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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)

PROFIT WARNING

This announcement is made by Fountain Set (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on a preliminary assessment of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2023 and information currently available to the Board, the Group is expected to record a net loss attributable to owners of the Company of approximately HK\$82 million for the six months ended 30 June 2023 as compared to the net profit attributable to owners of the Company of approximately HK\$70 million for the six months ended 30 June 2022.

The expected net loss attributable to owners of the Company for the six months ended 30 June 2023 was mainly attributable to the challenges encountered by the global textile and garment sector. During the first half of 2023, the Russia-Ukraine war persisted and continued to exert significant effects on the global economy. Consequences encompass shortages in energy and food supply, contributing to the escalation of global inflation. Global economic growth remains sluggish, marked by fluctuating exchange rates and escalating interest rates.

During the first half of 2023, our circular knitted fabric business experienced a significant shrinkage in both the export and domestic markets, which can be attributed to a confluence of factors: a decline in consumer purchasing desire resulting from the impact of the 2019 novel coronavirus disease and ongoing conflicts; a decrease in consumers’ purchasing power owing to global inflation; and reduced demand from our retail apparel customers due to stockpiling practices. As a result, our order volume underwent a significant reduction. Regrettably, the Group’s production capacity could not maintain a standard level to offset the burden of fixed costs.

In addition, raw material manufacturers cut production to offset their cost pressures. Consequently, the prices of raw materials did not align entirely with the declining market prices. This disjunction led to costs that remained higher than the standard level, thus exerting an adverse impact on the Group's performance. Market adjustment awaits significant reduction in inventory of retail brand customers, moderating inflation, and consumer's desire to purchase textiles picking up.

Nonetheless, the liquidity of the Group remains strong. The Board estimates that the Group had approximately HK\$1,283 million of cash and cash equivalent as of 30 June 2023, as compared to that of about HK\$1,394 million as of 31 December 2022. The Group will closely monitor the market situation and the development of global economy, and will focus on making full use of existing production capacity for the rest of this year to increase profitability and enhance financial stability of the Group.

The information contained in this announcement is only based on a preliminary assessment by the Board based on information currently available to it, including the unaudited consolidated management accounts of the Group for the six months ended 30 June 2023, which have not been reviewed nor audited by the Company's auditors or the audit committee of the Company. The Board also wishes to emphasize that the performance of the Group can be affected by market environment, including cotton yarn market price, the development of the global economy and the status of the Sino-US trade war. The Group's interim results for the six months ended 30 June 2023 will be announced by the end of August 2023 in compliance with the Listing Rules.

Shareholders and potential investors are advised to read the unaudited interim results announcement of the Company when it is published. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 11 August 2023

As at the date of this announcement, the Board comprises 5 executive Directors, namely Mr. LIU Xianfu (Chairman and Chief Executive Officer), Mr. YAU Hang Tat Andrew, Dr. LI Gang, 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.