex Annual Caps for FY2023 and FY2024 would be insufficient and need to be revised upwards to accommodate the latest business development of the Group.

3. *Principal terms of the Chinatex Supplemental Agreement*

(1) *Date*

15 May 2023

(2) *Parties*

- (i) the Company; and
- (ii) Chinatex

(3) *Subject Matter*

Pursuant to the Chinatex Supplemental Agreement, upon the approval by the Independent Shareholders at the AGM, the Existing Chinatex Annual Caps shall be revised to the Revised Chinatex Annual Caps under the Chinatex Supplemental Agreement as follows:

	For the year ended/ending 31 December		
	2022	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Existing Chinatex Annual Caps	63,000	63,000	63,000
Revised Chinatex Annual Caps	63,000	363,000	363,000

(4) *Pricing Policy*

As a general principle, the price and terms of the individual order in respect of the transactions under the Chinatex Supplemental Agreement would be on normal commercial terms, negotiated on an arm's length basis and shall be on terms which are no less favorable to the Group than those provided by independent third party suppliers.

Subject to the general principle above, the purchase price payable by the Group under the individual orders in respect of the transactions under the Chinatex Supplemental Agreement will be determined with reference to the following:

- (i) the prevailing market prices of similar products;
- (ii) the quality and prices of the products offered by other independent third party suppliers; and
- (iii) the expected cost to be incurred by the Chinatex Group in providing such products.

In addition, the Group would make reference to the China Statistical Yearbook, an annual statistics publication which is published by China Statistics Press, a specialized publisher under the National Bureau of Statistics of the PRC. It provides comprehensive data on the economic and social development of China, including the price indices of certain commodities such as cotton and cooking oil.

4. *Assessment on the internal control procedures of the pricing method*

In assessing the internal control associate with the continuing connected transactions contemplated under the Existing Material Purchase Framework Agreement, we have carried out the following procedures:

- (i) we have randomly selected seven transactions (two transactions for each of the year ended 31 December 2020 (“FY2020”), FY2021, FY2022 and one transaction for 3M2023) of the purchase of materials from the Chinatex Group by the Group, and noted that when determining the purchase price of an individual order, the Group has obtained the quotations by email from at least three independent suppliers to get a reference on the prevailing market prices for the products to be procured. The prices of the above transactions (a) were determined with reference to the prevailing market price; and (b) were no less favorable than those offered by the independent third parties of the Company.

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- (ii) we noted from the annual report of the Company for FY2022 (“**2022 Annual Report**”) that the INEDs have reviewed the continuing connected transactions contemplated under the Existing Material Purchase Framework Agreement and confirmed that all such transactions had been entered into by the Group (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and (c) in accordance with the terms of the agreements governing such transactions that were fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) we noted from the 2022 Annual Report that the auditor of the Company has confirmed that the continuing connected transactions contemplated under the Existing Material Purchase Framework Agreement (a) had been approved by the Board; (b) were in accordance with the pricing policies of the Group; (c) had been entered into in accordance with the terms of the agreements governing the transactions; and (d) had not exceeded the Existing Chinatex Annual Caps; and
- (iv) we noted from the 2022 Annual Report that, if a Director had a conflict of interest in a transaction or proposal to be considered by the Board and such transaction or proposal was considered to be material by the Board, the individual Director had to declare his interest and was required to abstain from voting on any matter in which he or any of his close associates (as defined in the Listing Rules) had a material interest and that he would not be counted in the quorum present at the Board meeting. We have randomly selected one minute of the board meeting convened in FY2022, and noted that all the Directors in the Board meeting have declared as to whether they have conflict of interest in the issues contemplated under the board meeting.

Taking into account the above, we are of the view that

- (i) the continuing connected transactions contemplated under the Existing Material Purchase Framework Agreement have complied with the requirements under the internal control measures of the Group. As such, it is expected that the transactions contemplated under the Existing Material Purchase Framework Agreement would be carried out in compliance with the internal control measures of the Company; and
- (ii) the Group has adequate internal control policies and procedures in place to ensure that the transactions under Existing Material Purchase Framework Agreement would be conducted in accordance with the pricing policy of the Group and the Revised Chinatex Annual Caps would not be exceeded.

5. Analysis on the Revised Chinatex Annual Caps

(1) The historical transaction amounts, the Existing Chinatex Annual Caps and the Revised Chinatex Annual Caps

The following table sets forth (i) the utilization of the annual caps for the year ended 31 December 2019 (“**FY2019**”), FY2020, FY2021, FY2022 and the year ending 31 December 2023 (“**FY2023**”); and (ii) the comparison between the Existing Chinatex Annual Caps and the Revised Chinatex Annual Caps for FY2023 and the year ending 31 December 2024 (“**FY2024**”):

		FY2019	FY2020	FY2021	FY2022	FY2023		FY2024	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
						Existing	Revised	Existing	Revised
Historical transaction amount	a	22,924	6,507	1,224	18,461	3,386 <i>(Note)</i>	N/A	N/A	N/A
Annual cap	b	63,000	63,000	63,000	63,000	63,000	363,000	63,000	363,000
Utilization rate	c=a/b	36.4%	10.3%	1.9%	29.3%	5.4%	N/A	N/A	N/A

Note: The amount of approximately HK\$3 million represented the historical transaction amount for 3M2023.

(2) Analysis on the low utilization rate for FY2019, FY2020, FY2021 and FY2022

For FY2019, the provision of yarns, cotton and other materials provided by the Chinatex Group to the Group amounted to approximately HK\$23 million, representing approximately 36.4% of the existing annual cap for the same period. The low utilization rate was mainly attributable to the fact that the members of the Group did not purchase as many yarns, cotton and other materials from the Chinatex Group as expected because the price and/or the terms of the yarns, cotton and other materials offered by the independent third parties were more favorable than those provided by the Chinatex Group.

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For FY2020, the provision of yarns, cotton and other materials by the Chinatex Group to the Group amounted to approximately HK\$7 million, representing approximately 10.3% of the existing annual cap for the same period. The low utilization rate was mainly attributable to the fact that the frequent implementation of quarantine control measures for the COVID-19 in various cities in PRC caused the suspension of production of the Group. As such, the demand of yarns, cotton and other materials used for manufacturing by the Group was less than expected when determining the annual caps for FY2020.

For FY2021, the provision of yarns, cotton and other materials by the Chinatex Group to the Group amounted to approximately HK\$1 million, representing approximately 1.9% of the existing annual cap for the same period. The low utilization rate was mainly attributable to the fact that the members of the Group did not purchase as many yarns, cotton and other materials from Chinatex Group because the price and/or the terms of the yarns, cotton and other materials offered by the independent third parties were more favorable than those provided by Chinatex Group.

For FY2022, the provision of yarns, cotton and other materials by the Chinatex Group to the Group amounted to approximately HK\$18 million, representing approximately 29.3% of the existing annual cap for the same period. The low utilization rate was mainly attributable to the reduction in the production volume in one of the fabric mills of the Group for FY2022 as a result of the decrease in the sales orders of the Group from European and American markets. As such, the purchase of yarns, cotton and other materials by the Group from the Chinatex Group was less than expected.

(3) *Assessment on the Revised Chinatex Annual Caps*

We noted that the Revised Chinatex Annual Caps for FY2023 and FY2024 have increased by approximately 476.2% as compared to the Existing Chinatex Annual Cap for the same period.

As discussed with the management of the Company, we understand that the volume of the yarns and cotton to be purchased from Chinatex Group is expected to increase for FY2023 and FY2024 despite the fact that the overall demand for the yarns and cotton of the Group will remain stable for the same periods. Such increase in the Chinatex Annual Caps is mainly due to the following reasons:

(i) The members of the Group will be able to save the transportation time and rental cost of warehouses

The members of the Group will be able to save the transportation time relating to yarns and cotton and the rental cost of warehouses when purchasing the above materials from the Chinatex Group as compared to the purchase from independent third parties due to the close proximity between the Chinatex Group and the members of the Group. Chinatex has established warehouses located in the same cities of the factories of the members of the Group in Jiangsu Province and Guangdong Province to provide yarns and cotton to the members of the Group. Due to the close proximity between the above warehouses and the factories of the members of the Group, (a) the distance of the delivery of the yarns and cotton can be substantially reduced and the Group will be able to save the time for delivering the yarns and cottons; and (b) the members of the Group will be able to purchase yarns and cottons from the Chinatex Group on a just-in-time basis when the members of the Group are in need of the above material for manufacturing. As such, the Group does not need to purchase a large volume of the yarns and cotton before the manufacturing process. Therefore, the Group is able to reduce the inventory level and save the rental cost of warehouses.

In terms of the warehouses, we have (a) noted that Chinatex has established several warehouses located in the same cities of the main factories of the Group in Jiangsu Province and Guangdong Province; (b) reviewed the location of the warehouses which have been established by Chinatex; and (c) reviewed the available storage capacity of the established warehouses, which is sufficient to satisfy the needs for storage of yarns and cotton of the factories of the Group. We are advised by the management of the Company that Chinatex will place purchasing orders with independent suppliers of yarns and cotton based on the manufacture plan of the members of the Group. Thereafter, the yarns and cotton purchased by Chinatex will be stored in the abovementioned established warehouses. Whenever the members of the Group need the above material for manufacturing, they will be able to purchase the yarns and cotton from Chinatex which will transport such material from the warehouses to the factories of the Group located in the same cities on a just-in-time basis. As such, instead of delivering the material from the Chinatex Group to the factories of the Group located in different cities in the past, the transportation time of delivering the yarns and cotton from the abovementioned warehouses to the factories of the Group will be reduced. Since the Group will not need to purchase and store excessive yarns and cotton before the manufacturing process, the inventory level of the Group will be reduced and rental cost of warehouses will be lowered.

(ii) The Chinatex Group will provide the yarns and cotton at a fixed price to the members of the Group

The Chinatex Group will provide the yarns and cotton at a fixed price to the members of the Group. The management of the Company considered that the purchase price of yarns and cotton will be volatile due to escalation of Russia-Ukraine wars. As such, the purchase of cotton and yarns from the Chinatex Group at a predetermined fixed price will help the members of the Group to control the cost of manufacturing the products.

In view of the volatility of the purchase price of cotton and yarns as advised by the management of the Company, we have performed research and reviewed a research report in respect of the price trend of the yarns and cotton, namely, Short-term uncertainty of cotton price is large while price may increase in the long run* (《棉花短期不確定性大長期價格重心或上移》) (website: https://www.cfachina.org/servicesupport/analygarden/ncpl/mh_5786/202304/P020230404586632847398.pdf) dated 30 March 2023, issued by Galaxy Futures Co., Ltd, a security firm established in the PRC. Pursuant to the above research report, the price of cotton is expected to rise for FY2023 due to the increase in the demand for garments. As such, we concur with the view of the management of the Company that, given the purchase price of yarns and cotton will be volatile, it is expected that purchase of cotton and yarns from the Chinatex Group at a predetermined fixed price will improve the cost control of the Group.

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To arrive at our view on the Revised Chinatex Annual Caps, we have reviewed the breakdown of the Revised Chinatex Annual Caps and noted that the Revised Chinatex Annual Caps were determined with reference to:

- (i) the estimated volume of yarns and cotton to be purchased by the members of the Group from the Chinatex Group for FY2023 and FY2024, which is determined based on the volume of yarns and cotton purchased by the member of the Group from the Chinatex Group for FY2022 and the estimated growth rate of the demand for the yarns and cotton of the members of the Group from the Chinatex Group for FY2023 and FY2024; and
- (ii) the estimated price of the yarns and cotton for FY2023 and FY2024, which is determined based on the market price of yarns and cotton as at 31 March 2023.

Regarding the volume of yarns and cotton, we have obtained and reviewed the breakdown of the estimated volume of yarns and cotton to be purchased by the members of the Group under the Revised Chinatex Annual Caps for FY2023 and FY2024 and noted that the above estimated volume will amount to approximately 28.7 million pounds, which is approximately six times the estimated volume of the yarns and cotton purchased by the members of the Company from the Chinatex Group in determining the Existing Chinatex Annual Caps for FY2022. Such estimated volume of yarns and cotton is determined with reference to the lower of (a) the total estimated volume of yarns and cotton to be used for the manufacturing of the products by the Group for FY2023; and (b) the anticipated volume of yarns and cotton which can be provided by the warehouses of the Chinatex Group for FY2023.

Regarding the unit price used to determine the Revised Chinatex Annual Caps, we have performed due diligence work by reviewing a research report in relation to the price of yarns and cotton in March 2023 (website: <https://www.china-cotton.org/app/html/2023/04/20/94686.html>) dated 20 April 2023, issued by China Cotton Association, a Chinese non-profit federation specializing in cotton. According to the aforementioned research report, the average selling price of yarns and cotton ranged from approximately RMB22,000 per ton to approximately RMB24,000 per ton during March 2023. We noted that the estimated purchase prices of yarns and cotton per ton for the Revised Chinatex Annual Cap fall within the above range. Based on the above, we are of the opinion that the unit price used to determine the Revised Chinatex Annual Caps is fair and reasonable.

Having considered all the factors as mentioned above, we are of the view that the Revised Chinatex Annual Caps under the Chinatex Supplemental Agreement for FY2023 and FY2024 are fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

C. COFCO Finance Supplemental Agreement and revision of the Existing Deposit Annual Cap

1. Background

On 14 July 2022, the Company entered into the Existing Financial Services Agreement with COFCO Finance, pursuant to which COFCO Finance agreed to provide the Deposit Services, the Loan Services and the Other Financial Services to the Group for a term of three years commencing from 14 July 2022 to 13 July 2025.

On 15 May 2023, the Company entered into the COFCO Finance Supplemental Agreement with COFCO Finance to revise the Existing Deposit Annual Cap. Save for the revision of the Existing Deposit Annual Cap, all other terms and conditions under the Existing Financial Services Agreement remain unchanged.

2. Reasons for and benefits of the revision of the Existing Deposit Annual Cap

As stated under the section headed "C. COFCO Finance Supplemental Agreement and revision of the Existing Deposit Annual Cap – 5. Analysis on the Revised Deposit Annual Cap" below, taking into account (i) the expected increase in bank balances and cash of the members of the Group for the three years ending 13 July 2025; and (ii) the provision of more favorable interest rate for deposit by COFCO Finance to the members of the Group, the Directors expected that the amount of deposit placed by the members of the Group at COFCO Finance will increase for the three years ending 13 July 2025. As such, the Existing Deposit Annual Cap for the three years ending 13 July 2025 would be insufficient and needs to be revised upwards to accommodate the latest business development of the Group.

3. Principal terms of the COFCO Finance Supplemental Agreement

(1) *Date*

15 May 2023

(2) *Parties*

(i) the Company; and

(ii) COFCO Finance

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(3) *Subject Matter*

Pursuant to the COFCO Finance Supplemental Agreement, upon the approval by the Independent Shareholders at the AGM, the Existing Deposit Annual Cap shall be revised to the Revised Deposit Annual Cap under the COFCO Finance Supplemental Agreement as follows:

**Maximum daily balance of deposits (including accrued interests)
placed by the Group with COFCO Finance
for the three years ending 13 July 2025**
RMB'000

Existing Deposit Annual Cap	55,000
Revised Deposit Annual Cap	155,000

(4) *Pricing Principles*

The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard deposit rates promulgated by the PBC from time to time. The interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the standard deposit rates promulgated by the PBC or the interest rates offered by the major PRC commercial banks for the same type of deposits during the same period. The list of principal PRC commercial banks of the Company and their respective interest rates, which is used for the benchmark of the interest rates, is subject to monthly review by the finance department of the Company.

4. Assessment on the internal control procedures

In assessing the internal control associate with Deposit Services, we have randomly selected two samples for the period from 14 July 2022 to 31 March 2023 in relation to the Deposit Services and noted that the interest rates for deposit paid by COFCO Finance in the two samples were both 0.45%, which was not lower than (i) the standard deposit rate of 0.35% promulgated by the PBC for the same type of deposit for the same period; and (ii) the interest rate of 0.25% offered by the major PRC commercial banks for the same type of deposits during the same period.

We have obtained the list of principal PRC commercial banks of the Company and noted that the finance department of the Company would obtain and compare the interest rates of the banks on the list of systemically important banks* (系統重要性銀行名單) issued by PBC and CBIRC with the interest rates of the principal PRC commercial banks of the Company. We have noted that the finance department of the Company will review the abovementioned list on a monthly basis and update such list when (i) the PBC and CBIRC update the list of systemically important banks; or (ii) when the PBC adjusts the interest rates in relation to the Deposit Services. We have compared the list of principal PRC commercial banks of the Company, which includes Bank of China, Industrial and Commercial Bank of China and China Construction Bank, with the list of systemically important banks issued by PBC and CBIRC in September 2022 and noted that all the principal PRC commercial banks of the Company are included in the list of systemically important banks issued by PBC and CBIRC.

Taking into account the above, we are of the view that the Group has adequate internal control policies and procedures in place to ensure that the Deposit Services would be conducted in accordance with the pricing policy of the Group.

5. Analysis on the Revised Deposit Annual Cap

(1) *The historical transaction amounts, the Existing Deposit Annual Cap and the Revised Deposit Annual Cap*

The following table sets forth (i) the comparison between the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance under the Existing Financial Services Agreement for the period from 14 July 2022 to 31 March 2023 and the Existing Deposit Annual Cap for the year ending 13 July 2023; and (ii) the comparison between the Existing Deposit Annual Cap and the Revised Deposit Annual Cap:

		For the year ending 13 July					
		2023		2024		2025	
		RMB'000 Existing	RMB'000 Revised	RMB'000 Existing	RMB'000 Revised	RMB'000 Existing	RMB'000 Revised
Maximum daily balance	a	55,000 <i>(Note)</i>	N/A	N/A	N/A	N/A	N/A
Annual cap	b	55,000	155,000	55,000	155,000	55,000	155,000
Utilization rate	c=a/b	100%	N/A	N/A	N/A	N/A	N/A

Note: The amount of RMB55 million represented the maximum daily balance of deposits (including accrued interests) placed by the Group to COFCO Finance for the period from 14 July 2022 to 31 March 2023.

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(2) *Assessment on the Revised Deposit Annual Cap*

We noted that the Revised Deposit Annual Cap for the three years ending 13 July 2023 has increased by approximately 182.8% as compared to the Existing Deposit Annual Cap for the same period.

As discussed with the management of the Company, we understand that, when determining the Revised Deposit Annual Cap, the Company has considered the following:

- (i) up to 31 March 2023, the Existing Deposit Annual Cap has been fully utilized;
- (ii) the Group is expected to increase the amount of deposit placed with COFCO Finance for the purpose of centralising the management of daily funds under the COFCO's regulations;
- (iii) given that the interest rates paid by COFCO Finance to the members of the Group are more favourable as compared with those promulgated by PBC or those offered by the major PRC commercial banks, the Group has the incentive to place more deposit with COFCO Finance to increase the return of the idle funds of the Group; and
- (iv) an appropriate buffer for allowing a more than expected increase in revenue generated by the Group from 2023 to 2025 and thus the deposit amount and deposit interest during the remaining term of the Existing Financial Services Agreement.

To arrive at our view on the Revised Deposit Annual Cap, we have performed the following analysis:

- (i) we have reviewed the basis of the Revised Deposit Annual Cap and noted that it is determined with reference to (a) the average working capital of the Company's subsidiaries operating in the PRC as at 31 December 2020, 2021, and 2022 of approximately RMB145 million (the "**Average Working Capital**"); and (b) a buffer of approximately 10.7% determined with reference to the historical compound annual growth rate of the Group's revenue from FY2020 to FY2022 for allowing a more than expected increase in revenue generated by the Group from 2023 to 2025; and
- (ii) we have reviewed the breakdown of the Average Working Capital. The Existing Deposit Annual Cap of RMB55 million only accounts for approximately 38% of the Average Working Capital. In light of the above, the management of the Company was of the view that the Existing Deposit Annual Cap is insufficient to accommodate the latest business development of the Group and needs to be revised upwards.

Having considered all the factors as mentioned above, we are of the view that the Revised Deposit Annual Cap under the COFCO Finance Supplemental Agreement for the three years ending 13 July 2025 are fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the Revision of Existing Annual Caps is in the Company's ordinary and usual course of business. The terms of the Supplemental Agreements are on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the AGM to approve the Supplemental Agreements and the Revision of Existing Annual Caps and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 21 years of experience in corporate finance advisory.

* For identification purposes only

The biographical and other details of the Retiring Directors proposed to be re-elected at the AGM are set out as follows:

Mr. LI Gang

Mr. LI, aged 43, was appointed as an executive Director and the vice-president of the Company with effect from 1 June 2023. He is qualified as a senior economist and has over nine years of experience in the textile industry and 16 years of experience in strategic research and planning, strategy implementation and investment project management.

From August 2007 to July 2011, Mr. LI acted as a deputy manager of strategic projects department of the wheat processing division at COFCO. From June 2011 to January 2014, Mr. LI served as an assistant to the general manager of the strategic development department of Sinofert Holding Limited. From January 2014 to May 2017, Mr. LI acted as a vice general manager of the strategic development department and a director of the strategic research office at Chinatex. From May 2017 to November 2021, Mr. LI acted as a vice general manager of strategic investment department at Chinatex. Since November 2021, Mr. LI has acted as the general manager of the strategic investment department of Chinatex.

In July 2001, Mr. LI obtained his bachelor's degree in management science at Hubei University of Technology. In July 2004, Mr. LI obtained his master's degree in Economics from Zhongnan University of Economics and Law. In July 2007, Mr. LI graduated from Renmin University with a doctorate degree in Economics.

Mr. LI entered into a service agreement with the Company commencing from 1 June 2023. His appointment as an executive Director is for a term of three (3) years while his appointment as the vice president of the Company shall not be subject to any term. The service agreement is terminable by either the Company or Mr. LI by giving no less than six months' advance notice in writing to each other. Mr. LI is subject to retirement and re-appointment in accordance with the Articles of Association. Pursuant to the service agreement with Mr. LI, he will not receive emoluments in his capacity as an executive Director. Mr. LI will receive the remuneration as the vice president of the Company of HK\$1,696,000 per annum, out of which, the fixed salary is HK\$1,176,000 (HK\$98,000 per month) and the performance-based salary is HK\$520,000 (which is linked to performance targets and payable when the performance targets are achieved). Mr. LI's remuneration has been determined with reference to the prevailing market condition, his experience and job duties and the Company's remuneration policy. Such remuneration has been recommended by the Remuneration Committee and approved by the Board and subject to review on a periodical basis by the Board and the Remuneration Committee.

Mr. NG Kwok Tung

Mr. NG, aged 72, joined the Board in 1993 as an INED, and was then appointed as the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. NG is a practising accountant. He is also the non-executive director of Wah Ha Realty Company Limited, being a listed company in Hong Kong. He holds a Bachelor of Commerce Degree and a Licentiate in Accountancy from McGill University, Canada and a Diploma in Chinese Law from the University of East Asia, Macao. Mr. NG is a member of each of Hong Kong Institute of Certified Public Accountants, Institute of Chartered Professional Accountants of British Columbia, Order of Chartered Professional Accountants of Quebec, The Canadian Institute of Chartered Professional Accountants, The Taxation Institute of Hong Kong, The Society of Chinese Accountants and Auditors and the Society of Registered Financial Planners in Hong Kong.

Mr. NG has entered into a letter of appointment (the "**First Letter of Appointment**") with the Company for a term of 1 year, which is terminable by either the Company or Mr. NG by giving no less than 1 month's advance notice in writing to each other. Mr. NG's position as an INED is subject to renewal, retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association. Pursuant to the First Letter of Appointment, Mr. NG is entitled to a director's fee of HK\$250,000 per annum, which has been determined by the Board upon the Remuneration Committee's recommendation by reference to his duties and responsibilities in the Company, the Company's remuneration policy and the Articles of Association.

Mr. NG has served as an INED for more than 9 years. He is not involved in the daily management of the Company and does not have any relationship or is not under any circumstance which would interfere with his ability to carry out his duties as an INED impartially and independently. In addition, Mr. NG continues to demonstrate the attributes of an INED and there is no evidence that his tenure has any impact on his independence. In light of the above, the Board is of the opinion that Mr. NG remains independent notwithstanding the length of his service and the Board believes that his valuable knowledge and experience in the Group's business and his general business acumen continue to generate significant contribution to the Company and the Shareholders as a whole. As such, the Board recommends Mr. NG for re-election as an INED at the AGM.

Mr. William LAM

Mr. LAM, aged 64, was appointed as an INED, a member of the Audit Committee and a member of the Nomination Committee on 9 May 2016. Mr. LAM is a solicitor of the Hong Kong Special Administrative Region and the Supreme Court of England and Wales, and a civil celebrant of marriages in Hong Kong.

Mr. LAM graduated from the University of Manchester, England in 1981 with a Bachelor of Science Degree in Electronics and Electrical Engineering. His major study included computer design, power transmission and telecommunications. He is also a member of the Institute of Electrical and Electronics Engineers (M.I.E.E.E.) in the United States of America. After obtaining his Bachelor's Degree, he studied laws at the Manchester Polytechnic (now known as Manchester Metropolitan University), England and the College of Law in Chester, England, respectively.

Mr. LAM returned to Hong Kong in 1984 to work in family business of Tai Sun Company (a member of The Hong Kong-Kowloon Yarn and Fabrics Association), and Shing Fung Finance Company Limited, both founded by his late father Mr. LAM Muk Kwong in 1958 and 1972, respectively.

In 1992, Mr. LAM furthered his studies in laws at the University of Hong Kong and obtained a Postgraduate Certificate in Laws (PCLL) and was admitted as a solicitor of the Supreme Court of Hong Kong in 1994 and of the Supreme Court of England and Wales in the following year. In 1999, Mr. LAM founded William Lam and Company, Solicitors to start his own practice in law.

Mr. LAM also serves in many areas. He is an executive committee member of the Federation of Hong Kong Guangdong Community Organisations, the founding president of the University of Manchester Alumni Association of Hong Kong, General Committee of Yau Yat Chuen Garden City Club Ltd. and a member of the InnoTech Committee of the Law Society of Hong Kong from 18 January 2005 to 30 September 2020 and was a co-opted member of the Chinese Temples Committee from 2009 to 2015. Mr. LAM has also acted as the legal advisor of various organisations, such as the Hong Kong General Chamber of Textiles Limited, the Chamber of the Hong Kong Computer Industry, the Hong Kong Information Technology Joint Council, the Hong Kong WEEE Recycling Association, the Hong Kong Society of Medical Professionals, the Hong Kong Software Industry Association, the Government Doctors' Association and the Hong Kong New Youth Energy Think Tank.

Mr. LAM has entered into a letter of appointment (the **"Third Letter of Appointment"**) with the Company for a term of 1 year, which is terminable by either the Company or Mr. LAM by giving no less than 1 month's advance notice in writing to each other. Mr. LAM's position as an INED is subject to renewal, retirement by rotation and re-election at AGM in accordance with the Articles of Association.

Pursuant to the Third Letter of Appointment, Mr. LAM is entitled to a director's fee of HK\$200,000 per annum, which has been determined by the Board upon the Remuneration Committee's recommendation by reference to his duties and responsibilities in the Company, the Company's remuneration policy and the Articles of Association.

Mr. YING Wei

Mr. YING, aged 56, was appointed as an INED, the chairman of the Remuneration Committee and a member of the Nomination Committee on 1 January 2015. Mr. YING holds a Master's Degree in Business Administration from the University of San Francisco and a Bachelor's Degree in Economics from the Zhejiang Gongshang University (formerly known as Hangzhou Institute of Commerce). He is a non-practising member of the Chinese Institute of Certified Public Accountants. For the period from 1989 to 2007, Mr. YING served as an executive director and the vice president of China Resources Textiles (Holdings) Company Limited. Between 2007 and 2009, he served as the vice president of China Water Affairs Group Limited, a company listed on the main board of Hong Kong Stock Exchange. From 21 July 2008 to 30 July 2009, he held the position of an executive director and the president of China City Infrastructure Group Ltd. (formerly known as China Botanic Development Holdings Limited), a company listed on the main board of Hong Kong Stock Exchange. From September 2011 to February 2022, he was an independent non-executive director of CHTC Fong's International Company Limited, a company listed on the main board of Hong Kong Stock Exchange. From May 2016 to February 2021, he served as a director of Giant Network Group Co., Ltd (formerly known as Chongqing New Century Cruises Co., Ltd.), a company listed on Shenzhen Stock Exchange. Currently, Mr. YING is an independent non-executive director of Zhongsheng Group Holdings Limited, a company listed on the main board of Hong Kong Stock Exchange. Mr. YING is also the managing partner of CDH.

Mr. YING has entered into a letter of appointment (the **"Second Letter of Appointment"**) with the Company for a term of 1 year, which is terminable by either the Company or Mr. YING by giving no less than 1 month's advance notice in writing to each other. Mr. YING's position as an INED is subject to renewal, retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association.

Pursuant to the Second Letter of Appointment, Mr. YING is entitled to a director's fee of HK\$200,000 per annum, which has been determined by the Board upon the Remuneration Committee's recommendation by reference to his duties and responsibilities in the Company, the Company's remuneration policy and the Articles of Association.

GENERAL INFORMATION

Save as disclosed above, as at the Latest Practicable Date, Mr. LI, Mr. NG, Mr. YING and Mr. LAM

- (i) did not hold any directorship in other listed companies during the past three years nor any other position in any member of the Group;
- (ii) did not have any relationship with any other Director, senior management, substantial Shareholder or controlling Shareholder; and
- (iii) did not have any interest in the shares, underlying shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. LI, Mr. NG, Mr. YING and Mr. LAM have confirmed that there is no other information to be disclosed pursuant to the requirements under Rule 13.51(2)(h) to (v) of the Listing Rules nor are there any other matters that need to be brought to the attention of the Shareholders in respect of their re-election.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide you with the requisite information for your consideration of the Buy-back Mandate and also constitutes the memorandum required under section 239 of the Companies Ordinance.

1. LISTING RULES

The Listing Rules permit companies whose primary listings are on the Stock Exchange to buy back their shares on the Stock Exchange or on any other stock exchange on which the shares of the companies may be listed and recognised by the SFC and the Stock Exchange for this purpose subject to certain restrictions, the most important of which are summarised below:

- (a) the shares proposed to be bought back by the company are fully-paid up;
- (b) the company has previously sent to its shareholders an explanatory statement complying with the Listing Rules; and
- (c) the shareholders of the company have given a specific approval or a general mandate to the directors of the company to make such buy-back, by way of an ordinary resolution which complies with the Listing Rules and has been passed at a general meeting of the company duly convened and held.

2. SHARE CAPITAL

As at the Latest Practicable Date, there were a total of 1,225,026,960 Shares in issue, all of which were fully paid up.

Subject to the passing of the Ordinary Resolution as referred to in item 6(A) of the notice convening the AGM and on the basis that no further Shares are issued or no Shares are bought back and cancelled between the Latest Practicable Date and the date of the AGM, the Company would be allowed under the Buy-back Mandate to buy back a maximum of 122,502,696 Shares which are fully paid up during the period from the date of the AGM up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held; or (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying such authority, whichever occurs first.

3. REASONS FOR BUY-BACKS

The Directors believe that it is in the best interests of the Company and its Shareholders to have a general authority from the Shareholders to enable the Directors to buy back the Shares on the market.

Such buy-backs may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets value of the Company and/or its earnings per share and will only be made when the Directors believe that such buy-backs will benefit the Company and the Shareholders.

4. FUNDING OF BUY-BACKS

In buying back Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the Companies Ordinance. It is proposed that buy-back of Shares under the Buy-back Mandate in these circumstances would be financed from available cash flow or working capital facilities of the Group.

The Companies Ordinance provides that the Company may make a payment in respect of a redemption or buy-back of its own Shares out of (i) the Company's distributable profits; (ii) the proceeds of a fresh issue of Shares made for the purpose of the redemption or buy-back; or (iii) the capital of the Company. The Companies Ordinance further provides that a listed company must not make a payment out of capital in respect of a buy-back of its own shares on a recognised stock market or on an approved stock exchange.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited consolidated financial statements of the Group for the Year contained in the Company's 2022 Annual Report) in the event that the proposed buy-back of Shares was to be carried out in full at any time during the proposed buy-back period. However, the Directors do not propose to exercise the Buy-back Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	Highest HK\$	Lowest HK\$
2022		
June	1.09	1.05
July	1.16	1.01
August	1.06	1.00
September	1.06	0.83
October	0.89	0.72
November	0.82	0.73
December	0.91	0.79
2023		
January	0.96	0.78
February	0.85	0.79
March	0.88	0.72
April	0.73	0.68
May	0.74	0.64
June (up to and including the Latest Practicable Date)	0.65	0.63

6. UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange that they will exercise the powers of the Company to make share buy-backs pursuant to the proposed Ordinary Resolution as referred to in item 6(A) of the notice convening the AGM in accordance with the Listing Rules and the applicable laws of Hong Kong.

7. EFFECTS ON THE TAKEOVERS CODE

If as a result of the share buy-backs, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition of voting rights for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, COFCO, a controlling Shareholder, together with its close associates were interested in an aggregate of 478,352,000 Shares, representing approximately 39.05% of the total number of Shares in issue. Based on such shareholding, and in the event that the Directors exercised in full the Buy-back Mandate, the beneficial interests of COFCO together with its close associates in the issued Shares would be increased to approximately 43.39% of the total number of Shares in issue. The Directors believe that such an increase will give rise to an obligation of COFCO together with its close associates to make a mandatory offer in respect of all the remaining issued Shares not owned by them under Rule 26 of the Takeovers Code as they will be regarded as having acquired in any period of 12 months additional Shares carrying more than 2% of the voting rights. The Directors have no present intention to exercise the power to buy back Shares pursuant to the Buy-back Mandate to such an extent that COFCO together with its close associates will have an obligation to make a mandatory offer under the Takeovers Code and the number of Shares held by the public would be reduced to less than 25% of the total number of Shares in issue.

Save as aforesaid, the Directors are not aware of any Shareholders or a group of Shareholders acting in concert which will give rise to an obligation to make a mandatory offer under the Takeovers Code as a consequence of any buy-backs made under the Buy-back Mandate.

8. DIRECTORS, THEIR CLOSE ASSOCIATES AND CORE CONNECTED PERSONS

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates presently intend to sell Shares to the Company under the Buy-back Mandate in the event that the Buy-back Mandate is approved by the Shareholders.

The Company has not been notified by any core connected persons that they have a present intention to sell any Shares, or that they have undertaken not to sell any Shares held by them to the Company in the event that the Buy-back Mandate is approved by the Shareholders.

9. SHARES BOUGHT BACK BY THE COMPANY

The Company had not bought back any of the Shares (whether on the Stock Exchange or otherwise) during the 6 months preceding the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Directors	Capacity	Nature of Interests	Number of Shares and Underlying Shares Held	Total	Approximate % of the Issued Shares
Dr. Yen Gordon	Beneficial owner	Personal interest	8,380,000	8,380,000	0.68%
Mr. YAU Hang Tat Andrew	Beneficial owner Spouse's interests	Personal interest Family interest	2,508,000 380,000 <i>(Note)</i>	2,888,000	0.24%

Note: Mr. YAU Hang Tat Andrew is deemed to be interested in 380,000 Shares held by his spouse under the SFO.

3. INTEREST OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following person/entities (other than a Director or the chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who were, directly or indirectly interested in 5% or more of the issued Shares:

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of the Issued Shares
COFCO	Interest of controlled corporations	Corporate interest	478,352,000 <i>(Notes 1 and 2)</i>	478,352,000	39.05
Chinatex	Interest of controlled corporations	Corporate interest	478,352,000 <i>(Notes 1 and 2)</i>	478,352,000	39.05
Chinatex Jinhui Investment Management Co., Ltd.* ("Jinhui")	Interest of a controlled corporation	Corporate interest	409,036,000 <i>(Note 1)</i>	409,036,000	33.39
Chinatex Yieldfull Investment Co., Ltd. ("Yieldfull")	Beneficial owner	Personal interest	409,036,000	409,036,000	33.39
Mr. SUN Weiting ("Mr. SUN")	Interest of controlled corporations	Corporate interest	211,966,000 <i>(Note 3)</i>	211,966,000	17.30
Ms. CHEN Lingfen ("Ms. CHEN")	Interest of controlled corporations	Corporate interest	211,966,000 <i>(Note 3)</i>	211,966,000	17.30

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of the Issued Shares
Huafu Holding Co., Ltd. ("Huafu Holding")	Interest of controlled corporations	Corporate interest	211,966,000 (Note 3)	211,966,000	17.30
Huafu Fashion Co., Ltd. ("Huafu Fashion")	Interest of controlled corporations	Corporate interest	211,966,000 (Note 3)	211,966,000	17.30
Mr. HA Chung Fong ("Mr. HA")	Beneficial owner	Personal interest	107,732,948	107,732,948	8.79
Ms. TANG Kuen Mui ("Ms. TANG")	Spouse's interests	Family interest	107,732,948 (Note 4)	107,732,948	8.79

* For identification purpose only

Notes

- Yieldfull is a wholly-owned subsidiary of Jinhui. Jinhui is a wholly-owned subsidiary of Chinatex and Chinatex is a wholly-owned subsidiary of COFCO. Therefore, each of Jinhui, Chinatex and COFCO is deemed to be interested in the Shares held by Yieldfull under the SFO.
- As at the Latest Practicable Date, Chinatex (H.K.) Holding Limited ("Chinatex (H.K.)") held 69,316,000 Shares as beneficial owner. Chinatex (H.K.) is a wholly-owned subsidiary of Chinatex and Chinatex is a wholly-owned subsidiary of COFCO. Therefore, each of Chinatex and COFCO is deemed to be interested in the Shares held by Chinatex (H.K.) under the SFO.
- Hong Kong Tin Shing Trading Limited ("Tin Shing") held 211,966,000 Shares as beneficial owner. Tin Shing is a wholly-owned subsidiary of Huafu HK Co. Limited ("Huafu HK"). Huafu HK is a wholly-owned subsidiary of Shenzhen Huafu Import and Export Co., Ltd. ("Shenzhen Huafu") and Shenzhen Huafu is a wholly-owned subsidiary of Huafu Fashion. Huafu Fashion is owned as to 30.62% by Huafu Holding and Huafu Holding is owned as to 50% by each of Mr. SUN and Ms. CHEN. Therefore, each of Huafu HK, Shenzhen Huafu, Huafu Fashion, Huafu Holding, Mr. SUN and Ms. CHEN is deemed to be interested in the Shares held by Tin Shing under the SFO.
- Ms. TANG, spouse of Mr. HA, is deemed to be interested in the Shares held by Mr. HA under the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group, which does not expire or which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), subject to retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

5. COMPETING BUSINESS INTEREST OF DIRECTORS

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. LITIGATION

At the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this circular and which are or may be material:

- (a) the Chinatex Supplemental Agreement;
- (b) the COFCO Finance Supplemental Agreement;
- (c) the Existing Material Purchase Framework Agreement;
- (d) the Existing Financial Services Agreement;
- (e) the purchase framework agreement dated 13 December 2022 entered into between the Company and Huafu Holding Co., Ltd;
- (f) the master sales agreement dated 16 December 2021 entered into between the Company and Mr. Siddarth Janak Hirdaramani; and
- (g) the master sales agreement dated 16 December 2021 entered into between the Company and Mr. Feroz Omar.

9. EXPERT'S QUALIFICATION AND CONSENT

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of the expert or professional adviser who has given its opinion or advice contained in this circular:

Name	Qualification
Donvex Capital Limited	A licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, disposed of by, or leased to any member of the Group, since 31 December 2022, the date to which the latest published audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. GENERAL

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up, and up to the Latest Practicable Date.
- (b) None of the Directors was materially interested in any contract, save the service contracts, or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The registered office and principal place of business of the Company is located at Block A, 6th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong.
- (d) The share registrar of the Company in Hong Kong is Boardroom Share Registrars (HK) Limited with its address located at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of HKEXnews at www.hkexnews.hk and the website of the Company (www.fshl.com) for not less than 14 days prior to the date of the AGM:

- (a) the Chinatex Supplemental Agreement;
- (b) the COFCO Finance Supplemental Agreement;
- (c) the Existing Material Purchase Framework Agreement;
- (d) the Existing Financial Services Agreement;
- (e) the written consent of Donvex Capital;
- (f) the letter dated 6 June 2023 from the Independent Board Committee;
- (g) the letter of advice dated 6 June 2023 issued by Donvex Capital to the Independent Board Committee and the Independent Shareholders; and
- (h) this circular.

NOTICE OF AGM



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

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the “**AGM**” or the “**Meeting**”) of Fountain Set (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at Block A, 6th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong on Thursday, 29 June 2023 at 9:30 a.m., or the adjournment thereof, for the following purposes:

1. To consider and adopt the audited consolidated financial statements of the Company and its subsidiaries, the directors’ report and the independent auditor’s report for the year ended 31 December 2022.
2. (A) To re-elect Mr. LI Gang as an executive director of the Company (the “**Director(s)**”).
(B) To re-elect Mr. NG Kwok Tung as an independent non-executive Director.
(C) To re-elect Mr. YING Wei as an independent non-executive Director.
(D) To re-elect Mr. William LAM as an independent non-executive Director.
3. To authorise the board of Directors (the “**Board**”) to fix the Directors’ remuneration.
4. To re-appoint SHINEWING (HK) CPA Limited as the independent auditor of the Company in respect of the Company’s financial statements for the year ending 31 December 2023 and to authorise the Board to fix its remuneration.

To consider and, if thought fit, to pass with or without amendments, the following resolutions as Ordinary Resolutions of the Company:

ORDINARY RESOLUTIONS

5(A). “**THAT:**

- (i) subject to paragraph (ii) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to buy back Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or on any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate number of Shares to be bought back by the Company pursuant to the approval in paragraph (i) of this Resolution shall not exceed 10 per cent of the aggregate number of Shares in issue at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution,

“Relevant Period” means the period from passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Hong Kong to be held; or
- (c) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

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5(B). **“THAT:**

- (i) subject to paragraph (iii) of this Resolution and pursuant to sections 140 and 141 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional Shares and to make and grant offers, agreements and options (including bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into or exchangeable for Shares) which would or might require the Shares to be allotted be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this Resolution shall authorise the Directors during the Relevant Period to make and grant offers, agreements and options (including bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into or exchangeable for Shares) which would or might require the Shares to be allotted after the end of the Relevant Period;
- (iii) the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (i) of this Resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); or (b) an issue of Shares upon the exercise of subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or similar arrangement of Shares or rights to acquire Shares; or (c) any issue of Shares pursuant to the exercise of rights of subscription, conversion or exchange under the terms of any existing bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into or exchangeable for Shares; or (d) an issue of Shares pursuant to any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of the dividend on Shares in accordance with the articles of association of the Company, shall not exceed 20 per cent of the aggregate number of Shares in issue at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (iv) for the purposes of this Resolution,

“Relevant Period” shall have the same meaning as ascribed to it in Ordinary Resolution 5(A) set out in the notice convening the Meeting (the **“Notice”**).

“Rights Issue” means an offer of Shares or issue of option or other securities giving the right to subscribe for Shares, open for a period fixed by the Directors to holders of Shares, or any class of Shares, whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such Shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

5(C). **“THAT** conditional upon the passing of Ordinary Resolutions 5(A) and 5(B) set out in the Notice, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with any additional Shares pursuant to Ordinary Resolution 5(B) of the Notice be and is hereby extended by the addition thereto of an amount representing the aggregate number of Shares bought back by the Company under the authority granted pursuant to the Ordinary Resolution 5(A) of the Notice, provided that such extended amount shall not exceed 10 per cent of the aggregate number of Shares in issue at the date of the passing of this Resolution.”

6. **“THAT:**

- (i) the Chinatex Supplemental Agreement (as defined and described in the circular of the Company dated 6 June 2023 (the **“Circular”**), a copy of the Chinatex Supplemental Agreement marked “A” together with a copy of the Circular marked “B” are produced to the Meeting and for the purpose of identification signed by the Chairman of the Meeting) and all transactions contemplated thereunder and in connection therewith and any other ancillary documents and the implementation thereof be and are hereby approved, ratified and confirmed;
- (ii) the Revised Chinatex Annual Caps (as defined and described in the Circular) in respect of the maximum aggregate consideration payable under the transactions as contemplated under the Existing Material Purchase Framework Agreement (as supplemented by the Chinatex Supplemental Agreement) for each of the two years ending 31 December 2023 and 31 December 2024 be and are hereby approved; and
- (iii) any one Director be and is hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such agreements, instruments, documents and deeds, and do all such acts or things and take all such steps as he may in his absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or to give effect to the Chinatex Supplemental Agreement, the Revised Chinatex Annual Caps and the transactions contemplated thereunder and all matters incidental to, ancillary or incidental thereto.”

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7. **“THAT:**

- (i) the COFCO Finance Supplemental Agreement (as defined and described in the Circular), a copy of the COFCO Finance Supplemental Agreement marked “C” is produced to the Meeting and for the purpose of identification signed by the Chairman of the Meeting) and all transactions contemplated thereunder and in connection therewith and any other ancillary documents and the implementation thereof be and are hereby approved, ratified and confirmed;
- (ii) the Revised Deposit Annual Cap (as defined and described in the Circular) in respect of the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance Company Limited under the transactions as contemplated under the Existing Financial Services Agreement (as supplemented by the COFCO Finance Supplemental Agreement) during the remaining term be and are hereby approved; and
- (iii) any one Director be and is hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such agreements, instruments, documents and deeds, and do all such acts or things and take all such steps as he may in his absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or to give effect to the COFCO Finance Supplemental Agreement, the Revised Deposit Annual Cap and the transactions contemplated thereunder and all matters incidental to, ancillary or incidental thereto.”

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

Hong Kong, 6 June 2023

Registered Office:
Block A, 6th Floor
Eastern Sea Industrial Building
29-39 Kwai Cheong Road
Kwai Chung
New Territories
Hong Kong

Notes:

1. Any member of the Company (the “**Member**” or “**Shareholder**”) entitled to attend and vote at the Meeting is entitled to appoint one (or, if he/she/it holds two or more Shares, more than one) proxy to attend and vote instead of him/her/it. A proxy need not be a Member.
2. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company’s share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours (excluding any public holiday in Hong Kong) before the time appointed for the holding of the Meeting or the adjournment thereof.
3. The register of members of the Company (the “**Register of Members**”) will be closed from Monday, 26 June 2023 to Thursday, 29 June 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Meeting, the non-registered Shareholders must lodge all transfer documents accompanied by the relevant share certificates with the Company’s share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 23 June 2023.
4. At the Meeting, the chairman of the Meeting will exercise his power under article 73 of the articles of association of the Company to put all the resolutions set out in this Notice to be voted by way of poll as required under the Listing Rules. On a poll, every Member present in person (or in the case of the corporation by its corporate representative) or by proxy shall have one vote for each Share of which he/she/it is the holder.
5. Completion and return of the form of proxy will not preclude a Member from attending and voting in person at the Meeting or the adjournment thereof should the Member so wish and in such event, the authority of the proxy shall be deemed to be revoked.
6.
 - (a) Subject to paragraph (b) below, if a tropical cyclone warning signal No.8 or above is expected to be hoisted or an announcement of “extreme conditions” by the government of Hong Kong or a black rainstorm warning signal is expected to be in force at any time between 7:00 a.m. and 5:00 p.m. on the date of the Meeting, the Meeting will be postponed and Members will be informed of the date, time and venue of the postponed Meeting by a supplemental notice posted on the respective websites of the Company and the Stock Exchange.
 - (b) If a tropical cyclone warning signal No.8 or above or an announcement of “extreme conditions” by the government of Hong Kong or a black rainstorm warning signal is lowered or cancelled 3 hours or more before the time appointed for holding the Meeting and where conditions permit, the Meeting will be held as scheduled.
 - (c) The Meeting will be held as scheduled when a tropical cyclone warning signal No.3 or below or an amber or red rainstorm warning signal is in force.
 - (d) After considering their own situations, Members should decide on their own whether or not they would attend the Meeting under any bad weather condition and if they do so, they are advised to exercise care and caution.

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7. The translation into Chinese language of this Notice is for reference only. In case of any inconsistency, the English version shall prevail.

As at the Latest Practicable Date, the Board comprises 5 executive Directors, namely Mr. LIU Xianfu (Chairman and Chief Executive Officer), Mr. 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.