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CHTC FONG'S INTERNATIONAL COMPANY LIMITED

中國恒天立信國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

FURTHER VARIATION OF THE TERMS OF CO-OPERATION AGREEMENT IN RELATION TO THE URBAN RENEWAL PROJECT

BACKGROUND

References are made to (i) the announcement of CHTC Fong's International Company Limited (formerly known as CHTC Fong's Industries Company Limited) (the "**Company**") dated 1 April 2014 and the circular of the Company dated 25 April 2014 (the "**First Circular**") in respect of the Co-operation Agreement relating to the Urban Renewal Project which constituted a very substantial disposal for the Company; (ii) the announcement of the Company dated 25 September 2014 in relation to the extension of time for the fulfilment of a condition precedent to the Co-operation Agreement; (iii) the announcement of the Company dated 2 April 2015 and the circular of the Company dated 21 April 2015 (the "**Second Circular**") in relation to, among others, the variation of the instalment payment terms and change of the guarantor on the part of the Project Company under the Co-operation Agreement; and (iv) the announcements of the Company dated 13 April 2016 and 22 April 2016 and the circular of the Company dated 6 May 2016 (the "**Third Circular**") in relation to the further variation of the payment terms of the Co-operation Agreement.

Capitalised terms used herein shall have the same meanings as those defined in the Third Circular unless the context requires otherwise.

As disclosed in the First Circular, on 28 March 2014, FNES (an indirect wholly-owned subsidiary of the Company) entered into the Co-operation Agreement with the Project Company in respect of the Urban Renewal Project. Pursuant to the Co-operation Agreement, FNES will receive (through resettlement and demolition compensation) (i) RMB1 billion in cash; and (ii) substitution of part of the existing properties on the Land (with a gross floor area of approximately 29,391 m²) with facilities to be constructed on the redeveloped Land with a gross floor area of approximately 30,000 m² (and, in addition, at least 100 car-parks). As disclosed in the Second Circular, on 2 April 2015, the First Supplemental Agreement was signed regarding the change of guarantor of the obligations of the Project Company and the deferral of the second and third instalment payments of the Cash Compensation from on or before 31 December 2015 to on or before 30 September 2016 subject to and conditional upon the approval of the Shareholders. The First Supplemental Agreement was approved, confirmed and ratified by the Shareholders at the annual general meeting of the Company held on 21 May 2015.

As disclosed in the Third Circular, on 13 April 2016, the Second Supplemental Agreement was signed regarding a further deferral of the third instalment payment of the Cash Compensation from on or before 30 September 2016 to 30 September 2017 subject to and conditional upon the approval of the Shareholders. The Second Supplemental Agreement was approved, confirmed and ratified by the Shareholders at the special general meeting of the Company held on 25 May 2016.

As at the date of this announcement, FNES has received instalments of the Cash Compensation amounting to a total of RMB600 million from the Project Company and Cash Compensation amounting to RMB400 million remains outstanding. Further details of the instalment payments of the Cash Compensation are disclosed in the Company's annual report for the year ended 31 December 2020.

NEW SUPPLEMENTAL AGREEMENT

Given the Project Company has yet to obtain all the requisite approvals from the relevant government authorities to complete the Urban Renewal Project and the difficulty to ascertain the timing of obtaining such approvals at this stage amidst the governmental implementation of its redevelopment plans in the Shenzhen area, the Project Company and FNES have agreed to amend various terms of the Co-operation Agreement primarily to accelerate payment of the remaining Cash Compensation to the Group.

On 30 September 2021 (after trading session), FNES and the Project Company (among others) entered into the new supplemental agreement in relation to the further variation of the terms under the Co-operation Agreement in relation to the Urban Renewal Project (“**New Supplemental Agreement**”). A summary of the principal terms of the New Supplemental Agreement is set out as follows:

Date: 30 September 2021

Parties:

- (1) FNES, an indirect wholly-owned subsidiary of the Company;
- (2) FNECL, an indirect wholly-owned subsidiary of the Company;
- (3) Fong’s National Engineering Shenzhen Holding Limited (“**FNESHL**”), a limited liability company established under the laws of Hong Kong and a direct wholly-owned subsidiary of the Company (together with FNECL, as the guarantors of the obligations of FNES under the Co-operation Agreement and the New Supplemental Agreement);
- (4) the Project Company;
- (5) 深圳市金城光明房地產有限公司 (Shenzhen Golden City Light Real Estate Limited[#]), a limited liability company established under the laws of the PRC; and
- (6) 深圳市建誠泰投資有限公司 (Shenzhen Jianchengtai Investment Company Limited[#]), a limited liability company established under the laws of the PRC (together with 深圳市金城光明房地產有限公司 (Shenzhen Golden City Light Real Estate Limited[#]), as guarantors of the obligations of the Project Company under the Co-operation Agreement and the New Supplemental Agreement).

Undertaking and
guarantees:

The undertaking and guarantees are as follows:

- (a) To ensure the smooth progress of the Urban Renewal Project, prior to the Project Company obtaining the land use rights from the relevant government authorities, FNES and FNESHL shall not, without the consent of the Project Company, make any changes to their respective shareholding structures or increase the encumbrances attached to the rights of their shares, and FNES shall not undertake any matters that affect or may effect adversely the Project Company's rights underlying the Urban Renewal Project; and
- (b) FNES undertakes not to create any encumbrances on the Land prior to the registration for surrender of its related rights in respect of the Land and its existing building structures thereon,

(collectively, the “**Undertakings**”).

Covenant:

FNES covenants to place, within 5 business days from the date of all parties' signing of the New Supplemental Agreement, all of its constitutional documents, company chops, chop of its legal representative and property title deeds in a notary office's safe deposit box jointly controlled by FNES and the Project Company (the “**Covenant**”).

Payment of the Cash
Compensation:

As at the date of this announcement, FNES has received instalments of the Cash Compensation amounting to a total of RMB600 million from the Project Company and Cash Compensation amounting to RMB400 million remains outstanding.

Pursuant to the New Supplemental Agreement, the parties agreed to vary the terms of payment of the remaining Cash Compensation as follows:

- (a) RMB200 million in cash to be paid by the Project Company to FNES within 5 business days from the effective date of the New Supplemental Agreement (the effective date being the date of completing all necessary regulatory filings and obtaining Shareholders' approval and/or ratification of the New Supplemental Agreement at the Company's special general meeting); and
- (b) the remaining RMB200 million in cash to be paid by the Project Company to FNES on or before 20 December 2021.

If the Covenant is not complied with by the prescribed time, the instalment payment of the Cash Compensation shall be deferred accordingly.

Mode of co-operation: The Project Company will deliver the New Property to FNES and register FNES as the owner of the land use rights and property rights of the New Property within 48 months after the Project Company obtains the land use rights from the relevant government authorities.

Notwithstanding the above, the Project Company will deliver the New Property to FNES no later than 31 December 2034. If the Project Company fails to do so, unless otherwise negotiated between the Project Company and FNES by that time:

- (a) the Project Company shall pay to FNES a rental compensation, which will be calculated on the basis of the market rent of comparable properties in the area; or
- (b) FNES shall be entitled to accept at its option from the Project Company another property of the same value as the New Property instead.

Default and termination: As the timeframe of the remaining instalment payments of the Cash Compensation has been varied under the New Supplemental Agreement for the Cash Compensation to be paid ahead of the originally agreed schedule in favour of the Group, in return, if FNES breaches the terms of the New Supplemental Agreement, the Project Company is entitled to terminate the Co-operation Agreement (as supplemented by the New Supplemental Agreement) and request FNES to repay double the amount of the Cash Compensation that has already been paid by the Project Company to FNES and to compensate the loss of profits suffered by the Project Company under the Co-operation Agreement (as supplemented by the New Supplemental Agreement).

In the event that the Project Company breaches the terms of the New Supplemental Agreement in relation to the payment of the Cash Compensation, the Project Company is liable to pay to FNES damages calculated at a daily rate of 0.03% of the outstanding Cash Compensation.

Save as disclosed above, the terms and conditions of the Co-operation Agreement (as amended by the First Supplemental Agreement and Second Supplemental Agreement) remain substantively unchanged and continue to be in full force and effect.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Project Company, its guarantors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

FINANCIALS IMPLICATIONS

The net book value of the Land and its existing properties based on the management accounts of the Group as at 30 April 2021 was approximately RMB38 million (equivalent to approximately HK\$46 million).

Upon completion of transactions contemplated under the Co-operation Agreement (as supplemented) and subject to auditors' review, the Group expects to record a gain on disposal in the amount of approximately RMB702 million (equivalent to approximately HK\$856 million) calculated by reference to the difference between (i) the Cash Compensation, and (ii) the aggregate of the net book value of the Land and its existing properties referred to above and employee compensation including severance and other statutory payment arising as a result of the Urban Renewal Project. The value of the New Property and the car-parks to be acquired by the Group, and the tax expenses which may be incurred in connection with the transactions contemplated under the Co-operation Agreement, cannot be estimated with any certainty at this stage given the redevelopment plan under the Urban Renewal Project (including the specifications of the New Property and the car-parks to be constructed) is subject to approval by relevant governmental authorities, and which in turn may affect the relevant taxes payable. Based on current information available to the Board, the Directors believe that the amount of the tax expenses is expected not to exceed RMB140 million (equivalent to approximately HK\$171 million).

REASONS FOR ENTERING INTO THE NEW SUPPLEMENTAL AGREEMENT

The Group has taken the following factors into consideration of entering into the New Supplemental Agreement:

- (i) there being no certainty of the actual timing for obtaining the necessary approvals and confirmations from the relevant government authorities and the Group is therefore not in a position to provide specific estimation of the completion date. The timeline of the Urban Renewal Project is mainly dependent on such approvals and confirmations, which could be affected by the local government's general redevelopment plans; and
- (ii) varying the timeframe of the remaining instalment payments of the Cash Compensation in the sum of RMB400 million to be paid ahead of the originally agreed schedule (which was subject to the Project Company having obtained the relevant approvals and fulfilled related milestones, the specific timing of which is still unable to be ascertained as referred to above) would be beneficial to and in favour of the Group.

The Board believes that barring unforeseen circumstances, the Group's compliance with the Undertakings and Covenants is within the Group's control. Therefore, the risk of non-compliance leading to the termination of the New Supplemental Agreement on the Group's part is relatively low.

The use of proceeds remain substantively the same as that set out in the First Circular and as updated in the Company's Annual Report 2020, with RMB350 million used to compensate the relocation expenses including plant disposal, employees' compensation and business losses arising from the relocation, incurred during the year ended 31 December 2019. The balance of RMB250 million Cash Compensative already received have been used to repay loans taken out by the Group for the purpose of the construction of Phase II of the Zhongshan manufacturing plant. As for the remaining RMB400 million the receipt by the Group of which shall be accelerated under the New Supplemental Agreement, such amount will provide further liquidity as working capital for the Group as well as to be use for the purpose of settling the construction costs for the Group's Zhongshan manufacturing plant (or repayment of related loans).

Furthermore, the Board considers that the revised terms contemplated under the New Supplemental Agreement were determined after arm's length negotiations among the parties and the entering into of the New Supplemental Agreement is in the interest of the Company and the Shareholders as a whole, and the revised terms set out therein are fair and reasonable.

GENERAL

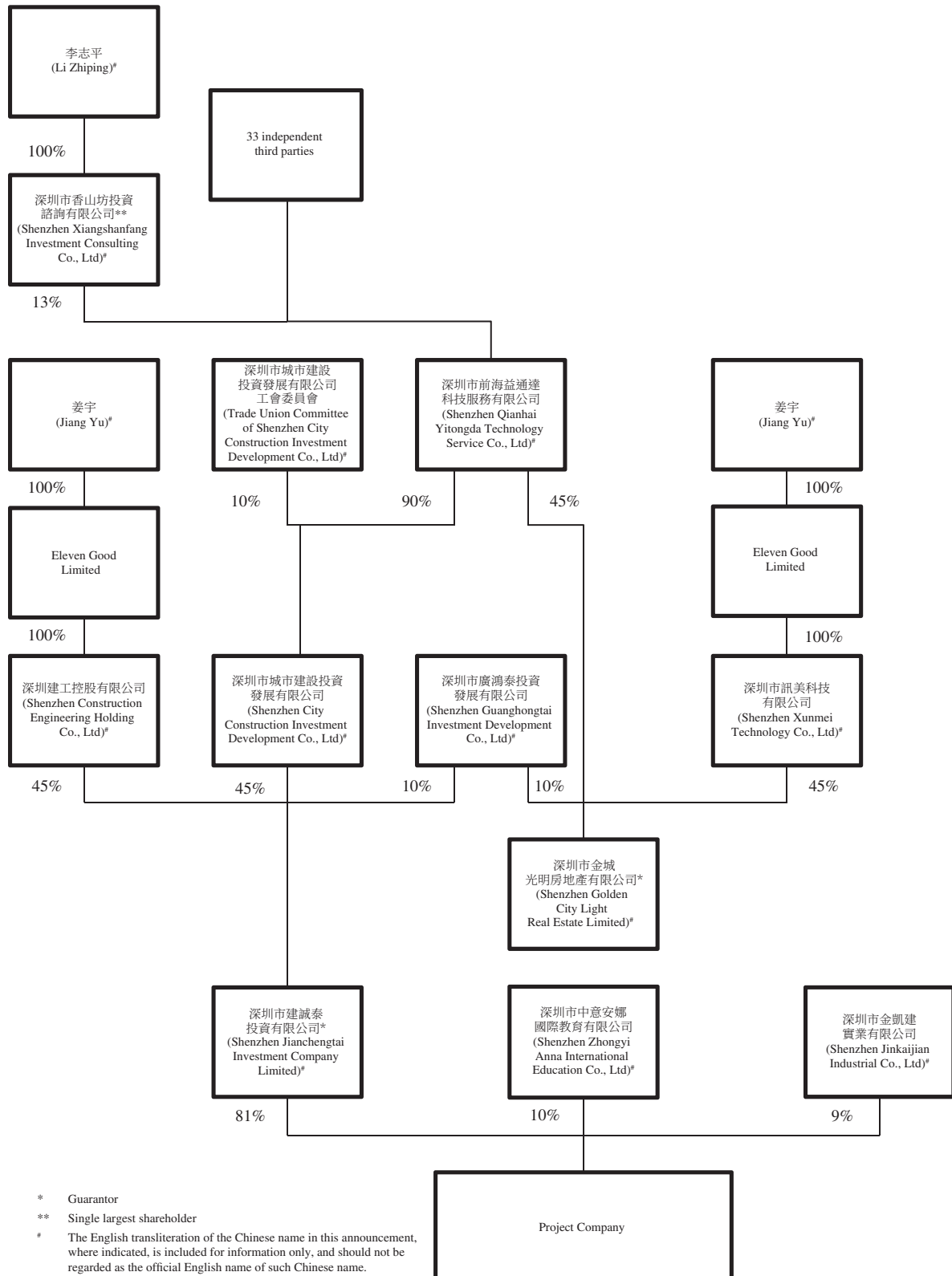
The Group is principally engaged in the manufacture and sale of dyeing and finishing machines, manufacture and sale of stainless steel casting products and the trading of stainless steel supplies. FNES is engaged in the manufacture and sale of dyeing and finishing machines.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Project Company is a limited liability company established under the laws of the PRC and its principal business is real estate development. The Project Company and its ultimate beneficial owners are all third parties independent of the Company and its connected persons and are not connected persons of the Company.

The Group has also been informed that 深圳市金城光明房地產有限公司 (Shenzhen Golden City Light Real Estate Limited*) is principally engaged in property development business whilst 深圳市建誠泰投資有限公司 (Shenzhen Jianchengtai Investment Company Limited*) is principally engaged in corporate governance and business consulting.

A structure chart of the Project Company together with its guarantors is as follows:

Group Structure of Project Company and its Guarantors



As the revised terms under the New Supplemental Agreement constitute material variation of the terms of the Co-operation Agreement (as supplemented), such terms will be conditional upon the approval and/or ratification by the Shareholders. As such, the Company will be seeking the approval and/or ratification of the New Supplemental Agreement and the transactions contemplated thereunder by the Shareholders at a special general meeting of the Company to be held on or about 15 November 2021.

A circular containing, among others, further information on the above (including a valuation report in respect of the Land and its existing properties) and a notice of the special general meeting of the Company is expected to be despatched to the Shareholders on or about 29 October 2021.

On behalf of the Board
CHTC Fong's International Company Limited
Ye Maoxin
Chairman

Hong Kong, 30 September 2021

As at the date of this announcement, the Company's Executive Directors are Mr. Ye Maoxin (Chairman), Mr. Guan Youping (Chief Executive Officer), Ms. Guo Yunfei (Chief Financial Officer) and Mr. Wu Xudong; the Non-executive Director is Fong Kwok Leung, Kevin; and the Independent Non-executive Directors are Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin.

The English transliteration of the Chinese name in this announcement, where indicated, is included for information only, and should not be regarded as the official English name of such Chinese name.