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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

**REVISION OF ANNUAL CAP AMOUNTS FOR  
CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EXTRAORDINARY 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

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A letter from the board of directors of the Company is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 11 of this circular. A letter from Donvex Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 16 of this circular.

A notice convening the EGM 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, 12 January 2012 at 3:30 p.m. is set out on pages 21 to 22 of this circular. A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the registered office of the Company at Block A, 7th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Hong Kong, 21 December 2011

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 30 November 2011 relating to, inter alia, the Revised Annual Caps
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Fountain Set (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held at Block A, 6th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong on Thursday, 12 January 2012 at 3:30 p.m. or any adjournment thereof
“Existing Annual Caps”	the maximum aggregate consideration receivable by the Group from the members of the FM Group per annum in connection with the FM Sales Transactions for the two financial years ending 31 August 2012 and 31 August 2013 provided for in the FM Master Sales Agreement, the particulars of which are set out in the paragraph titled “Supplemental Agreement – Subject matter” in the section titled “Letter from the Board” in this circular
“FM Group”	companies which one or more FM Members individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors
“FM Master Sales Agreement”	the master sales agreement dated 10 December 2010 entered into between the Company and Mr. Feroz regarding the FM Sales Transactions
“FM Members”	Mr. Feroz and his relatives who are persons referred to in Rules 14A.11(4)(b)(i) and 14A.11(4)(c)(i) of the Listing Rules

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## DEFINITIONS

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“FM Sales Transactions”	the sale of fabrics, yarns and similar items by members of the Group to members of the FM Group from time to time
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, and Mrs. Fung Yeh Yi Hao, Yvette
“Independent Shareholders”	Shareholders who are not prohibited from voting at the EGM
“Independent Financial Adviser”	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 Agreement and the Revised Annual Caps
“Latest Practicable Date”	19 December 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Feroz”	Mr. Feroz Omar, a director of a non-wholly owned subsidiary of the Company and accordingly a connected person of the Company
“Revised Annual Caps”	the proposed revised maximum aggregate consideration receivable by the Group from the members of the FM Group per annum in connection with the FM Sales Transactions for the two financial years ending 31 August 2012 and 31 August 2013, the particulars of which are set out in the paragraph titled “Supplemental Agreement – Subject matter” in the section titled “Letter from the Board” in this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	share(s) of HK\$0.20 each in the capital of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 30 November 2011 entered into between the Company and Mr. Feroz to amend the FM Master Sales Agreement
“%”	per cent

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## LETTER FROM THE BOARD

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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)

*Executive Directors*

Mr. Ha Chung Fong (*Chairman*)

Mr. Ha Kam On, Victor (*Group Managing Director*)

Mr. Ha Hon Kuen

Dr. Yen Gordon

*Registered Office:*

Block A, 7th Floor

Eastern Sea Industrial Building

29-39 Kwai Cheong Road

Kwai Chung, New Territories

Hong Kong

*Non-executive Director*

Mr. Chan Yuk Yin

*Independent Non-executive Directors*

Mr. Ng Kwok Tung

Mr. Wong Kwong Chi

Mr. Chow Wing Kin, Anthony, *SBS, JP*

Mrs. Fung Yeh Yi Hao, *Yvette*

21 December 2011

*To the Shareholders*

Dear Sir or Madam,

**REVISION OF ANNUAL CAP AMOUNTS FOR  
CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 30 November 2011 relating to the Supplemental Agreement and the Revised Annual Caps. Pursuant to the requirements of the Listing Rules, the Company will seek the approval of the Independent Shareholders in relation to the Supplemental Agreement and the Revised Annual Caps.

The purposes of this circular are (i) to provide you with information on the Supplemental Agreement and the Revised Annual Caps; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders with regard to the Supplemental Agreement and the Revised Annual Caps; (iii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders after taking into consideration of the advice of the Independent Financial Adviser with regard to the Supplemental Agreement and the Revised Annual Caps; and (iv) to set out the notice of the EGM.

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## LETTER FROM THE BOARD

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### 2. REVISION OF ANNUAL CAP AMOUNTS FOR CONTINUING CONNECTED TRANSACTIONS

#### A. SUPPLEMENTAL AGREEMENT

Reference is made to the announcement and circular of the Company dated 10 December 2010 and 3 January 2011 respectively in relation to, among other things, the FM Sales Transactions contemplated under the FM Master Sales Agreement. On 10 December 2010, the Company and Mr. Feroz entered into the FM Master Sales Agreement regarding the sale of fabrics, yarns and similar items by members of the Group to members of the FM Group. The FM Master Sales Agreement and the transactions contemplated thereunder and the Existing Annual Caps were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2011.

On 30 November 2011, the Company entered into the Supplemental Agreement with Mr. Feroz to amend the FM Master Sales Agreement by revising the Existing Annual Caps to the Revised Annual Caps. Save for the revision of the Existing Annual Caps to the Revised Annual Caps, all other terms and conditions under the FM Master Sales Agreement remain the same.

Set out below are the principal terms of the Supplemental Agreement.

**Date:**

30 November 2011

**Parties:**

The Company and Mr. Feroz

**Subject matter:**

Pursuant to the Supplemental Agreement, the maximum aggregate consideration receivable by the Group from the members of the FM Group per annum in connection with the FM Sales Transactions for the two financial years ending 31 August 2012 and 2013 are amended as follows:

	<b>Existing Annual Caps</b>	<b>Revised Annual Caps</b>
Financial year ending 31.8.2012	HK\$132,000,000	HK\$220,000,000
Financial year ending 31.8.2013	HK\$198,000,000	HK\$230,000,000

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## LETTER FROM THE BOARD

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### **Condition:**

The Supplemental Agreement is conditional upon the passing of an ordinary resolution at the EGM by the Independent Shareholders to approve the Supplemental Agreement and the Revised Annual Caps. If such condition is not fulfilled by 31 January 2012 or such later date as may be agreed by the Company and Mr. Feroz in writing, the Supplemental Agreement shall terminate with immediate effect and none of the parties thereto shall have any rights against the other party.

### **B. HISTORICAL TRANSACTION FIGURES**

Pursuant to the FM Master Sales Agreement, the annual cap amount receivable by the Group in connection with the FM Sales Transactions for the financial year ended 31 August 2011 was set at HK\$88,000,000 and as disclosed in the Company's 2011 Annual Report, the actual sales amount received by the Group in respect of the FM Sales Transactions for the financial year ended 31 August 2011 was HK\$84,114,000.

### **C. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT AND THE BASIS FOR DETERMINING THE REVISED ANNUAL CAPS**

The Group has been entering into the FM Sales Transactions with the FM Group for many years and the aggregate amounts of the FM Sales Transactions have represented an important source of revenue for the Group in the years. The Board considers that the Supplemental Agreement will facilitate the Group to cope with the forecast of strong sales growth with the FM Group.

In view of the forecast of strong sales growth with the FM Group as well as the actual and committed sales amount in respect of the FM Sales Transactions for the period from 1 September 2011 to 31 January 2012, it is estimated that the Existing Annual Caps for each of the two financial years ending 31 August 2012 and 31 August 2013 will not be sufficient to meet the Group's requirements. The Company therefore entered into the Supplemental Agreement with Mr. Feroz on 30 November 2011 to revise the Existing Annual Caps for the FM Sales Transactions.

The Revised Annual Caps were determined based on the forecast amounts of the FM Sales Transactions for the financial year ending 31 August 2012 and 2013 which are expected to exceed the initial estimates of the Company for the corresponding periods due to the forecast of strong sales growth. The actual sales amount in respect of the FM Sales Transactions for the period from 1 September 2011 to 30 November 2011 was approximately HK\$52.1 million and the committed sales amount in respect of the FM Sales Transactions for the period from 1 December 2011 to 31 January 2012 amounted to HK\$18.8 million. Such actual and committed sales amount of HK\$70.9 million in aggregate for the five months period from 1 September 2011 to 31 January 2012 already represents approximately 53.7% of the Existing Annual Caps in respect of the financial year ending 31 August 2012. Coupled with the fact that the actual and committed sales amount in respect of the

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## LETTER FROM THE BOARD

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FM Sales Transactions for the five months period from 1 September 2011 to 31 January 2012 has increased by approximately 138.3% as compared to the five months period from 1 September 2010 to 31 January 2011, the Directors considered that increasing the amount of the maximum aggregate consideration receivable by the Group per annum in connection with the FM Sales Transactions for the two financial years ending 31 August 2012 and 2013 to the Revised Annual Caps is fair and reasonable.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) considered that the terms of the Supplemental Agreement and the Revised Annual Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

### **D. LISTING RULES IMPLICATIONS**

Mr. Feroz is a director of a non-wholly owned subsidiary of the Company and hence a connected person of the Company within the meaning of the Listing Rules. As the FM Group is comprised of companies in which one or more FM Members individually or together exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors, members of the FM Group are associates of Mr. Feroz under the Listing Rules and the FM Sales Transactions constitute continuing connected transactions of the Company under the Listing Rules.

As one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps exceeds 5%, the Supplemental Agreement and the Revised Annual Caps are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No Directors have any material interests in the transactions contemplated under the Supplemental Agreement and accordingly none of the Directors were required to abstain from voting on the relevant resolutions proposed at the board meeting of the Company to approve the Supplemental Agreement and the Revised Annual Caps.

The Independent Board Committee has been established to advise the Independent Shareholders as to the Supplemental Agreement and the Revised Annual Caps and the Independent Financial Adviser has been appointed by the Company as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## **LETTER FROM THE BOARD**

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### **E. INFORMATION ON THE GROUP AND THE CONNECTED PERSONS**

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

To the best knowledge of the Directors, the FM Group is principally engaged in the business of manufacturing, exporting and distributing of apparel for men, women, and children.

### **3. EGM**

The EGM is to be held for the purposes of considering and approving by the Independent Shareholders of the Supplemental Agreement and the Revised Annual Caps. In accordance with the Listing Rules, the votes at the EGM shall be taken by poll.

To the best of the Directors' knowledge, information and belief, no Shareholders are required to abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the Revised Annual Caps.

Set out on pages 21 to 22 of this circular is the notice convening the EGM 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, 12 January 2012 at 3:30 p.m. at which an ordinary resolution will be proposed to approve the Supplemental Agreement and the Revised Annual Caps, details of which are set out in the notice of the EGM.

### **4. ACTION TO BE TAKEN**

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the registered office of the Company at Block A, 7th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment hereof should you so wish.

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## LETTER FROM THE BOARD

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### 5. VOTING BY WAY OF POLL

Pursuant to article 73 of the Articles of Association of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the Meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Pursuant to the Listing Rules, the resolution put to vote at the EGM shall be taken by poll.

### 6. RECOMMENDATION

Your attention is drawn to:

- (a) the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation to the Independent Shareholders; and
- (b) the letter from the Independent Financial Adviser set out pages 12 to 16 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors) consider that the Supplemental Agreement and the Revised Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the Revised Annual Caps.

As mentioned above, the Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the Revised Annual Caps.

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## LETTER FROM THE BOARD

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Having considered the terms of the Supplemental Agreement and the Revised Annual Caps, and having considered the advice given by the Independent Financial Adviser in relation thereto and the principal factors and reasons taken into consideration by them in arriving at their advice, the Independent Board Committee considers that the Supplemental Agreement has been entered into within the ordinary and usual course of business of the Group based on normal commercial terms and its terms together with the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the Revised Annual Caps.

### 7. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the additional information set out in the Appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Ha Chung Fong**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

21 December 2011

*To the Independent Shareholders*

Dear Sir or Madam,

### **REVISION OF ANNUAL CAP AMOUNTS FOR CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 21 December 2011 (the “Circular”) to the Shareholders, of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether the terms of the Supplemental Agreement and the Revised Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Independent Financial Adviser has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the Revised Annual Caps. Particulars of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter set out on pages 12 to 16 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 10 of the Circular and the additional information set out in the appendix to the Circular.

Having considered the terms of the Supplemental Agreement and the Revised Annual Caps and the advice given by the Independent Financial Adviser, we consider that the Supplemental Agreement has been entered into within the ordinary and usual course of business of the Group based on normal commercial terms and its terms together with the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the Revised Annual Caps.

Yours faithfully,

Independent Board Committee

**Mr. NG Kwok Tung**

**Mr. Wong Kwong Chi**

**Mr. Chow Wing Kin,  
Anthony**

**Mrs. Fung Yeh Yi Hao,  
Yvette**

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter 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 1305, 13th Floor,  
Carpo Commercial Building  
18-20 Lyndhurst Terrace  
Central  
Hong Kong

21 December 2011

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

Dear Sirs,

### **REVISION OF ANNUAL CAP AMOUNTS 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 the Supplemental Agreement and the Revised Annual Caps, details of which are set out in the letter from the Board contained in the circular of the Company dated 21 December 2011 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, SBS, JP and Mrs. Fung Yeh Yi Hao, Yvette, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Supplemental Agreement and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Independent Shareholders as a whole; and to advise the Independent Shareholders as to whether to vote in favour of the Supplemental Agreement and the adoption of the Revised Annual Caps. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

Donvex Capital Limited is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Supplemental Agreement and the Revised Annual Caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have relied on the information, statements and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue to be as such at the date of the EGM. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular. The Directors also confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion.

We consider that we have reviewed sufficient information to reach an informed view, 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 independent investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Supplemental Agreement and Revised Annual Caps, we have considered the following principal factors and reasons:

**1. Background to and reasons for the revision of the Existing Annual Caps of the FM Master Sales Agreement by the Supplemental Agreement**

*The Supplemental Agreement*

Reference is made to the announcement and circular of the Company dated 10 December 2010 and 3 January 2011 respectively in relation to, among other things, the FM Sales Transactions contemplated under the FM Master Sales Agreement. On 10 December 2010, the Company and Mr. Feroz entered into the FM Master Sales Agreement regarding the sale of fabrics, yarns and similar items by members of the Group to members of the FM Group. The FM Master Sales Agreement and the transactions contemplated thereunder and the Existing Annual Caps were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2011. On 30 November 2011, the Company entered into the Supplemental Agreement with Mr. Feroz to amend the FM Master Sales Agreement by revising the Existing Annual Caps to the Revised Annual Caps. Save for the revision of the Existing Annual Caps to the Revised Annual Caps, all other terms and conditions under the FM Master Sales Agreement remain the same.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. The Revised Annual Caps

(i) *The basis of determination of the Revised Annual Caps*

As stated in the “Letter from the Board” in the Circular, the Existing Annual Caps for the two financial years ending 31 August 2012 and 2013 have been amended in the following manner:

	Existing Annual Caps	Revised Annual Caps
Financial year ending 31.8.2012	HK\$132,000,000	HK\$220,000,000
Financial year ending 31.8.2013	HK\$198,000,000	HK\$230,000,000
Growth Rate	50%	4.5%

The Group has been entering into the FM Sales Transactions with the FM Group for many years and the aggregate amounts of the FM Sales Transactions have represented an important source of revenue for the Group in the years. The Board considers that the Supplemental Agreement will facilitate the Group to cope with the forecast of strong sales growth with the FM Group.

In view of the forecast of strong sales growth with the FM Group, it is estimated that the Existing Annual Caps for each of the two financial years ending 31 August 2012 and 2013 will not be sufficient to meet the Group’s requirements after taking into account the following reasons:

1. As for the financial year ended 31 August 2011, the Existing Annual Cap of HK\$88,000,000 has been utilized up to approximately 95.6%;
2. In accordance with the annual report of the Company for the year ended 31 August 2011, the sale revenue of the Group amounted to approximately HK\$7.6 billion, representing an increase of approximately 23.5% from the revenue reported for 2010. As such, the historical trend of revenue of the Group showed the increasing trend during the last two years; and
3. The Revised Annual Caps were determined based on the forecast amounts of the FM Sales Transactions for the financial years ending 31 August 2012 and 2013 which are expected to exceed the initial estimates of the Company for the corresponding periods due to the forecast of strong sales growth with the FM Group. As advised by the management of the Company, the actual sale amount under the Existing Annual Cap from 1 September to 30 November 2011 was approximately HK\$52.1 million and the confirmed order from 1 December 2011 to 31 January 2012 has already amounted to HK\$18.8 million, which represented the utilization rate of approximately 53.7% of the Existing Annual Cap for the financial year ending 31 August 2012. The sale amount from 1 September 2011 to 31 January 2012 increased by 138.3% as compared to the same period in 2010 to 2011.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the reasonableness and fairness of the Revised Annual Caps, we have reviewed the utilization rate of the Existing Annual Caps and the forecast amount of the FM Sales Transactions for the financial years ending 31 August 2012 and 2013, the details of which have been set out in the above sections. As such, we are of the view that the growth estimation for sales by the Directors is fair and reasonable.

Having considered the above, we are of the view that the Revised Annual Caps were set after careful and due consideration by the Directors.

(ii) *Views*

Based on the factors and reasons discussed above, and after taking into account that the Supplemental Agreement is of a revenue nature, we are of the view that the Supplemental Agreement and the Revised Annual Caps are fair and reasonable so far as the Group and the Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. However, as the Revised Annual Caps relates to future events, we therefore express no opinion as to how closely the actual amount to be incurred under the Supplemental Agreement corresponds with the Revised Annual Caps.

### RECOMMENDATION

Having considered the abovementioned principal factors and reasons and in particular the following:

- that is the Supplemental Agreement is revenue generating in nature;
- that the basis of determination of the Revised Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned; and
- that the Revised Annual Caps set by the Directors will be in the interest of the Independent Shareholders in view of the factors as discussed in detail above,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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we consider that the Supplemental Agreement has been entered into within the ordinary and usual course of business of the Group based on normal commercial terms and its terms together with the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreement and the Revised Annual Caps.

Yours faithfully,

For and on behalf of  
**Donvex Capital Limited**  
**Doris Sy**  
*Director*

## 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 Group. 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 contained herein or this circular misleading.

## 2. DISCLOSURE OF DIRECTORS' INTEREST

As at the Latest Practicable Date, the interests and short positions, if any, of each Director 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the "Model Code") were as follows:

### Long positions in Shares

Name of Director	Number of Shares interested as			Approximate % of the Company's issued share capital as at the Latest Practicable Date
	Beneficial owner	Other interests	Total	
Mr. Ha Chung Fong	34,280,000	212,108,948 (Note)	246,388,948	31.03
Mr. Ha Kam On, Victor	90,841,096	–	90,841,096	11.44
Mr. Chan Yuk Yin	3,360,000	–	3,360,000	0.42
Dr. Yen Gordon	6,400,000	–	6,400,000	0.81
Mrs. Fung Yeh Yi Hao, Yvette	70,000	–	70,000	0.01

*Note:* Mr. Ha Chung Fong was deemed to be interested in 212,108,948 Shares by virtue of the set up of a discretionary trust, the Ha Trust, for the benefit of his family and Trustcorp Limited ("Trustcorp") is the trustee of the Ha Trust. Trustcorp is a wholly-owned subsidiary of Newcorp Holdings Limited.

## Long positions in underlying Shares – share options

Name of Director	Date of grant	Exercise period	Number of share options
Mr. Ha Kam On, Victor	17.09.2010	17.03.2014 – 17.03.2017 (Note 1)	4,600,000
	18.08.2011	19.08.2012 – 18.08.2017 (Note 2)	3,300,000
Dr. Yen Gordon	17.09.2010	17.03.2014 – 17.03.2017 (Notes 1,3)	6,600,000
	18.08.2011	19.08.2012 – 18.08.2017 (Note 2,4)	6,300,000
Mr. Ha Hon Kuen	17.09.2010	17.03.2014 – 17.03.2017 (Note 1)	2,000,000
	18.08.2011	19.08.2012 – 18.08.2017 (Note 2)	3,000,000

## Notes:

- 30% of the share options are exercisable from 17 March 2014 to 17 March 2017, up to 60% of the share options are exercisable from 17 March 2015 to 17 March 2017 and all share options are exercisable from 17 March 2016 to 17 March 2017.
- 20% of the share options are exercisable from 19 August 2012 to 18 August 2017, up to 40% of the share options are exercisable from 19 August 2013 to 18 August 2017, up to 60% of the share options are exercisable from 19 August 2014 to 18 August 2017, up to 80% of the share options are exercisable from 19 August 2015 to 18 August 2017 and all share options are exercisable from 19 August 2016 to 18 August 2017.
- Includes 2,000,000 share options granted to the spouse of Dr. Yen Gordon, Ms. Ha Kam Yee on 17 September 2010.
- Includes 3,000,000 share options granted to the spouse of Dr. Yen Gordon, Ms. Ha Kam Yee on 18 August 2011.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or chief executive of the Company had any interests or short positions in any Shares or underlying Shares or interests in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered, or propose to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**4. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors and their respective associates had interest in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**5. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 August 2011 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

**6. 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 August 2011, being the date to which the latest published audited accounts of the Company were made up.

**7. EXPERT AND CONSENT**

The following is the qualification of the expert who has provided its opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance

As at the Latest Practicable Date, the above expert did not have any shareholding interest whether directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and it had no interest, either directly or indirectly, in any assets which have been, since 31 August 2011, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name and advice or opinion in the form and context in which they respectively appear.

## **8. MISCELLANEOUS**

- (a) The registered office of the Company is at Block A, 7th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong.
- (b) The share registrar of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Wong Kin Man who is a member of the Hong Kong Institute of Certified Public Accountants.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

## **9. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the Company's registered office in Hong Kong at Block A, 7th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong up to and including the date of the EGM:

- (a) the FM Master Sales Agreement;
- (b) the Supplemental Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 12 to 16 of this circular; and
- (e) the written consent referred to in paragraph 7 of this appendix.

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## NOTICE OF THE EGM

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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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Fountain Set (Holdings) Limited (the “Company”) 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, 12 January 2012 at 3:30 p.m. or any adjournment thereof for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution of the Company:

“**THAT:**

- (a) the Supplemental Agreement (as defined and described in the circular of the Company dated 21 December 2011 (the “Circular”), a copy of the 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;
- (b) the Revised Annual Caps (as defined and described in the Circular) in respect of the maximum aggregate consideration receivable under the FM Sales Transactions (as defined in the Circular) for each of the two years ending 31 August 2012 and 2013 be and are hereby approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are 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/they may in his/their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or to give effect to the Supplemental Agreement, the Revised Annual Caps and the transactions contemplated thereunder and all matters incidental to, ancillary or incidental thereto.”

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

Hong Kong, 21 December 2011

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## NOTICE OF THE EGM

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*Registered Office:*

Block A, 7th Floor  
Eastern Sea Industrial Building  
29-39 Kwai Cheong Road  
Kwai Chung, New Territories  
Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
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, must be deposited at the registered office of the Company at Block A, 7th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. At the extraordinary general meeting, the Chairman of the Meeting will exercise his power under article 73 of the Articles of Association of the Company to put the resolution set out in this notice to be voted by way of poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 any class of which he is the holder.
4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
5. As at the date hereof, the Board comprises a total of nine Directors, including Mr. Ha Chung Fong, Mr. Ha Kam On, Victor, Mr. Ha Hon Kuen and Dr. Yen Gordon as Executive Directors, Mr. Chan Yuk Yin as Non-Executive Director and Mr. Ng Kwok Tung, Mr. Wong Kwong Chi, Mr. Chow Wing Kin, Anthony, SBS, JP and Mrs. Fung Yeh Yi Hao, Yvette as Independent Non-Executive Directors.