

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

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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

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

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**天虹紡織集團有限公司**  
**TEXHONG TEXTILE GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2678)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM;  
(2) PROPOSED CHANGE OF COMPANY NAME  
AND  
(3) PROPOSED ADOPTION OF AMENDED AND  
RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION  
AND  
NOTICE OF EGM**

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



A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser, Lego Corporate Finance Limited, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 41 of this circular.

A notice convening the EGM to be held at Function Room 1, 11th Floor, L'hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, Hong Kong at 2:30 p.m. on Wednesday, 28 December 2022 is set out on pages 70 to 72 of this circular. Whether or not you intend to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM (i.e. at or before 2:30 p.m. on Monday, 26 December 2022 (Hong Kong time)) 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.

References to time and dates in this circular are to Hong Kong time and dates.

9 December 2022

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Assets by HK Co from Texhong Industrial Park under the Asset Purchase Agreement
“Amendments”	amendment and restatement of the Memorandum and Articles of Association to reflect the proposed Change of Company name
“Articles of Association”	the amended and restated articles of association of the Company
“Asset Purchase Agreement”	the asset purchase agreement (as supplemented by the Supplemental Asset Purchase Agreement) dated 7 November 2022 entered into between HK Co as purchaser and Texhong Industrial Park as vendor in relation to the Acquisition
“Assets”	the Land together with Industrial Water Facilities, Boilers, LPG Gas Station and other ancillary equipment
“associate”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Boilers”	all the plant and machinery relating to the low/mid-pressure boilers and oil furnaces
“Change of Company Name”	the proposed change of the English name of the Company from “Texhong Textile Group Limited” to “Texhong International Group Limited” and adoption of the dual foreign name of the Company in Chinese of “天虹國際集團有限公司” in place of its existing dual foreign name “天虹紡織集團有限公司”
“Company”	Texhong Textile Group Limited (天虹紡織集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Asset Purchase Agreement
“Completion Date”	the date of Completion, which shall be 31 December 2022 or such other date as shall be agreed between the parties in writing

## DEFINITIONS

“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration”	has the meaning ascribed to it in the section headed “Consideration and payment terms” in this circular
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Asset Purchase Agreement, the Change of Company Name and the proposed adoption of the New M&A
“Group”	the Company and its subsidiaries
“Hai Ha Industrial Park”	Texhong Hai Ha Industrial Park and Ports, Quang Ha township, Hai Ha District, Quang Ninh Province, Vietnam
“HK Co”	a limited liability company incorporated in Hong Kong which is a wholly-owned subsidiary of the Company and being the purchaser of the Asset Purchase Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board comprising Prof. Tao Xiaoming, Prof. Cheng Longdi and Mr. Ting Leung Huel, Stephen, being the independent non-executive Directors appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Acquisition
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	Shareholders other than Mr. Hong Tianzhu, New Green Group Limited, Trade Partner Investments Limited, Wisdom Grace Investments Limited and their respective associates

## DEFINITIONS

“Independent Valuer”	Vincorn Consulting and Appraisal Limited, an independent professional valuer appointed by the Company for the valuation of the Assets
“Industrial Water Facilities”	all the plant and machinery of the industrial water treatment facilities, including but not limited to filter, purification tank, and pumping station
“Land”	Land Lot 1 and Land Lot 2 collectively
“Land Lot 1”	a parcel of industrial land located at Hai Ha Industrial Park with a site area of approximately 43,486.60 square metres and the buildings and structures erected thereon
“Land Lot 2”	a parcel of industrial land located at Hai Ha Industrial Park with a site area of approximately 98,123.28 square metres and the buildings and structures erected thereon
“Latest Practicable Date”	8 December 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Lease”	the lease of a parcel of industrial land located in Hai Ha Industrial Park pursuant to the Lease Agreement
“Lease Agreement”	the framework lease agreement dated 7 December 2021 and entered into between Texhong Industrial Park as landlord and a subsidiary of the Group as tenant in relation to the Lease
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2022 (or such later date as shall be agreed between the parties in writing)
“LPG Gas Station”	liquefied petroleum gas station and the liquefied petroleum gas storage tanks
“Memorandum of Association”	the amended and restated memorandum of association of the Company
“New M&A”	a new set of amended and restated Memorandum of Association and Articles of Association with the Amendments
“Newly-added Assets”	has the meaning ascribed to it in the section headed “Consideration and payment terms” in this circular

## DEFINITIONS

“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Asset Purchase Agreement”	the supplemental asset purchase agreement dated 8 December 2022 entered into between HK Co as purchaser and Texhong Industrial Park as vendor to amend and supplement certain terms and conditions of the Asset Purchase Agreement
“Texhong Industrial Park”	Texhong Industrial Park Vietnam Limited (天虹工業園區越南有限公司) (formerly known as Texhong Haiha Industrial Park Vietnam Company Limited (越南天虹海河工業區有限公司)), a company established in Vietnam which is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director and as to 22% by Mr. Zhu Yongxiang, the vice chairman of the Company, the chief executive officer of the Group and executive Director and being the vendor of the Asset Purchase Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“Utilities”	water, steam, thermal oil and liquefied petroleum gas
“Vietnam”	the Socialist Republic of Vietnam
“Vietnam Legal Advisers”	YKVN, the legal advisers to the Company as to Vietnamese laws
“%”	per cent.

LETTER FROM THE BOARD



天虹紡織集團有限公司  
TEXHONG TEXTILE GROUP LIMITED

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2678)**

*Executive Directors:*

Mr. Hong Tianzhu (*Chairman*)

Mr. Zhu Yongxiang

*(Vice Chairman and Chief Executive Officer)*

Mr. Tang Daoping

*Registered office:*

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Independent non-executive Directors:*

Prof. Cheng Longdi

Prof. Tao Xiaoming

Mr. Ting Leung Huel, Stephen

*Head office and principal place of  
business in Hong Kong:*

Unit 3, 37/F

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan

Hong Kong

9 December 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM;  
(2) PROPOSED CHANGE OF COMPANY NAME  
AND  
(3) PROPOSED ADOPTION OF AMENDED AND  
RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION**

**1. INTRODUCTION**

The purposes of this circular are to provide you with information in respect of certain resolutions to be proposed at the EGM and to give you the notice of the EGM. Resolutions to be proposed at the EGM include, *inter alia*, (a) the ordinary resolution on the Assets Purchase Agreement; (b) the special resolution on the proposed Change of Company Name; and (c) the special resolution on the proposed adoption of the New M&A.

## LETTER FROM THE BOARD

### 2. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM

References are made to the announcements of the Company dated 7 November 2022 and 8 December 2022 and in relation to, among others, the Acquisition. The principal terms and conditions of the Asset Purchase Agreement are set out below:

#### Asset Purchase Agreement

Date: 7 November 2022 and 8 December 2022

Parties: HK Co as the purchaser

Texhong Industrial Park as the vendor

#### Information on the Assets

Pursuant to the Asset Purchase Agreement, HK Co has conditionally agreed to purchase and Texhong Industrial Park has conditionally agreed to sell the Assets.

The Assets shall comprise the plant and machinery (including their respective books and records, trading records and other relevant records) of the Industrial Water Facilities, Boilers, LPG Gas Station and other ancillary equipment, together with the Land. The table below sets out the types of plant and machinery of the Industrial Water Facilities, Boilers, LPG Gas Station and other ancillary equipment:

<b>Types of Assets</b>	<b>Types of plant and machinery</b>
Industrial Water Facilities	<ol style="list-style-type: none"><li>1. 10,000 tonnes of water purification facilities<ol style="list-style-type: none"><li>a. Coagulation reaction tank</li><li>b. Incline pipe sedimentation tank</li><li>c. Valveless filter tank</li><li>d. Purification tank</li><li>e. De-ferromanganese filter</li><li>f. Activated carbon filter</li><li>g. Sodium ion exchanger</li><li>h. Water purification pump room</li><li>i. Fire pump room</li><li>j. Water collection points</li><li>k. Dosing room</li><li>l. Sludge tank</li></ol></li></ol>



## LETTER FROM THE BOARD

### Types of Assets

### Types of plant and machinery

2. 20,000 tonnes of water purification facilities — under construction
  - a. Coagulation reaction tank
  - b. Incline pipe sedimentation tank
  - c. Valveless filter tank
  - d. Purification tank (Existing)
  - e. De-ferromanganese filter
  - f. Activated carbon filter
  - g. Sodium ion exchanger
  - h. Backwash water recycling tank

### Boilers

1. Five low-pressure boilers
2. Two oil furnaces
3. One medium-pressure boiler (20 tonnes)
4. One boiler under construction (90 tonnes)

### LPG Gas Station

1. Liquefied petroleum gas station
2. Liquefied petroleum gas storage tanks

### Other ancillary equipment

1. Laboratory equipment
2. Substation (22 kv voltage)
3. Other equipment

Please refer to Appendix II, the text of which are set out on pages 51 to 65 of this Circular for details of the Assets (excluding the Land).

## LETTER FROM THE BOARD

The Assets generate and/or supply the Utilities to the Group and other independent third parties tenants in Hai Ha Industrial Park. The original acquisition cost of the Assets (excluding the Newly-added Assets) by Texhong Industrial Park was approximately US\$45.3 million and the net book value of the Assets as at 30 September 2022 was approximately US\$41.0 million. Texhong Industrial Park was the developer of the industrial park on which the Assets are situated, the original acquisition cost mainly comprises the compensation paid to the original occupants of the Land, the payment to the Vietnam government so far, construction cost of the utility system and land leveling and the cost of the plant and machinery. It has not yet taken into account the land rent for Land Lot 1 and Land Lot 2 which shall be paid to the government by Texhong Industrial Park prior to the completion of the transfer of the Land. Based on the previous experience of Texhong Industrial Park for the payment of land rent in the Quang Ninh Province, Vietnam, the land rent for the Land is approximately US\$13 per square metre and the total land rent payable for the Land will therefore be approximately US\$1.8 million, which has not yet taken into account the exemption or concession of land rent subject to the discretion of the government authorities which shall be considered on a case-by-case basis. As the original acquisition cost only represented the historical cost incurred by Texhong Industrial Park as a developer without reflecting the appreciated value of the Land after it having been developed and having yet included the land rent, the initial consideration, which was determined based on the valuation by the Independent Valuer, is higher than the original acquisition cost.

As at the Latest Practicable Date, Texhong Industrial Park owns the legal title of Land Lot 1 and the legal title of Land Lot 2 is owned by the Vietnam government.

As advised by the Vietnam Legal Advisers, in order to obtain the land use right certificate for Land Lot 2, Texhong Industrial Park is required to obtain a land lease decision and land lease agreement. It was discovered during the due diligence process of the Acquisition that Land Lot 2 does not have a land use right certificate and subsequently Texhong Industrial Park proceeded to apply for such land use right certificate but it takes time for the government authorities to process the application for the issuance of a land use right certificate. For such reasons, Texhong Industrial Park has not yet obtained the land use right certificate for Land Lot 2 as at the Latest Practicable Date. As at the Latest Practicable Date, Texhong Industrial Park is in the process of communicating and preparing for the documents and information requested by the Quang Ninh Department of Natural Resources and Environment and other government authorities in Vietnam in order to obtain a land lease decision and a land lease agreement prior to the issuance of the land use right certificate for Land Lot 2 by the relevant authorities in Vietnam. The Directors expected that the land use right certificate for the land comprising Land Lot 2 will be issued by the relevant authorities in Vietnam by the end of December 2022.

As advised by the Vietnam Legal Advisers, considering that the expected timeline in obtaining the land lease decision and land lease agreement and subject to the satisfaction of certain administrative procedures, there is no legal impediment for Texhong Industrial Park to obtain the land use right certificate for Land Lot 2.

## LETTER FROM THE BOARD

As the boilers installed on Land Lot 2 are essential for steam generation as part of the manufacturing process of knitted garment fabric, one of the principal products of the Group, the acquisition of Land Lot 2 is expected to reduce the reliance of the Group on Texhong Industrial Park for the supply of steam and certain operation costs is expected to be reduced in the long run and the Directors considered that it is for the commercial benefit of the Group to acquire Land Lot 2.

To ensure Texhong Industrial Park having a proper legal title to Land Lot 2, on 8 December 2022, the parties entered into the Supplemental Asset Purchase Agreement to revise, among others, one of the condition precedent to Completion to the obtaining of land use right certificate for the land comprising Land Lot 2 by Texhong Industrial Park.

### **Consideration and payment terms**

The maximum consideration for the Acquisition is US\$54.6 million (the “**Consideration**”), comprising (i) an initial consideration of US\$52.0 million; and (ii) additional consideration of not more than US\$2.6 million for the acquisition of the Assets that are constructed or installed during 1 October 2022 and up to the Completion Date (the “**Newly-added Assets**”) to be settled on a dollar-to-dollar basis based on the actual costs incurred, which shall be payable to Texhong Industrial Park in cash in the following manner:

- (i) 20% of the initial consideration, being US\$10.4 million, shall be paid to Texhong Industrial Park within five business days from the date of signing of the Asset Purchase Agreement;
- (ii) 60% of the initial consideration, being US\$31.2 million, and 80% of the consideration for the Newly-added Assets shall be paid to Texhong Industrial Park within five business days from the Completion Date; and
- (iii) the remaining balance of the Consideration, as adjusted by deducting the exemption or concession on the payment of land rent granted by the government for the Land (if any), shall be paid to Texhong Industrial Park within five business days from the date of completion of the registration of the transfer of the Assets with the relevant authorities in Vietnam.

The Consideration will be financed by the internal resources of the Group.

### **Basis of the Consideration**

The Consideration was determined after arm’s length negotiation between the Group and Texhong Industrial Park on normal commercial terms with reference to (i) (a) the market value of Land Lot 1 and the plant and machinery of approximately US\$32.1 million as at 30 September 2022; and (b) the reference value of Land Lot 2 of approximately US\$20.8 million as at 30 September 2022 (assuming it has been granted with a land use right certificate and freely transferable), as appraised by the Independent Valuer; and (ii) the estimated costs of the Newly-added Assets incurred or to be incurred during 1 October 2022 and up to the Completion Date of not more than US\$2.6 million.

## LETTER FROM THE BOARD

According to the valuation reports issued by the Independent Valuer, the Independent Valuer adopted the market and asset approach for the Assets (excluding the Land) and the cost approach for the Land.

Having considered the legal advice from the Vietnam Legal Advisers that there is no legal impediment for the issuance of the land use right certificate for Land Lot 2 and given that the land use right certificate for the land comprising Land Lot 2 is expected to be issued by the relevant authorities in Vietnam by the end of December 2022, the Directors considered that it is fair and reasonable to take into account the reference value of Land Lot 2 in determining the initial consideration, and the above basis is fair and reasonable and in the interest of the Company and its shareholders as a whole.

Based on the above, the Directors are of the view that the initial consideration is fair and reasonable.

### **Conditions precedent**

Completion is conditional upon fulfilment of the following conditions precedent:

- (a) the passing of the ordinary resolution by the Independent Shareholders at the EGM to approve the Asset Purchase Agreement and the transaction contemplated thereunder;
- (b) the valuation reports in respect of the Assets having been finalised and issued by the Independent Valuer in form and substance satisfactory to the Group showing the aggregate valuation of the Assets as at 30 September 2022 to be not less than US\$52.0 million;
- (c) the land use right certificate for the land comprising Land Lot 2 having been obtained by Texhong Industrial Park; and
- (d) the Group having obtained, and to its satisfaction, legal opinion issued by its Vietnam legal adviser on the legal title of the Land.

None of the above conditions precedent can be waived by either party.

If the conditions precedent have not been satisfied by the Long Stop Date, the Asset Purchase Agreement shall cease and terminate immediately and any of the Consideration being paid by HK Co before the termination of the Asset Purchase Agreement shall be returned to HK Co immediately, and thereafter neither HK Co nor Texhong Industrial Park shall have any obligations and liabilities towards each other under the Asset Purchase Agreement. As at the Latest Practicable Date, conditions precedent (b) and (d) above have been fulfilled.

## LETTER FROM THE BOARD

### Completion

Completion shall take place on 31 December 2022 or such other date as the parties to the Asset Purchase Agreement may agree in writing after the fulfilment of the above conditions precedent to the Completion.

Upon Completion, all rights and benefits arising from the Assets, including any fees generated from the provision of the Utilities to independent third parties tenants in Hai Ha Industrial Park shall belong to the Group.

Pursuant to the Asset Purchase Agreement, HK Co shall establish a wholly-owned subsidiary in Vietnam to assume the transfer of the legal title of the Assets after Completion.

### Undertaking given by Texhong Industrial Park

Texhong Industrial Park undertakes to HK Co that it shall:

- (a) complete the registration of the transfer of the legal title of the Land (the “**Registration**”) within 12 months from the Completion Date. In the event that Texhong Industrial Park fails to complete the registration for any or all of Land Lot 1 or Land Lot 2 within the prescribed period, Texhong Industrial Park shall return to HK Co for the consideration received together with all the interest accrued (such interest rate shall be based on the 12 months fixed deposit rate offered by the foreign banks in Vietnam on the date of payment of the relevant consideration) in respect of the parcel of land together with the buildings and all assets attached to the land which the Registration cannot be completed (after deducting the fees generated from the provision of Utilities in Hai Ha Industrial Park which has been received by the Vietnam subsidiary of HK Co in respect of the parcel of land and the operating cost of the Utilities); and
- (b) indemnify and at all times keep HK Co and its subsidiaries fully indemnified on demand from and against all losses, claims, actions, expenses, fines and penalties and of whatever nature suffered or incurred by HK Co and its subsidiaries directly or indirectly arising out of any non-compliance or alleged non-compliance in respect of the Assets by Texhong Industrial Park on or before the completion of the Registration.

Based on the previous experience of Texhong Industrial Park in applying for the land use right certificate, the Group considered that it is necessary to set a period of 12 months to allow sufficient time for the relevant government authorities in Vietnam to process the registration of the transfer of legal title of the Land.

Having reviewed the audited financial statements of Texhong Industrial Park for each of the three years ended 31 December 2021 and taking into account the long term business relationship with Texhong Industrial Park in Hai Ha Industrial Park, the Directors considered that Texhong Industrial Park is financially sound and the risk of default by Texhong Industrial Park on the undertaking to return the relevant consideration

## LETTER FROM THE BOARD

received together with all the interest accrued is relatively low. In the event of any breach of the above undertaking, the Group shall have the right to initiate legal proceedings against Texhong Industrial Park.

### **Information on the Group and HK Co**

HK Co is an investment holding company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company. The Group is principally engaged in the manufacture and sales of yarn, grey fabrics and garment fabrics as well as garments, especially high value-added core-spun yarn.

### **Information on Texhong Industrial Park**

Texhong Industrial Park was established in Vietnam and is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director and as to 22% by Mr. Zhu Yongxiang, the vice chairman of the Company and the chief executive officer of the Group and an executive Director as at the Latest Practicable Date. Texhong Industrial Park is principally engaged in infrastructure development in Hai Ha Industrial Park.

### **Reasons for and benefits of the Acquisition**

Reference is made to the announcement of the Company dated 25 August 2021 in relation to, among others, the provision of the Utilities by Texhong Industrial Park to members of the Group which constituted continuing connected transactions of the Company. In order to reduce the reliance on Texhong Industrial Park, the Directors consider that it is for the commercial benefit of the Group to acquire the Assets from Texhong Industrial Park such that the Assets can be used to provide and supply the Utilities to members of the Group, instead of paying monthly fee to Texhong Industrial Park for the usage of the Utilities and certain operating costs is expected to be reduced in the long run. As the Assets also provide and supply the Utilities to independent third parties tenants in Hai Ha Industrial Park, the Group will also generate income from the Assets which can be used for general working capital of the Group in Vietnam.

The Directors are of the view that although the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Asset Purchase Agreement are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Listing rules implications**

As one of the applicable percentage ratio (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, Texhong Industrial Park is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director, and is therefore a connected person of the Company by virtue of its being an associate of Mr. Hong Tianzhu. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 7 December 2021 in respect of the Lease Agreement. Pursuant to the Rules 14A.81 and 14A.82 of the Listing Rules, the Lease and the Acquisition shall be aggregated as if they were one transaction because they were entered into within 12 months by the Company with the same connected person of the Company. Upon aggregation, as the highest applicable percentage ratio is more than 5% and the Consideration exceeds HK\$10 million, the Acquisition is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Hong Tianzhu and Mr. Zhu Yongxiang had material interests in the Acquisition and have abstained from voting on the Board resolution approving the Asset Purchase Agreement. Save as disclosed above, none of the Directors had a material interest in the Acquisition and hence no other Directors were required to abstain from voting on such Board resolution.

### **3. PROPOSED CHANGE OF COMPANY NAME**

The Board proposes to change the English name of the Company from "Texhong Textile Group Limited" to "Texhong International Group Limited" and adoption of the dual foreign name of the Company in Chinese of "天虹國際集團有限公司" in place of its existing dual foreign name "天虹紡織集團有限公司". The Change of Company Name is subject to the approval by the Shareholders at the EGM by way of a special resolution and the approval of the Registrar of Companies in the Cayman Islands.

#### **Reasons for the Proposed Change of Company Name**

The Board considers that the Change of Company name is in line with the Group's strategic business plan for future development, and believes that the Change of Company Name will provide the Group with a fresh corporate image which will benefit future business development of the Group. Accordingly, the Board is of the view that the proposed Change of Company Name is in the best interests of the Company and the Shareholders as a whole.

#### **Conditions for the Proposed Change of Company Name**

The Change of Company Name is subject to the following conditions:

- (i) the passing of special resolution by the Shareholders at the EGM to approve, amongst others, the Change of Company Name; and
- (ii) the Registrar of Companies in the Cayman Islands approving the Change of Company Name.

## **LETTER FROM THE BOARD**

Subject to the satisfaction of all the conditions set out above, the Change of Company Name will take effect from the date on which the Registrar of Companies in the Cayman Islands issues the certificate of incorporation on change of name confirming the new name has been registered. Thereafter, the Company will carry out all necessary filing procedures with the Companies Registry in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

### **Effects of the Proposed Change of Company Name**

The Change of Company Name will not affect any rights of the existing holders of securities of the Company or the Company's daily business operation and its financial position.

All the existing certificates of securities of the Company in issue bearing the existing name of the Company will, upon the Change of Company Name becoming effective, continue to be evidence of title to such securities of the Company and will continue to be valid for trading, settlement, registration and delivery of the same number of securities of the Company in the new English name and Chinese name of the Company. As soon as the Change of Company Name has become effective, any new certificates of the securities of the Company will be issued in the new English name and Chinese name of the Company. There will not be any arrangement for free exchange of the existing certificates of the securities of the Company for new certificates bearing the new English name and Chinese name of the Company.

In addition, subject to the confirmation by the Stock Exchange, the Company intends to change the English and Chinese stock short name for trading of the shares of the Company on the Stock Exchange after the Change of Company Name has become effective.

#### **4. PROPOSED ADOPTION OF AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION**

In view of the Change of Company Name, the Board also proposes to amend and restate the Memorandum of Association and the Articles of Association by deleting the words "Texhong Textile Group Limited 天虹紡織集團有限公司" wherever they may appear and replacing them with the words "Texhong International Group Limited 天虹國際集團有限公司", with effect from the same time the Change of Company Name takes effect.

The Company has been advised by its legal advisers that the proposed Amendments conform with the requirements of the Listing Rules and do not contravene the laws of the Cayman Islands, respectively. The Company also confirms that there is nothing unusual about the proposed Amendments to the Memorandum of Association and the Articles of Association for a company listed on the Stock Exchange.

The Board proposes to put forward to the Shareholders for approval at the EGM a special resolution to adopt the New M&A. The proposed adoption of the New M&A is subject to the passing of a special resolution.



## LETTER FROM THE BOARD

### 5. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 70 to 72 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, the Asset Purchase Agreement, the proposed Change of Company Name, and the adoption of the New M&A.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolutions at the EGM.

Texhong Industrial Park is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director and as to 22% by Mr. Zhu Yongxiang, the vice chairman of the Company and the chief executive officer of the Group and an executive Director. As at the Latest Practicable Date, New Green Group Limited is wholly owned by Texhong Group Holdings Limited, a company wholly owned by Mr. Hong Tianzhu and Trade Partner Investments Limited is owned as to 57.44% by Mr. Hong Tianzhu through New Green Group Limited. Wisdom Grace Investments Limited is wholly owned by Mr. Zhu Yongxiang. As a result, each of Mr. Hong Tianzhu, New Green Group Limited, Trade Partner Investments Limited, Wisdom Grace Investments Limited and their respective associates have material interest in the Acquisition and will be required to abstain from voting on the resolution relating to the Asset Purchase Agreement at the EGM. Save as disclosed, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the relevant connected transaction and therefore no other Shareholder is required to abstain from voting at the EGM for the relevant resolution. As at the Latest Practicable Date, Mr. Hong Tianzhu held 5,400,000 Shares (representing approximately 0.59% of the Company's total issued shares), New Green Group Limited held 392,842,400 Shares (representing approximately 42.79% of the Company's total issued shares), Trade Partner Investments Limited held 151,900,000 Shares (representing approximately 16.55% of the Company's total issued shares) and Wisdom Grace Investments Limited held 68,000,000 Shares (representing approximately 7.41% of the Company's total issued shares).

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, all the proposed resolutions will be put to vote by way of poll at the EGM. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.texhong.com](http://www.texhong.com)). Please complete and return the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the time scheduled for holding the EGM (i.e. not later than 2:30 p.m. on Monday, 26 December 2022) or the adjourned meeting (as the case may be).

## **LETTER FROM THE BOARD**

### **6. RECOMMENDATION**

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 18 to 19 of this circular, which contains its advice to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser set out on pages 20 to 41 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Asset Purchase Agreement and reasons considered by it in arriving at its opinion.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that although the Acquisition is not in the ordinary and usual course of business of the Group, the terms and conditions of the Asset Purchase Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Asset Purchase Agreement.

The Board considers that the special resolutions to be proposed at the EGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions at the EGM.

### **7. CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will not be closed for the purpose of determining the right to attend and vote at the EGM. However, in order to be qualified for attending and voting at the EGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 23 December 2022.

### **8. GENERAL INFORMATION**

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

### **9. SPECIAL ARRANGEMENTS FOR THE EGM**

Shareholders should note that during the ongoing COVID-19 pandemic, the following precautionary measures will be taken at the EGM unless the Company should require otherwise:

- (a) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius or refuses a temperature check will not be permitted to access the meeting venue.

## LETTER FROM THE BOARD

- (b) The Company requests each attendee to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.
- (c) No refreshment will be served.
- (d) Each attendee will be asked whether (a) he/she has travelled outside of Hong Kong within the 14-day period immediately before the EGM; (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions will not be permitted to access the meeting venue.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.texhong.com](http://www.texhong.com)). If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited (“**HKSCC**”)), you should consult directly with your banks, brokers, custodians or HKSCC (as the case may be) to assist you in the appointment of proxy.

### 10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully  
By order of the Board  
**Texhong Textile Group Limited**  
天虹紡織集團有限公司  
**Hong Tianzhu**  
*Chairman*



**天虹紡織集團有限公司**  
**TEXHONG TEXTILE GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2678)**

9 December 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM**

We refer to the circular dated 9 December 2022 (the “**Circular**”) issued by the Company to its Shareholders of which this letter forms part. Unless the context requires otherwise, the capitalized terms used herein shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Asset Purchase Agreement, the details of which are set out in the letter from the Board, is on normal commercial terms, fair and reasonable and the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders taken as a whole.

Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Further information of its advice is set out on pages 20 to 41 of the Circular. Your attention is also drawn to the letter from the Board set forth on pages 5 to 17 of the Circular.

Having considered the advice and recommendation of the Independent Financial Adviser, we are of the opinion that although the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Asset Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Asset Purchase Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Ting Leung Huel,  
Stephen**

**Prof. Tao Xiaoming**

**Prof. Cheng Longdi**

*Independent non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of inclusion in this circular.*



9 December 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 9 December 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 7 November 2022 in relation to, among other things, the Asset Purchase Agreement. On 7 November 2022, HK Co, a wholly-owned subsidiary of the Company, entered into the Asset Purchase Agreement with Texhong Industrial Park, pursuant to which, HK Co has conditionally agreed to purchase, and Texhong Industrial Park has conditionally agreed to sell, the Assets at a maximum consideration of US\$54.6 million. Reference is also made to the announcement of the Company dated 8 December 2022 that on 8 December 2022, Texhong Industrial Park and HK Co entered into the Supplemental Asset Purchase Agreement to amend and supplement certain terms and conditions of the Asset Purchase Agreement.

As one of the applicable percentage ratio (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Texhong Industrial Park is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director, and is therefore a connected person of the Company by virtue of its being an associate of Mr. Hong Tianzhu. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Reference is made to the announcement of the Company dated 7 December 2021 in respect of the Lease Agreement. Pursuant to the Rules 14A.81 and 14A.82 of the Listing Rules, the Lease and the Acquisition shall be aggregated as if they were

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

one transaction because they were entered into within 12 months by the Company with the same connected person of the Company. Upon aggregation, as the highest applicable percentage ratio is more than 5% and the Consideration exceeds HK\$10 million, the Acquisition is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Prof. Tao Xiaoming, Prof. Cheng Longdi and Mr. Ting Leung Huel, Stephen, has been established to advise the Independent Shareholders as to (i) whether the terms of the Asset Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regards.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, we have been engaged as the independent financial adviser of the Company in respect of a possible continuing connected transaction in January 2022 (the "**Previous Engagement**"), subsequent to which the relevant transaction did not proceed eventually. Apart from normal professional fees paid or payable to us in connection with the Previous Engagement and this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, we consider that we are eligible to give independent advice in respect of the Acquisition.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company (the "**Management**"). We have assumed that all the information, facts and representations contained or referred to in the Circular, and all the information, opinions and representations provided or expressed by the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. We have also assumed that all such opinions and statements of intention or belief expressed by the Directors and/or the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiries.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any relevant information has been withheld or omitted, nor are we aware of any facts or circumstances which would render the information provided, representations made or opinions expressed to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information currently available, and that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The 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 the 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 therein or the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Acquisition, we have considered the following principal factors and reasons:

#### **1. Information on the Group, HK Co and Texhong Industrial Park**

##### ***1.1 The Group***

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares have been listed on the main board of the Stock Exchange since 9 December 2004. The Group is principally engaged in the manufacture and sales of yarn, grey fabrics and garment fabrics as well as garments, especially high value-added core-spun yarn.

According to the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”), as at 30 June 2022, the Group had an aggregate of approximately 2.35 million spindles and 1.75 million spindles located in China and overseas (mainly in Vietnam), respectively.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the financial results of the Group (i) for the year ended 31 December 2020 (“**FY2020**”) and the year ended 31 December 2021 (“**FY2021**”) as extracted from the annual report of the Company for FY2021 (the “**2021 Annual Report**”); and (ii) for the six months ended 30 June 2021 (“**1H2021**”) and the six months ended 30 June 2022 (“**1H2022**”) as extracted from the 2022 Interim Report:

	<b>For the year ended</b>		<b>For the six months</b>	
	<b>31 December</b>		<b>ended 30 June</b>	
	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>	19,576,938	26,521,193	12,526,280	13,020,846
— Yarns	15,202,241	20,642,787	9,875,123	9,765,146
— Garment fabrics and garments	3,816,188	5,166,519	2,388,356	2,804,068
— Grey fabrics	496,801	588,442	220,458	425,759
— Non-woven fabrics	61,708	123,445	42,343	25,873
<b>Gross profit</b>	2,707,118	5,851,971	2,852,541	2,567,797
Gross profit margin (%)	13.82	22.07	22.77	19.72
<b>Profit for the year/period</b>	530,354	2,741,616	1,321,864	1,024,444

### *For the year ended 31 December 2021*

The Group’s revenue increased by approximately 35.5% from approximately RMB19,576.9 million for FY2020 to approximately RMB26,521.2 million for FY2021, thanks to the gradual recovery of the global economy and also the textile market in 2021. Particularly, owing to the rise in both selling prices and sales volume, (i) the revenue from the sales of yarns, which remained the primary source of the Group’s revenue for the year, increased by approximately 35.8% from approximately RMB15,202.2 million for FY2020 to approximately RMB20,642.8 million for FY2021; and (ii) the revenue from the sales of garment fabrics and garments increased by approximately 35.4% from approximately RMB3,816.2 million for FY2020 to approximately RMB5,166.5 million for FY2021.

The Group’s gross profit increased significantly by approximately 116.2% from approximately RMB2,707.1 million for FY2020 to approximately RMB5,852.0 million for FY2021. Such increase was driven by the increase in the Group’s revenue as mentioned above. The Group’s overall gross profit margin for FY2021 increased by approximately 8.3 percentage points to approximately 22.1% as compared to that of approximately 13.8% for FY2020, mainly due to the increase in the gross profit margin of the yarn business and woven garment fabrics business.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a result of the surge in revenue and gross profit, the Group achieved a record high net profit of approximately RMB2,741.6 million for FY2021, representing an increase of approximately 416.9% as compared to that of approximately RMB530.4 million for FY2020.

*For the six months ended 30 June 2022*

The Group's revenue increased by approximately 3.9% from approximately RMB12,526.3 million for 1H2021 to approximately RMB13,020.8 million for 1H2022. Particularly, (i) the revenue from the sales of yarns, which remained the primary source of the Group's revenue for the period, slightly decreased by approximately 1.1% from approximately RMB9,875.1 million for 1H2021 to approximately RMB9,765.1 million for 1H2022, attributable to the combined effect of the rise in selling prices and drop in sales volume; and (ii) the revenue from the sales of garment fabrics and garments increased by approximately 17.4% from approximately RMB2,388.4 million for 1H2021 to approximately RMB2,804.1 million for 1H2022, primarily benefiting from the rise in fabric prices.

Despite the increase in revenue for 1H2022, the increased raw material prices in the first half of 2022 led to higher production and operating costs for the plants of the Group. As a result, the Group's gross profit decreased by approximately 10.0% from approximately RMB2,852.5 million for 1H2021 to approximately RMB2,567.8 million for 1H2022. The Group's overall gross profit margin for 1H2022 decreased by approximately 3.1 percentage points to approximately 19.7% as compared to that of approximately 22.8% for 1H2021, mainly due to the decrease in the gross profit margin of the yarn business and knitted garment fabrics business.

With the market demand being weaker than expected in the second quarter of 2022, the Group recorded a net profit of approximately RMB1,024.4 million for 1H2022, representing a decrease of approximately 22.5% as compared to that of approximately RMB1,321.9 million for 1H2021.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the financial position of the Group (i) as at 31 December 2020 and 2021 as extracted from the 2021 Annual Report; and (ii) as at 30 June 2022 as extracted from the 2022 Interim Report, respectively:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2020</b>	<b>2021</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)
<b>Total assets</b>	20,157,279	24,442,884	26,342,926
Non-current assets	10,829,540	11,394,265	12,405,601
Current assets	9,327,739	13,048,619	13,937,325
<b>Total liabilities</b>	11,684,541	13,841,932	15,140,234
Non-current liabilities	3,673,381	3,752,486	4,222,514
Current liabilities	8,011,160	10,089,446	10,917,720
<b>Net current assets</b>	1,316,579	2,959,173	3,019,605
<b>Total equity</b>	8,472,738	10,600,952	11,202,692

As at 30 June 2022, the Group's non-current assets amounted to approximately RMB12,405.6 million, which mainly comprised (i) property, plant and equipment of approximately RMB9,642.9 million; and (ii) right-of-use assets of approximately RMB1,524.3 million. Meanwhile, the Group's current assets mainly consisted of (i) inventories of approximately RMB7,321.3 million; (ii) trade and bills receivables of approximately RMB2,728.9 million; (iii) cash and cash equivalents of approximately RMB2,088.6 million; and (iv) prepayments, deposits and other receivables of approximately RMB1,067.9 million.

As at 30 June 2022, the Group's non-current liabilities amounted to approximately RMB4,222.5 million, which mainly comprised (i) borrowings of approximately RMB3,739.3 million; and (ii) deferred income tax liabilities of approximately RMB293.2 million. Meanwhile, the Group's current liabilities mainly consisted of (i) trade and bills payables of approximately RMB4,730.4 million; (ii) borrowings of approximately RMB4,399.0 million; and (iii) accruals and other payables of approximately RMB855.0 million.

As at 30 June 2022, the net current assets and total equity of the Group amounted to approximately RMB3,019.6 million and RMB11,202.7 million, respectively.

## **1.2 HK Co**

HK Co is an investment holding company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company.

## **1.3 Texhong Industrial Park**

Texhong Industrial Park was established in Vietnam and is ultimately owned as to 78% by Mr. Hong Tianzhu, the chairman of the Company and an executive Director and as to 22% by Mr. Zhu Yongxiang, the vice chairman of the Company and the chief executive officer of the Group and an executive Director as at the Latest Practicable Date. Texhong Industrial Park is principally engaged in infrastructure development in Hai Ha Industrial Park.

## **2. Information on the Assets**

The Assets are located at Texhong Hai Ha Industrial Park and Ports, Quang Ha Township, Hai Ha District, Quang Ninh Province, Vietnam and generate and/or supply the Utilities to the Group and other independent third parties tenants in Hai Ha Industrial Park.

The Assets shall comprise (i) the land use rights of two parcels of industrial land located at Hai Ha Industrial Park (namely, Land Lot 1 and Land Lot 2) with a total site area of approximately 141,609.88 square metres and the buildings and structures erected and to be erected thereon with a total proposed gross floor area of approximately 34,447.62 square metres; and (ii) the plant and machinery of the Industrial Water Facilities, Boilers, LPG Gas Station and other ancillary equipment (collectively, the “**Plant and Machinery**”). Please refer to the section headed “2. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM — Information on the Assets” in the Letter from the Board and Appendix II to the Circular for the details of the Plant and Machinery.

As at the Latest Practicable Date, the legal title of Land Lot 1 is owned by Texhong Industrial Park and the legal title of Land Lot 2 is owned by the Vietnam government. As advised by the Vietnam Legal Advisers, in order to obtain the land use right certificate for Land Lot 2, Texhong Industrial Park is required to obtain a land lease decision and land lease agreement. It was discovered during the due diligence process of the Acquisition that Land Lot 2 does not have a land use right certificate and subsequently Texhong Industrial Park proceeded to apply for such land use right certificate but it takes time for the government authorities to process the application for the issuance of a land use right certificate. For such reasons, Texhong Industrial Park has not yet obtained the land use right certificate for Land Lot 2 as at the Latest Practicable Date. As at the Latest Practicable Date, Texhong Industrial Park is in the process of communicating and preparing for the documents and information requested by the Quang Ninh Department of Natural Resources and Environment and other government authorities in Vietnam in order to obtain a land lease decision and a land lease agreement prior to the issuance of the land use right certificate for Land Lot 2 by the relevant authorities in Vietnam. As disclosed in

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Letter from the Board, the Directors expected that the land use right certificate for the land comprising Land Lot 2 will be issued by the relevant authorities in Vietnam by the end of December 2022.

As advised by the Management, the acquisition of Land Lot 2 aims to reduce the reliance of the Group on Texhong Industrial Park for the supply of steam as the boilers installed on Land Lot 2 are essential for steam generation as part of the manufacturing process of knitted garment fabrics, being one of the principal products of the Group, and therefore the Directors are of the view that it is for the commercial benefit of the Group to acquire Land Lot 2. As advised by the Vietnam Legal Advisers, considering the expected timeline in obtaining the land lease decision and land lease agreement and subject to the satisfaction of certain administrative procedures, there is no legal impediment for Texhong Industrial Park to obtain the land use right certificate for Land Lot 2. As disclosed in the Letter from the Board, in order to ensure Texhong Industrial Park having a proper legal title to Land Lot 2, on 8 December 2022, Texhong Industrial Park and HK Co entered into the Supplemental Asset Purchase Agreement to revise, among others, one of the conditions precedent to Completion to the obtaining of the land use right certificate for the land comprising Land Lot 2 by Texhong Industrial Park. Moreover, we noted from the Asset Purchase Agreement that Texhong Industrial Park has given certain undertakings in favour of the Group as detailed in the section headed “4.4 Undertaking given by Texhong Industrial Park” below. In particular, Texhong Industrial Park undertakes to HK Co that it shall complete the registration of transfer of the Land within 12 months from the Completion Date and in the event that it fails to do so, it shall return the relevant consideration together with all the interest accrued thereon to HK Co. We consider that the interests of the Company and the Shareholders are safeguarded under such refund mechanism in the event of Texhong Industrial Park failing to complete the registration of transfer of the Land within the prescribed period. Taking into consideration of the above factors, we are of the view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to acquire Land Lot 2.

The original acquisition cost of the Assets (excluding the Newly-added Assets) by Texhong Industrial Park was approximately US\$45.3 million and the net book value of the Assets as at 30 September 2022 was approximately US\$41.0 million.

### **3. Reasons for and benefits of the Acquisition**

The Group is principally engaged in the manufacture and sales of yarn, grey fabrics and garment fabrics as well as garments, especially high value-added core-spun yarn, with its production operations mainly based in China and Vietnam. As disclosed in the 2022 Interim Report, given that the impact of COVID-19 remains uncertain in China, the Group must make preparations for regional supply in various markets, make full use of and strengthen its overseas production capacity in countries and regions such as Vietnam, Mexico, Central America and Turkey, in order to continuously provide customers with high-quality products and services. It is believed that the Assets, which generate and/or supply the Utilities to the Group in support of its production operation in Vietnam, are essential for the Group to achieve such development strategy.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Historically, as the sole supplier of the Utilities, Texhong Industrial Park has been supplying one or more types of the Utilities to the Group's production facilities in Hai Ha Industrial Park since 2016 and such transactions constituted continuing connected transactions of the Company. With reference to the 2021 Annual Report, the total transaction amount of the continuing connected transactions in relation to the provision of the Utilities by Texhong Industrial Park to the Group for FY2021 was approximately RMB63.0 million. Reference is also made to the announcement of the Company dated 25 August 2021 regarding the master supply agreement entered into between Texhong Industrial Park and the Company in relation to, among others, the supply of the Utilities. As advised by the Management, in the event that such agreement is terminated for whatever reasons, it is barely possible for the Group to procure the Utilities from other supplier(s), if any, in nearby locations in a short period of time, which will create uncertainty and disruption to the Group's operation in Hai Ha Industrial Park. On the contrary, upon Completion, the Group can exercise full control over the Assets and the Group will cease to pay monthly fee to Texhong Industrial Park for the usage of the Utilities. As such, the Acquisition allows the Group to ensure smooth operation in Vietnam and to eliminate certain connected transactions between the Group and Texhong Industrial Park, thereby reducing the Group's reliance on Texhong Industrial Park. In addition, as advised by the Management, the Group would be able to save certain operating costs in the long run by owning the Assets directly.

As disclosed in the Letter from the Board, besides providing and supplying the Utilities to the members of the Group, the Assets also provide and supply the Utilities to independent third parties tenants in Hai Ha Industrial Park. Upon Completion, the Group could generate income from the Assets which can be used for general working capital for its production operation in Vietnam in the long run. According to the information provided by the Company, the total fees paid by the relevant independent third parties tenants for the Utilities increased from approximately RMB9.3 million for the year ended 31 December 2019 to approximately RMB18.8 million for FY2021 and amounted to approximately RMB23.3 million for the ten months ended 31 October 2022.

We further noted from the previous annual reports of the Company that, according to the statistics of Vietnam Customs, (i) the export volume of yarns and staple fibre manufactured in Vietnam grew from approximately 1,349,000 tonnes in 2017 to approximately 1,893,000 tonnes in 2021, while the corresponding export value increased from approximately US\$3,593 million in 2017 to approximately US\$5,612 million in 2021; and (ii) the export value of garments increased from approximately US\$26.0 billion in 2017 to approximately US\$32.8 billion in 2021, indicating a general upward trend of the textile industry of Vietnam in the past five years.

In light of the above, in particular that (i) the Acquisition is in line with the Group's development strategy; (ii) the Acquisition allows the Group to ensure smooth operation in Vietnam; and (iii) the Acquisition will broaden the revenue base of the Group, we concur with the Directors' view that it is for the commercial benefit of the Group to acquire the Assets from Texhong Industrial Park.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above reasons and benefits and the Consideration being fair and reasonable as discussed below, we are of the view that the Acquisition, although not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

#### 4. Principal terms of the Asset Purchase Agreement (as supplemented by the Supplemental Asset Purchase Agreement)

The principal terms of the Asset Purchase Agreement, details of which are set out in the section headed “2. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM” in the Letter from the Board, are summarised below:

Date:	7 November 2022 and 8 December 2022
Parties:	(i) HK Co (as the purchaser); and (ii) Texhong Industrial Park (as the vendor)
Subject matter:	HK Co has conditionally agreed to purchase, and Texhong Industrial Park has conditionally agreed to sell, the Assets at a maximum consideration of US\$54.6 million (i.e. the Consideration).

##### 4.1 Consideration and payment terms

The Consideration of US\$54.6 million shall comprise (i) an initial consideration of US\$52.0 million (the “**Initial Consideration**”); and (ii) additional consideration of not more than US\$2.6 million (the “**Additional Consideration**”) for the acquisition of the Assets that are constructed or installed during 1 October 2022 and up to the Completion Date (i.e. the Newly-added Assets) to be settled on a dollar-to-dollar basis based on the actual costs incurred, which shall be payable to Texhong Industrial Park in cash in the following manner:

- (i) 20% of the Initial Consideration, being US\$10.4 million, shall be paid to Texhong Industrial Park within five business days from the date of signing of the Asset Purchase Agreement;
- (ii) 60% of the Initial Consideration, being US\$31.2 million, and 80% of the consideration for the Newly-added Assets shall be paid to Texhong Industrial Park within five business days from the Completion Date; and
- (iii) the remaining balance of the Consideration, as adjusted by deducting the exemption or concession on the payment of land rent granted by the government for the Land (if any), shall be paid to Texhong Industrial Park within five business days from the date of completion of the registration of the transfer of the Assets with the relevant authorities in Vietnam.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Consideration will be financed by the internal resources of the Group.

### ***4.2 Conditions precedent***

Completion is conditional upon fulfilment of the following conditions precedent:

- (a) the passing of the ordinary resolution by the Independent Shareholders at the EGM to approve the Asset Purchase Agreement and the transaction contemplated thereunder;
- (b) the valuation reports in respect of the Assets having been finalised and issued by the Independent Valuer in form and substance satisfactory to the Group showing the aggregate valuation of the Assets as at 30 September 2022 to be not less than US\$52.0 million;
- (c) the land use right certificate for the land comprising Land Lot 2 having been obtained by Texhong Industrial Park; and
- (d) the Group having obtained, and to its satisfaction, legal opinion issued by its Vietnam legal adviser on the legal title of the Land.

None of the above conditions precedent can be waived by either party. If the conditions precedent have not been satisfied by the Long Stop Date, the Asset Purchase Agreement shall cease and terminate immediately and any of the Consideration being paid by HK Co before the termination of the Asset Purchase Agreement shall be returned to HK Co immediately, and thereafter neither HK Co nor Texhong Industrial Park shall have any obligations and liabilities towards each other under the Asset Purchase Agreement. As at the Latest Practicable Date, conditions precedent (b) and (d) above have been fulfilled.

### ***4.3 Completion***

Completion shall take place on 31 December 2022 or such other date as the parties to the Asset Purchase Agreement may agree in writing after the fulfilment of the above conditions precedent to the Completion.

Upon Completion, all rights and benefits arising from the Assets, including any fees generated from the provision of the Utilities to independent third parties tenants in Hai Ha Industrial Park shall belong to the Group.

Pursuant to the Asset Purchase Agreement, HK Co shall establish a wholly-owned subsidiary in Vietnam to assume the transfer of the legal title of the Assets after Completion.



***4.4 Undertaking given by Texhong Industrial Park***

Texhong Industrial Park undertakes to HK Co that it shall:

- (i) complete the registration of the transfer of the legal title of the Land (the “**Registration**”) within 12 months from the Completion Date. In the event that Texhong Industrial Park fails to complete the registration for any or all of Land Lot 1 or Land Lot 2 within the prescribed period, Texhong Industrial Park shall return to HK Co for the consideration received together with all the interest accrued (such interest rate shall be based on the 12 months fixed deposit rate offered by the foreign banks in Vietnam on the date of payment of the relevant consideration) in respect of the parcel of land together with the buildings and all assets attached to the land which the Registration cannot be completed (after deducting the fees generated from the provision of Utilities in Hai Ha Industrial Park which has been received by the Vietnam subsidiary of HK Co in respect of the parcel of land and the operating cost of the Utilities); and
- (ii) indemnify and at all times keep HK Co and its subsidiaries fully indemnified on demand from and against all losses, claims, actions, expenses, fines and penalties and of whatever nature suffered or incurred by HK Co and its subsidiaries directly or indirectly arising out of any non-compliance or alleged non-compliance in respect of the Assets by Texhong Industrial Park on or before the completion of the Registration.

Based on the previous experience of Texhong Industrial Park in applying for the land use right certificate, the Group considered that it is necessary to set a period of 12 months to allow sufficient time for the relevant government authorities in Vietnam to process the registration of the transfer of legal title of the Land.

Having reviewed the audited financial statements of Texhong Industrial Park for each of the three years ended 31 December 2021 and taking into account the long term business relationship with Texhong Industrial Park in Hai Ha Industrial Park, the Directors considered that Texhong Industrial Park is financially sound and the risk of default by Texhong Industrial Park on the undertaking to return the relevant consideration received together with all the interest accrued is relatively low. In the event of any breach of the above undertaking, the Group shall have the right to initiate legal proceedings against Texhong Industrial Park.

**5. Analysis on the fairness and reasonableness of the Consideration**

According to the Letter from the Board, the Consideration was determined after arm's length negotiations between the Group and Texhong Industrial Park on normal commercial terms with reference to (i) (a) the market value of Land Lot 1 and the Plant and Machinery of approximately US\$32.1 million as at 30 September 2022; and (b) the reference value of Land Lot 2 of approximately US\$20.8 million as at 30 September 2022 as appraised by the Independent Valuer, namely, Vincorn Consulting and Appraisal Limited; and (ii) the estimated costs of the Newly-added Assets incurred or to be incurred during 1 October 2022 and up to the Completion Date of not more than US\$2.6 million.

In order to assess the fairness and reasonableness of the Initial Consideration, we have obtained and reviewed (i) a list of fixed assets setting out the particulars of the Assets (the "**Fixed Assets List**"); (ii) the valuation report in relation to the Land (the "**Property Valuation Report**"); (iii) the valuation report in relation to the Plant and Machinery (the "**P&M Valuation Report**", together with the Property Valuation Report, the "**Valuation Reports**"); and (iv) the underlying workings prepared by the Independent Valuer. As stated in the Property Valuation Report, the sum of the market value of Land Lot 1 and the reference value of Land Lot 2 as at 30 September 2022 is US\$28,570,000 (the "**Property Valuation**"). As stated in the P&M Valuation Report, the sum of the market value of the Plant and Machinery as at 30 September 2022 is US\$24,310,000 (the "**P&M Valuation**"). Accordingly, the Initial Consideration of US\$52,000,000 represents a slight discount of approximately 1.7% to the aggregate amount of the Property Valuation and the P&M Valuation of US\$52,880,000 (the "**Aggregate Valuation**"). Independent Shareholders' attention is drawn to the full text of the Property Valuation Report and the P&M Valuation Report as set out in Appendix I and Appendix II to the Circular, respectively.

We have performed the works as required under Note 1(d) to Rule 13.80(2)(b) of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Reports, which included, among others, (i) review of the terms of engagement and the scope of work of the Independent Valuer; (ii) assessment of the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Reports and its independence; and (iii) discussion on the bases, assumptions and methodologies adopted by the Independent Valuer.

***Scope of work***

We have reviewed the terms of engagement of the Independent Valuer and consider that its scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuation Reports. We also understand from the Independent Valuer that it had performed necessary procedures for the purpose of the Property Valuation and the P&M Valuation, which included, among others, obtaining and reviewing relevant information in respect of the Assets such as title documents, carrying out on-site inspections, making enquiries to relevant personnel and conducting independent researches and analyses.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, it is noted that:

- (i) the Property Valuation Report has been prepared in accordance with (a) the HKIS Valuation Standards 2020 effective from 31 December 2020 as published by The Hong Kong Institute of Surveyors, with reference to the International Valuation Standards effective from 31 January 2022 as published by the International Valuation Standards Council; and (b) the requirements set out in Chapter 5 and Practice Note 12 of the Listing Rules; and
- (ii) the P&M Valuation Report has been prepared in accordance with the International Valuation Standards effective from 31 January 2022 as published by the International Valuation Standards Council, where applicable.

### *Qualification, experience and independence*

We have enquired into the qualification, experience and independence of the Independent Valuer in relation to the preparation of the Valuation Reports. We are given to understand that (i) the Independent Valuer is a qualified asset appraisal firm with over 3 years of experience in appraising various kinds of assets located in different regions around the world including Southeast Asia; (ii) Mr. Vincent Cheung (being the managing director of the Independent Valuer, the signor of the Property Valuation Report and the co-signor of the P&M Valuation Report) is a member of The Hong Kong Institute of Surveyors, a fellow member and registered valuer of the Royal Institution of Chartered Surveyors and a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong who has over 20 years of experience in the valuation and advisory field; (iii) Mr. Freddie Chan (being the executive director of the Independent Valuer and the co-signor of the P&M Valuation Report) is a member of the Chartered Financial Analyst Institute, a member of Association of Chartered Certified Accountants and a member and registered valuer of the Royal Institution of Chartered Surveyors who has over 10 years of experience in the valuation and finance field; and (iv) the core project team members of the Independent Valuer are members and registered valuers of the Royal Institution of Chartered Surveyors and possess relevant experience in conducting valuation for properties and plant and machinery. We have also reviewed the track record of the Independent Valuer and noted that it provided various valuation services to companies listed in Hong Kong in the past. The Independent Valuer has also confirmed that it is independent of the Group, Texhong Industrial Park and their respective core connected persons. Based on the above, we are satisfied with the expertise and independence of the Independent Valuer.

### *Bases, assumptions and methodologies in connection with the Property Valuation*

According to the Property Valuation Report, the Property Valuation has been undertaken on the basis of market value, which refers to “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. We also noted that the Independent Valuer has made several major assumptions, including, that (i) the seller sells the property interests in the market without the benefit of a deferred term contract,

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leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests; (ii) no allowances have been made for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale; (iii) the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the values of the property interests, unless otherwise stated; and (iv) the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the land use rights as the property interests are held under long term land use rights. As advised by the Independent Valuer, the above assumptions are commonly used in valuing assets of similar nature. Moreover, we noted that the Independent Valuer has relied on the legal opinion issued by the Vietnam legal adviser of the Group regarding the titles of the Land (the “**Vietnam Legal Opinion**”).

We have further discussed with the Independent Valuer on the selection of valuation methodology. With reference to the Property Valuation Report, there are three generally accepted approaches to assess the market value of property interests, namely, market approach, income approach and cost approach. The Independent Valuer has initially analysed the applicability of each of the three approaches based on the purpose of valuation, information collection, status of the Land and other relevant conditions and eventually adopted cost approach in arriving at the Property Valuation. As advised by the Independent Valuer, in valuing the Land, (i) market approach is not applicable due to the lack of market transactions of similar properties taking into account the unique nature of each of the land lots; and (ii) income approach is not applicable as the land lots are not income generating properties and it is impractical to reliably estimate the income and appropriate capitalisation rates that are readily available in the market. On the other hand, cost approach, which is based on an estimate of the value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation, generally provides the most reliable indication of value for a property in the absence of a known market based on comparable sales. In view of the above, the Independent Valuer considers, and we concur, that it is most appropriate to adopt cost approach to appraise the Land. Based on our enquiries with the Independent Valuer, we understand that cost approach is one of the commonly adopted approaches for valuing property interests of similar nature.

Based on our review of the Property Valuation Report and the underlying workings, the Property Valuation of US\$28,570,000 is comprised of (i) the market value of Land Lot 1 as at 30 September 2022 of US\$7,790,000, of which US\$4,120,000 is attributable to the land portion and US\$3,670,000 is attributable to the buildings and structures erected thereon; and (ii) the reference value of Land Lot 2 as at 30 September 2022 of US\$20,780,000, of which US\$9,050,000 is attributable to the land portion and US\$11,730,000 is attributable to the buildings and structures erected and to be erected thereon.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of Land Lot 2, the Independent Valuer has attributed no commercial value to it as it is yet to be granted with a proper title certificate of land use rights. Assuming that Land Lot 2 has been granted with a proper title certificate of land use rights and it can be freely transferred, the Independent Valuer has attributed a reference value of US\$20,780,000 as at 30 September 2022 to Land Lot 2 as mentioned above based on its review of the Vietnam Legal Opinion which stated that, among others, (i) there is no legal impediment to the issuance of a land lease decision, a land lease agreement and a land use right certificate for Land Lot 2; and (ii) subject to amendment of the investment registration certificate, issuance of a land lease decision, a land lease agreement and a land use right certificate, payment of the full land rent for the entire land use rights term to the Vietnam government and recording of its buildings on the land use right certificate, Land Lot 2 is legally transferable and there is no legal impediment on conveyancing, leasing, sub-leasing or using the property as collaterals for financing by domestic lenders. For our due diligence purpose, we have also obtained and reviewed the Vietnam Legal Opinion and no discrepancies were noted in this regard. Based on our review of the Vietnam Legal Opinion and considering that the land use right certificate for the land comprising Land Lot 2 is expected to be issued by the relevant authorities in Vietnam by the end of December 2022 as disclosed in the Letter from the Board, we concur with the Directors' view that it is fair and reasonable to take into account the reference value of Land Lot 2 in determining the Initial Consideration. Furthermore, based on our desktop research on transactions announced by listed companies in Hong Kong involving acquisitions of interests in properties without valid title certificates, we noted it is not uncommon for listed companies in Hong Kong to determine the consideration with reference to the reference value of the subject properties, assuming that the relevant title certificates have been obtained and the subject properties can be freely transferred. On the above basis, we also consider that the basis of determination of the Initial Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As stated in the Property Valuation Report, the Independent Valuer has considered and analysed comparable land sale transactions as available in the vicinity in arriving at the valuation of the land portion of the Land. We have reviewed the underlying workings provided by the Independent Valuer and noted that such valuation has been determined with reference to five comparable industrial land sale transactions in Vietnam (the “**Comparable Lands**”). We have discussed with the Independent Valuer and understand that the Comparable Lands are selected as they are considered relevant to the Land in terms of location, size, usage and transaction time. The Independent Valuer is of the view that the abovementioned factors are normal factors to be considered in identifying comparable land transactions and it also confirmed that, to its best of knowledge and information, it has included all of the most suitable comparable land transactions as identified by it. In view of the above and taking into account that (i) the Comparable Lands are located in the vicinity of the Land; (ii) the size of the Comparable Lands are within comparable size to the Land; (iii) the Comparable Lands have the similar land usage as the Land; and (iv) the Comparable Lands were transacted within two years prior to the date of the Asset Purchase Agreement, we concur with the Independent Valuer that the Comparable Lands are fair and representative for the purpose of the valuation of the land portion of the Land.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As further stated in the Property Valuation Report, the site unit rates of the Comparable Lands are ranging from US\$73 to US\$120 per square metre. We have discussed with the Independent Valuer and understand that the site unit rates of the Land adopted in the Property Valuation are arrived at after marking due adjustments on the site unit rates of the Comparable Lands in terms of different attributes such as transaction time, location, nature and size. According to the underlying workings, the site unit rate of Land Lot 1 and Land Lot 2 adopted in the Property Valuation is US\$94.7 and US\$92.2 per square metre, respectively.

In respect of the valuation of the buildings and structures of the Land, we have reviewed the underlying workings provided by the Independent Valuer and noted that such buildings and structures have been appraised by cost approach with reference to their depreciated replacement costs, which refer to the costs required to replace or reproduce the existing buildings and structures of the Land as at 30 September 2022 and adjusted with physical deterioration and all relevant forms of obsolescence and optimisation. We are advised by the Independent Valuer that it is appropriate to assess the depreciated replacement costs for the valuation of the buildings and structures of the Land by virtue of the lack of available market comparable sale transactions due to the nature of such buildings and structures and the particular location in which they are situated. In assessing the depreciated replacement costs of the buildings and structures of the Land, the Independent Valuer has taken into consideration various factors including, among others, (i) gross floor area; (ii) status of completion; (iii) remaining useful life; (iv) estimated replacement costs per square metre; (v) relevant professional fees and finance costs; and (vi) accumulated depreciation. We have discussed with the Independent Valuer on the bases and assumptions of the major factors considered and understand that such factors are commonly-used parameters when appraising the value of a subject building and structure by adopting depreciated replacement costs approach. In this regard, we have reviewed the relevant source of information and calculations and noted that (i) the estimated replacement costs per square metre are determined with reference to the data published by an independent global construction and property consultancy firm; and (ii) the depreciation rates are determined with reference to the remaining useful life of the respective buildings and structures, which is in line with the industry practice. The Independent Valuer further confirmed that it has assessed the reasonableness of the estimated replacement costs and other expenses to be incurred for the buildings and structures of the Land against its internal database and readily available market data of similar development projects.

In the course of our discussion with the Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the bases, assumptions and methodologies adopted in the Property Valuation Report. On the above basis and having considered the expertise and independence of the Independent Valuer as discussed above, we are of the opinion that the Property Valuation is arrived at after due and careful consideration.

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### *Bases, assumptions and methodologies in connection with the P&M Valuation*

According to the P&M Valuation Report, the P&M Valuation has been undertaken on the basis of market value, which refers to “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. We also noted that the Independent Valuer has made several major assumptions, including, that (i) the financial, economic, taxation, market and political conditions will not be any material change in the regions in which the industrial complex operates; (ii) the conditions in which the business is operated, and which are material to the revenue and the costs of businesses will have no material change; (iii) competent management, key personnel and technical staff will be maintained to support the ongoing operation of the industrial complex; (iv) all licenses and permits that are essential to the operation of the industrial complex can be obtained and are renewable upon expiry; and (v) the information regarding the Plant and Machinery of the industrial complex provided by the management is true and accurate. As advised by the Independent Valuer, the above assumptions are commonly used in valuing assets of similar nature.

We have further discussed with the Independent Valuer on the selection of valuation methodology. With reference to the P&M Valuation Report, there are three generally accepted approaches to assess the market value of plant and machinery, namely, market approach, asset approach and income approach. As advised by the Independent Valuer, the Plant and Machinery are broadly categorised into (i) light and standardised machinery; and (ii) heavy and customised machinery. The Independent Valuer has initially analysed the applicability of each of the three approaches based on the purpose of valuation, information collection, nature of the Plant and Machinery and other relevant conditions. The Independent Valuer considers that income approach is not optimal to value the Plant and Machinery as this approach involves financial forecast information and the adoption of more assumptions than the other two approaches, not all of which can be easily justified or ascertained. In valuing the light and standardised machinery under the Plant and Machinery, the adoption of market approach is appropriate as recent market sales or offerings can be found with the same or similar terms and conditions. For those heavy and customised machinery under the Plant and Machinery where no market transaction price for similar assets can be found, the adoption of asset approach is appropriate given that participants would be able to recreate the asset with substantially the same utility as the asset without regulatory or legal restrictions. In view of the above, the Independent Valuer considers, and we concur, that it is most appropriate to adopt (i) market approach for the light and standardised machinery under the Plant and Machinery; and (ii) asset approach for the heavy and customised machinery under the Plant and Machinery. Based on our enquiries with the Independent Valuer, we understand that market approach and asset approach are commonly adopted approaches for valuing plant and machinery of similar nature.

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Based on our review of the P&M Valuation Report and the underlying workings, the P&M Valuation of US\$24,310,000 (rounded) is comprised of (i) the aggregate market value of light and standardised machinery (such as laboratory equipment and other ancillary equipment) as at 30 September 2022 of approximately US\$124,500; and (ii) the aggregate market value of heavy and customised machinery (such as water treatment facilities, boilers and oil furnaces and liquefied petroleum gas storage tanks) as at 30 September 2022 of approximately US\$24,184,400.

In respect of the light and standardised machinery under the Plant and Machinery, the Independent Valuer estimated their respective market value by obtaining recent purchase price for similar model and specification as quoted from various trading platforms on the internet and adjusting such purchase price with other associated costs such as transportation fee, tariff, value-added tax and depreciation rate, which is a normal practice for the valuation of machinery and equipment as advised by the Independent Valuer. In this regard, we noted from the underlying workings that, among others, (i) the Independent Valuer has chosen market references of the relevant machinery and equipment based on the similarity of model and specification; (ii) the transportation fee is charged by weight; and (iii) the depreciation rate is determined with reference to the estimated useful life of the relevant machinery and equipment.

In respect of the heavy and customised machinery under the Plant and Machinery, the Independent Valuer has adopted depreciated replacement costs approach and assumed that the market value of such heavy and customised machinery will be equal to the original total costs adjusted with the relevant production price index and depreciation rate of the machinery. In the course of valuation, the Independent Valuer multiplied the original costs of the respective machinery with the inflation rate derived from the relevant production price index to reflect the inflation during the period from the inception date of the machinery to the valuation date, and further depreciated such amount across the estimated useful life of the machinery to arrive at its market value. In this regard, we have reviewed the original total costs of the heavy and customised machinery and noted that the Independent Valuer has adopted (i) the production price index for industries in machinery and equipment sector sourced from General Statistics Office of Vietnam for those machinery that were purchased in Vietnam; and (ii) the production price index for industries in general equipment manufacturing sector sourced from National Bureau of Statistics of China for those machinery that were imported from China, which are considered as fair and reasonable to be adopted in the valuation. For those machinery under construction, given that they have not yet been placed in service and there were no recognised impairment losses, the Independent Valuer has adopted the net book value of such machinery as their market value without making adjustments of inflation or depreciation.

In the course of our discussion with the Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the bases, assumptions and methodologies adopted in the P&M Valuation Report. We have also crossed-checked the Fixed Assets List with the scope of assets under the P&M Valuation and no material discrepancies were noted in this regard. On the above basis and



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having considered the expertise and independence of the Independent Valuer as discussed above, we are of the opinion that the P&M Valuation is arrived at after due and careful consideration.

As mentioned in the section headed “2. Information on the Assets” above, the original acquisition cost of the Assets (excluding the Newly-added Assets) by Texhong Industrial Park was approximately US\$45.3 million. The Initial Consideration of US\$52.0 million, which was determined with reference to the Aggregate Valuation of approximately US\$52.9 million, is higher than such original acquisition cost. In this regard, we have discussed with the Management and understand that such original acquisition cost only represents the historical cost incurred by Texhong Industrial Park (e.g. the compensation paid to the original occupants of the Land, relevant payment to the Vietnam government, construction cost of the utility system and land leveling and cost of the Plant and Machinery) without reflecting the appreciated value of the Land after it having been developed and having yet included the land rent to be paid to the Vietnam government by Texhong Industrial Park prior to the completion of the transfer of the Land. Based on the previous experience of Texhong Industrial Park for the payment of land rent in the Quang Ninh Province, Vietnam, the land rent for the Land is approximately US\$13 per square metre and the total land rent payable for the Land will therefore be approximately US\$1.8 million, which has not yet taken into account the exemption or concession of land rent subject to the discretion of the government authorities which shall be considered on a case-by-case basis. Based on the above and considering that the Initial Consideration represents a discount to the Aggregate Valuation, we are of the view that the Initial Consideration is fair and reasonable despite the fact that it is higher than the original acquisition cost of the Assets (excluding the Newly-added Assets).

In relation to the Additional Consideration of not more than US\$2.6 million, we consider such adjustment mechanism to be fair and reasonable to the parties to the Asset Purchase Agreement based on (i) the Initial Consideration was determined with reference to the Aggregate Valuation as at 30 September 2022 and therefore any additional costs incurred afterwards in association with the Assets would not be reflected in such value; (ii) the construction and installation of some of the Assets is still undergoing and the relevant costs and expenses will be incurred and paid by Texhong Industrial Park to the suppliers and/or contractors during the period from 1 October 2022 to the Completion Date; and (iii) the Additional Consideration will be settled on a dollar-to-dollar basis based on the actual costs incurred during such period. For our due diligence purpose, we have obtained and reviewed the calculation of the relevant costs and expenses and noted that the cap amount of US\$2.6 million is consistent with the calculation amount, which is primarily estimated with reference to (i) the construction and installation progress of the relevant Assets; (ii) the payment schedule of the relevant construction fees and installation fees; and (iii) the historical expenses incurred. Based on our review, we consider that the bases and assumptions in determining the cap of the Additional Consideration are fair and reasonable.

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Given that (i) the Initial Consideration, in our view, is fair and reasonable as mentioned above; and (ii) the cap of the Additional Consideration is fairly and reasonably determined and the amount of which will be settled on a dollar-to-dollar basis based on the actual costs incurred, we concur with the Directors' view that the Consideration as a whole is fair and reasonable so far as the Independent Shareholders are concerned.

### **6. Financial effects of the Acquisition**

#### ***6.1 Revenue***

As disclosed in the Letter from the Board, besides providing and supplying the Utilities to the members of the Group, the Assets also provide and supply the Utilities to independent third parties tenants in Hai Ha Industrial Park. Pursuant to the Asset Purchase Agreement, all rights and benefits arising from the Assets, including any fees generated from the provision of the Utilities to independent third parties tenants in Hai Ha Industrial Park shall belong to the Group upon Completion. Therefore, it is expected that the Acquisition will broaden the revenue base of the Group.

#### ***6.2 Net assets***

According to the 2022 Interim Report, the net assets of the Group amounted to approximately RMB11,202.7 million as at 30 June 2022. Whilst the book value of the Group's property, plant and equipment will increase by acquiring the Assets, the cash level of the Group will decrease simultaneously as the Consideration will be financed by the internal resources of the Group. Accordingly, we consider that the Acquisition will not have a material impact to the net assets of the Group.

#### ***6.3 Working capital***

According to the 2022 Interim Report, the Group's working capital (being its current assets less current liabilities) and cash and cash equivalents amounted to approximately RMB3,019.6 million and RMB2,088.6 million, respectively, as at 30 June 2022. As the Consideration of US\$54.6 million (equivalent to approximately RMB382.2 million) will be settled in cash and the Assets will be recognised as non-current assets, the working capital and cash level of the Group will be reduced as a result. Nevertheless, the future income generated from the Assets can be used to replenish the general working capital of the Group in the long run.

Shareholders are reminded that the above analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

**RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Asset Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Asset Purchase Agreement and the transaction contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**  
**Joshua Liu**  
*Managing Director*

*Mr. Joshua Liu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the securities and investment banking industries.*

*The following is the text of a letter, a valuation summary and valuation certificates prepared for the purpose of incorporation in this circular received from Vincorn Consulting and Appraisal Limited, an independent valuer, in connection with its valuation of the property interests to be acquired by the Group. Terms defined in this appendix applies to this appendix only.*

**Vincorn Consulting and Appraisal Limited**  
Units 1602-4, 16/F  
FWD Financial Centre  
No. 308 Des Voeux Road Central  
Hong Kong

**VINCORN**  
appraisal • brokerage • consulting

### **The Board of Directors**

Texhong Textile Group Limited  
Unit 3, 37/F, Cable TV Tower,  
No. 9 Hoi Shing Road,  
Tsuen Wan, New Territories,  
Hong Kong

9 December 2022

Dear Sirs,

### **INSTRUCTION AND VALUATION DATE**

We refer to your instructions for us to assess the Market Value of the property interests located in The Socialist Republic of Vietnam (“Vietnam”) to be acquired by Texhong Textile Group Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) for the purposes of public disclosure. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary in order to provide you with our opinion of the Market Value of the property interests as at 30 September 2022 (the “Valuation Date”).

### **VALUATION STANDARDS**

The valuation has been prepared in accordance with the HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors effective from 31 December 2020 with reference to the International Valuation Standards published by the International Valuation Standards Council effective from 31 January 2022; and the requirements set out in the Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **VALUATION BASIS**

Our valuation has been undertaken on the basis of Market Value. Market Value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

**VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowances have been made for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the values of the property interests.

As the property interests are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the land use rights.

**VALUATION METHODOLOGY**

When valuing the property interests to be acquired by the Group, we have adopted Cost Approach.

Cost Approach is subject to an assumption of adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole) paying due regard to the total assets employed. This technique is based on an estimate of the value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the value of the land, reference has been made to the land sale transactions as available in the locality. It generally provides the most reliable indication of value for a property in the absence of a known market based on comparable sales.

**LAND TENURE AND TITLE INVESTIGATION**

We have been provided with copies of documents in relation to the titles of the property interests. However, we have not scrutinised the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on information provided by the Group.

We have relied on the advice given by Vietnam legal adviser of the Group, YKVN, regarding the titles of the property interests in Vietnam. We do not accept liability for any interpretation that we have placed on such information, which is more properly placed within the sphere of the legal adviser.

All legal documents disclosed in this letter, the valuation summary and the valuation certificates are for reference only. No responsibility is assumed for any legal matters concerning the legal titles to the property interests set out in this letter, the valuation summary and the valuation certificates.

**INFORMATION SOURCES**

We have relied to a considerable extent on information provided by the Group and the legal adviser, in respect of the titles of the property interests in Vietnam. We have also accepted advice given to us on matters such as identification of the properties, particulars of occupancy, areas and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Group that no material factors or information have been omitted or withheld from information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuation are reasonable and have had no reason to doubt the truth and accuracy of information provided to us by the Group which is material to the valuation.

**INSPECTION AND INVESTIGATIONS**

The properties were inspected externally and internally. Although not all areas were accessible for viewing at the time of inspection, we have endeavoured to inspect all areas of the properties. Investigations were carried out as necessary. Our investigations have been conducted independently and without influence from any third party in any manner.

We have not tested any services of the properties and are therefore unable to report on their present conditions. We have not undertaken any structural surveys of the properties and are therefore unable to comment on the structural conditions. We have not carried out any investigations on site to determine the suitability of the ground conditions for any future developments. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be required.

We have not carried out any on-site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents or deduced from the plans are correct. All documents and plans have been used as reference only and all dimensions, measurements and areas are therefore approximations.

**CURRENCY**

Unless otherwise stated, all monetary figures stated in this report are in United States Dollar (“USD”).

The valuation summary and the valuation certificates are attached hereto.

Yours faithfully,  
For and on behalf of  
**Vincorn Consulting and Appraisal Limited**

**Vincent Cheung**  
*BSc(Hons) MBA FRICS MHKIS RPS(GP)*  
*MCIREA MHKSI MISC MHIREA*  
*RICS Registered Valuer*  
*Registered Real Estate Appraiser & Agent PRC*  
Managing Director

*Note:*

Vincent Cheung is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People’s Republic of China. He is suitably qualified to carry out the valuation and has over 25 years of experience in the valuation of properties of this magnitude and nature in the subject region.

## VALUATION SUMMARY

**Group 1 — Property Interests to be Acquired by the Group for Occupation in Vietnam**

<b>No.</b>	<b>Property</b>	<b>Market Value in the Existing State as at 30 September 2022</b>	<b>Interest Attributable to the Group After Acquisition</b>	<b>Market Value in the Existing State as at 30 September 2022 Attributable to the Group After Acquisition</b>
1	Land Lot 1 of an Industrial Complex Located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam	USD7,790,000	100%	USD7,790,000
Sub-total:		<u>USD7,790,000</u>		<u>USD7,790,000</u>

**Group 2 — Property Interests to be Acquired by the Group for Development in Vietnam**

<b>No.</b>	<b>Property</b>	<b>Market Value in the Existing State as at 30 September 2022</b>	<b>Interest Attributable to the Group After Acquisition</b>	<b>Market Value in the Existing State as at 30 September 2022 Attributable to the Group After Acquisition</b>
2	Land Lot 2 of an Industrial Complex Located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam	No Commercial Value	100%	No Commercial Value
Sub-total:		<u>No Commercial Value</u>		<u>No Commercial Value</u>
Total:		<u>USD7,790,000</u>		<u>USD7,790,000</u>



## VALUATION CERTIFICATES

## Group 1 — Property Interests to be Acquired by the Group for Occupation in Vietnam

No.	Property	Description and Tenure	Occupancy Particulars	Market Value in the Existing State as at 30 September 2022
1	Land Lot 1 of an Industrial Complex Located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam	<p>The property comprises various buildings and ancillary structures erected on a parcel of land known as Land Lot 1.</p> <p>As per information provided by the Group, the property has a site area of approximately 43,486.60 square metres (“sq.m.”). As per information provided by the Group, the property has a gross floor area (“GFA”) of approximately 11,982.55 sq.m. As per information provided by the Group, the property was completed in 2017 to 2018.</p> <p>The land use rights of the property were granted for a term expiring on 25 April 2064 for industrial uses.</p>	As per our on-site inspection and information provided by the Group, the property is currently occupied by the Group.	<p>USD7,790,000 (UNITED STATES DOLLARS SEVEN MILLION SEVEN HUNDRED AND NINETY THOUSAND)</p> <p>100% Interest Attributable to the Group After Acquisition:</p> <p>USD7,790,000 (UNITED STATES DOLLARS SEVEN MILLION SEVEN HUNDRED AND NINETY THOUSAND)</p>

## Notes:

- The property was inspected by Bui Anh Tuan *MRICS* on 30 September 2022.
- The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS MHKIS RPS(GP) MCIREA MHKSI MISC MHIRES RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
- Pursuant to a Land Lease Contract, No. 281/HDTD dated 2 June 2016 and entered into between the People’s Committee of Quang Ninh and Texhong Industrial Park Vietnam Limited, the land use rights of the master lot with a site area of 2,003,148.84 sq.m. were granted to Texhong Industrial Park Vietnam Limited for a term expiring on 25 April 2064 for industrial uses.
- Pursuant to a Land Use Rights Certificate, No. CO145554 dated 24 December 2018 and issued by the People’s Committee of Quang Ninh, the land use rights of a portion of the master lot with a site area of 1,296,481.60 sq.m. were granted to Texhong Industrial Park Vietnam Limited for a term expiring on 25 April 2064 for industrial uses.
- Pursuant to a Decision, No. 337/QD-BQLKKT dated 20 December 2021 and issued by the Quang Ninh Economic Zone Authority, the development of the property was approved.
- As per information provided by the Group, the land use rights and the buildings of the property is not subject to a mortgage, and is not subject to any dispute or seizure.

7. The general description and market information of the property are summarised below:
- Location : The property is located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam.
- Transportation : Van Don Airport and Hai Phong Deep Seaport are located approximately 65.0 kilometres and 160.0 kilometres away from the property respectively.
- Nature of Surrounding Area : The area is predominately an industrial area in Hai Ha District.
8. We have been provided with a legal opinion regarding the property by YKVN, which contains, inter alia, the following:
- (a) Texhong Industrial Park Vietnam Limited has obtained the land use rights of the master lot covering the property in accordance with Vietnamese law, and is the legal holder of the land use rights and the buildings of the property; and
- (b) Subject to amendment of the Investment Registration Certificate, issuance of a separate Land Use Rights Certificate, payment of the full land rent for the entire land use rights term to the State and recording of its buildings on the Land Use Rights Certificate, the property is legally transferable and there is no legal impediment on conveyancing, leasing, sub-leasing or using the property as collaterals for financing by domestic lenders.
9. In the course of our valuation of the property, we have considered and analysed the land sale comparables in the vicinity. These comparables are adopted as they are considered relevant to the property in terms of physical and locational attributes. The unit rates of the adopted comparables are ranging from USD73 to USD120 per sq.m. on the basis of site area. The unit rate adopted in the valuation are consistent with the unit rates of the relevant comparables after due adjustments in terms of different attributes. The adopted unit rate of the property is USD95 per sq.m. on the basis of site area.

**Group 2 — Property Interests to be Acquired by the Group for Development in Vietnam**

No.	Property	Description and Tenure	Occupancy Particulars	Market Value in the Existing State as at 30 September 2022
2	Land Lot 2 of an Industrial Complex Located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam	The property comprises various buildings and ancillary structures under construction erected on a parcel of land known as Land Lot 2.  As per information provided by the Group, the property has a site area of approximately 98,123.28 sq.m. As per development scheme provided by the Group, the property has a proposed GFA of approximately 22,465.07 sq.m.	As per our on-site inspection and information provided by the Group, the property is currently undergoing construction works, which is expected to be completed by December 2022 to June 2023.	No Commercial Value  100% Interest Attributable to the Group After Acquisition:  No Commercial Value

*Notes:*

1. The property was inspected by Bui Anh Tuan *MRICS* on 30 September 2022.
2. The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS MHKIS RPS(GP) MCIREA MHKSI MISCM MHIREA RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
3. Pursuant to the information provided by the Group, Texhong Industrial Park Vietnam Limited is in the process of obtaining from the State a proper title certificate of land use rights of the property with a site area of approximately 98,123.28 sq.m. for a term expiring on 25 April 2064 for industrial uses.
4. Pursuant to a Decision, No. 80/QD-BQLKKT dated 25 March 2022 and issued by Quang Ninh Economic Zone Authority, the proposed development of the property was approved.
5. As per information provided by the Group, the land use rights and the buildings of the property is not subject to a mortgage, and is not subject to any dispute or seizure.
6. The general description and market information of the property are summarised below:
 

Location	:	The property is located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam.
Transportation	:	Van Don Airport and Hai Phong Deep Seaport are located approximately 65.0 kilometres and 160.0 kilometres away from the property respectively.
Nature of Surrounding Area	:	The area is predominately an industrial area in Hai Ha District.
7. We have been provided with a legal opinion regarding the property by YKVN, which contains, inter alia, the following:
  - (a) Texhong Industrial Park Vietnam Limited has not obtained land use rights of the property yet;
  - (b) There is no legal impediment to the issuance of a land lease decision, a land lease agreement and a Land Use Rights Certificate for the property; and

- (c) Subject to amendment of the Investment Registration Certificate, issuance of a land lease decision, a land lease agreement and a Land Use Rights Certificate, payment of the full land rent for the entire land use rights term to the State and recording of its buildings on the Land Use Rights Certificate, the property is legally transferable and there is no legal impediment on conveyancing, leasing, sub-leasing or using the property as collaterals for financing by domestic lenders.
8. The gross development value of the property, assuming that it has been completed and it can be freely transferred, as at the Valuation Date was circa USD23,500,000. According to information provided, the outstanding construction cost and incurred construction cost of the property as at the Valuation Date were circa USD2,660,000 and USD10,970,000 respectively.
9. As advised by the Group, the property is yet to be granted with a proper title certificate of land use rights. In the course of our valuation, we have attributed no commercial value to the property. The reference value of the property, assuming that it has been granted with a proper title certificate of land use rights and it can be freely transferred, as at the Valuation Date was circa USD20,780,000.
10. In the course of our valuation of the property, we have considered and analysed the land sale comparables in the vicinity. These comparables are adopted as they are considered relevant to the property in terms of physical and locational attributes. The unit rates of the adopted comparables are ranging from USD73 to USD120 per sq.m. on the basis of site area. The unit rate adopted in the valuation are consistent with the unit rates of the relevant comparables after due adjustments in terms of different attributes. The adopted unit rate of the property is USD92 per sq.m. on the basis of site area.

*The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Vincorn Consulting and Appraisal Limited, an independent valuer, in connection with its valuation of the plant and machinery to be acquired by the Group. Terms defined in this appendix applies to this appendix only.*

**Vincorn Consulting and Appraisal Limited**  
Units 1602-4, 16/F  
FWD Financial Centre  
No. 308 Des Voeux Road Central  
Hong Kong



### **The Board of Directors**

Texhong Textile Group Limited  
Unit 3, 37/F, Cable TV Tower,  
No. 9 Hoi Shing Road,  
Tsuen Wan, New Territories,  
Hong Kong

9 December 2022

## **1. PREAMBLES**

### **1.1. Instruction**

Vincorn Consulting and Appraisal Limited (“Vincorn”) are pleased to submit our valuation report, which has been prepared for Texhong Textile Group Limited (the “Instructing Party”, the “Company” or “Texhong”) for the purpose of providing you with our opinion on the market value of certain assets as at 30 September 2022 (“Valuation Date”).

The valuation has been carried out in accordance with the service agreement dated 22 September 2022 (the “Service Agreement”) signed between the Instructing Party and Vincorn. The extent of our professional liability to you is outlined in the Service Agreement.

### **1.2. Subject**

The assets comprise Plant and Machinery (the “P&M”) in an Industrial Complex (the “Industrial Complex”) located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, The Socialist Republic of Vietnam.

The Industrial Complex has divided into 3 investment phases since 2014. It creates a vertically integrated industrial platform for spinning, knitting, weaving, dyeing & finishing, cutting & sewing and non-weaving. It has served as an important link in the “Two Corridors, One Circle” strategic planning between China and Vietnam.

### 1.3. Valuation Date

The valuation date is 30 September 2022.

### 1.4. Valuation Basis

The valuation has been prepared in accordance with the International Valuation Standards effective from 31 January 2022 published by the International Valuation Standards Council, where applicable.

The valuation would be carried out on market value basis.

Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

### 1.5. Currency

Unless otherwise stated, all monetary sums stated in this report are in United States Dollar (“USD”).

### 1.6. General Reservations

The purposes of the valuation do not alter the approach of the valuation.

A valuation is a prediction of price, not a guarantee. By necessity, it requires valuers to make subjective judgements that, even when logical and appropriate, may differ from those made by a purchaser or another valuer. Historically it has been considered that valuers may properly conclude within a range of possible values.

Business values can change substantially, even over a short period of time, so our opinion of values could differ significantly if the date of valuation was to change. If you wish to rely on our valuation for any other dates you should consult us first. We recommend that you keep the valuation under frequent review. You should not rely on this report unless any reference to the legal titles has been verified as correct by your legal advisers.

### 1.7. Statement of Independence

We hereby certify that we have neither present nor prospective interest in Texhong Textile Group Limited, their respective subsidiaries and associated companies or the result reported. In addition, our directors are neither directors, supervisors nor officers of Texhong Textile Group Limited.

In the course of our valuation, we are acting independently of all parties. Our fees are agreed on a lump-sum basis and are not correlated with the results of our valuation.

## 2. PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the market value of the P&M as at the Valuation Date. It is our understanding that this valuation will be used by the directors and management of the Company for public documentation purpose.

We understand that our valuation report may be included in the Company's public document and disclosed to other parties including its directors, shareholders, auditors and the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Nonetheless, we will not be liable to any parties other than the addressee of the valuation report.

## 3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Company, and/or its representative (together referred to as the "Management").

In the course of our valuation, the following processes have been conducted to evaluate the information provided by the Management:

- Discussion with the Management and obtained relevant information and operational information in respect of the P&M;
- Examined the relevant basis and assumptions of the financial information in respect of the Industrial Complex provided by the Management;
- Conducted appropriate researches to obtain sufficient market data and statistical figures and prepared the valuation based on generally accepted valuation procedures and practices; and
- Arriving at our valuation opinion based on the assumptions stated in this report and on information provided by the Management

On-site sample inspection has been conducted on the P&M as part of the agreed-upon procedures for this valuation task.

## 4. SOURCES OF INFORMATION

In conducting our valuation of the P&M, we have considered, reviewed and relied upon the following key information which is available to the public or provided by the Management:

- The fixed asset list and contracts in respect of the P&M provided by the Management;
- Various trading platforms on the internet to obtain asking prices for assets similar to the P&M; and
- S&P Capital IQ database and other reliable sources.

## 5. VALUATION ASSUMPTION AND RATIONALE

For the purpose of determining the market value of the P&M, we have considered all the prominent factors affecting the value and assumed, including but not limited to, the following:

- The financial, economic, taxation, market and political conditions will not be any material change in the regions in which the Industrial Complex operates;
- The conditions in which the business is operated, and which are material to the revenue and the costs of businesses will have no material change;
- Competent management, key personnel and technical staff will be maintained to support the ongoing operation of the Industrial Complex;
- All licenses and permits that are essential to the operation of the Industrial Complex can be obtained and are renewable upon expiry;
- The information regarding the P&M of the Industrial Complex provided by the Management is true and accurate; and

There are no hidden or unexpected conditions associated with the businesses valued that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

## 6. VALUATION METHODOLOGY

### 6.1. Selection of Valuation Approach

There are three generally accepted approaches to assess the market value of the P&M, namely, Market Approach, Asset Approach and Income Approach. Each of these approaches is appropriate in one or more circumstances. Whether to adopt a particular approach will be determined with reference to the most common adoption when similar P&M are being valued.

#### *Market Approach*

The Market Approach measures the benefits of an asset through an analysis of recent sales or offerings of comparable assets in Appendix 1. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and comparable assets.

We have considered that Market approach was appropriate for valuing the light and standardized machineries which recent sales or offerings could be found with the same or similar terms and conditions compared with the P&M. It has assumed that the market value of those light and standardized machineries will be equal to the first-hand price adjusted with transportation cost, tariff charges, excluded value-added tax and depreciation rate of the asset, or the second-hand price adjusted with transportation cost, tariff charges and excluded value-added of the asset, if any.



*Asset Approach*

Asset Approach values the asset by reference to the accumulating costs that would be incurred in order to replace or reproduce the asset in its current condition.

This approach is generally applied to the valuation of real property interests through the depreciated replacement cost method. It is normally used when there is either no evidence of transaction price for similar property or no identifiable actual or notional income stream that would accrue to the owner of the relevant interest. It is principally used for the valuation of specialized asset, which is property that is rarely if ever sold in the market, except by way of sale of the business or entity for which the property is part of the business.

We have also considered that Asset approach was appropriate for valuing heavy and customized machineries which cannot adopt Market approach in Appendix 2, given that participants would be able to recreate the asset with substantially the same utility as the P&M, without regulatory or legal restrictions. It has assumed that the market value of the P&M will be equal to the historical total cost adjusted with the Production Price Index (the “PPI”) and depreciation rate of the asset.

The PPI and depreciation rate are adopted in the depreciated replacement cost method. PPI are used to consider the inflation from the inception date of respective P&M to the Valuation Date of the asset and the depreciation rate is the percentage rate at which the asset is depreciated across the estimated productive life of the asset.

For heavy and customized machineries that is purchased from Vietnam, the PPI for industry in machinery and equipment sector, sourced from General Statistics Office (GSO) of Vietnam is adopted. For heavy and customized machineries that is imported from China, Ex-Factory Industrial Producer Price Index for General Equipment Manufacturing sourced from National Bureau of Statistics of the People’s Republic of China is adopted.

*Income Approach*

Income Approach values the asset by reference to the capitalized value of income, cash flows or cost savings that could hypothetically be earned or achieved by a market participant owning the asset.

The principle of this approach is that the value of the asset can be measured by the present worth of the economic benefits to be received over the life of the asset. This approach estimates the future economic benefits and discounts these benefits to its present value using an appropriate discount rate for all risks associated with realizing those benefits.

We have also considered that the income approach is not optimal to value the P&M as this approach involves financial forecast information and the adoption of more assumptions than the other two approaches, not all of which can be easily justified or ascertained.

## 6.2. Valuation of the market value of the P&M

The market value of the P&M as at 30 September 2022 were as follows:

	Carrying Amount (USD)	Market Value (USD)
22KV substation	115,538	144,605
10,000 tonnes of water purification equipment	1,159,231	1,453,799
5 low-pressure boilers and 2 oil furnaces	4,031,564	4,762,194
20 tonnes medium-pressure boiler	2,067,926	2,111,461
Laboratory equipment	27,198	23,240
Natural gas station equipment	574,859	705,086
Other equipment	91,061	101,254
90 tonnes boiler — under construction	13,561,324	13,561,324
20,000 tonnes of water purification equipment — under construction	1,445,842	1,445,842
Total Market Value of the P&M		24,308,806
Total Market Value of the P&M (rounded)		24,310,000

## 7. LIMITING CONDITIONS

Our valuation is confidential to you, for your sole use and for the specific purpose stated. We will not accept responsibility to any third party in respect of its contents.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

Our opinion of the market value of the subject in this report is valid only for the stated purpose and only for the effective date of the appraisal. The valuation reflects facts and conditions existing at the date of valuation and subsequent events have not been considered.

No responsibility is taken for any changes in the market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or conditions which may occur subsequent to the date hereof.

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by appraisers. Our conclusions assume continuation of prudent management over a reasonable and necessary period of time to maintain the character and integrity of the assets valued.

## 8. VALUATION CONCLUSION

In our opinion, on the basis of the assumption and information made available to us, the market value of the P&M as at 30 September 2022 is reasonably estimated at:

**USD24,310,000**

**(UNITED STATES DOLLARS TWENTY FOUR MILLION THREE HUNDRED AND TEN THOUSAND)**

Yours faithfully,  
for and on behalf of

**Vincorn Consulting and Appraisal Limited**

**Freddie Chan**

*BBA-FIN (Hons)*

*CFA ACCA FRM MRICS RICS*

*Registered Valuer*

*Executive Director*

**Vincent Cheung**

*BSc(Hons) MBA FRICS MHKIS RPS(GP)*

*MCIREA MHKSI MISC MHIRES RICS*

*Registered Valuer Registered Real Estate*

*Appraiser and Agent PRC*

*Managing Director*

*Note:*

Vincent Cheung is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People's Republic of China. He is suitably qualified to carry out the valuation and has over 25 years of experience in the valuation of properties of this magnitude and nature in the subject region.

Freddie Chan is a CFA® charterholder, an Association of Chartered Certified Accountants (ACCA®) charterholder a FRM® charterholder, a Member of the Royal Institution of Chartered Surveyors (MRICS®) and Registered Valuer of the Royal Institution of Chartered Surveyors, who expertizes in corporate and intangible valuation sector. He has over 13 years of professional experiences in banking, finance, corporate advisory and valuation experiences. His experience on valuations covers Hong Kong, Mainland China, Australia, United States, Europe and other overseas countries.

## APPENDIX 1

## P&amp;M list in Market Approach

**Laboratory equipment**

- 1 PP cabinet
- 2 PP drug cabinet
- 3 Experimental tables
- 4 Medicine rack
- 5 Experiment table against the wall (2000mm x 750mm x 800mm)
- 6 Experiment table against the wall (4300mm x 850mm x 800mm)
- 7 Water buckets
- 8 Ventilation cabinet
- 9 High precision microcomputer automatic calorimeter
- 10 Sealed assay sample crusher (1)
- 11 Sealed assay sample crusher (2)
- 12 Electric thermostatic blast dryer
- 13 Box-type resistance furnace
- 14 Dissolved oxygen tester
- 15 752N Accessory -5cm cuvettes holder
- 16 UV-visible spectrophotometer
- 17 Electronic scales
- 18 Quartz cuvettes (1 pair) 2CM
- 19 Quartz cuvettes (1 pair) 1CM
- 20 Quartz cuvettes (1 pair) 3CM
- 21 Water quality detector
- 22 Recycled water vacuum pump
- 23 Pen-type PH meter
- 24 Enclosed electric furnace
- 25 Portable turbidimeter
- 26 Lico starter kit
- 27 Cuvettes
- 28 Chromatometer

**Other equipment**

- 1 Loader (1)
- 2 Loader (2)
- 3 Loader (3)
- 4 Loader (4)
- 5 Weighbridge
- 6 Boiler and sewage plant forklift

## APPENDIX 2

## P&amp;M list in Asset Approach

**22KV substation**

- 1 2000 kVA-22/0, 4kV transformer
- 2 1250A-24kV-25kA/3s master circuit breaker
- 3 630A-24kV-25kA/3s output circuit breaker
- 4 380/220VAC plant power cabinet
- 5 220VDC plant power cabinet (including rectifier cabinet)
- 6 Testing of all installed equipment
- 7 Verification and measurement system
- 8 Calculation and installation of positional relays

**10,000 tonnes of water purification equipment**

- 1 Coagulation reaction tank Pipeline mixer
- 2 Flowmeter SED3
- 3 PAC dosing pump
- 4 PAM dosing pump
- 5 Incline pipe sedimentation tank Incline tube filler
- 6 Stent
- 7 Pneumatic angle mud valves
- 8 Trench stainless steel 42.5m
- 9 Trench galvanised steel pipe 21m
- 10 Valveless filter tank Refined quartz sand (1)
- 11 Refined quartz sand (2)
- 12 Refined quartz sand (3)
- 13 Refined quartz sand (4)
- 14 Refined quartz sand (5)
- 15 Inspection holes
- 16 Internal piping kit
- 17 Purification tank Lifting pumps
- 18 Frequency converter
- 19 De-ferromanganese filter De-ferromanganese filter
- 20 Manganese sand
- 21 Refined quartz sand (6)
- 22 Refined quartz sand (7)
- 23 Flowmeter SED10
- 24 Pressure gauges
- 25 Pneumatic switch butterfly valve (1)
- 26 Pneumatic switch butterfly valve (2)
- 27 Pneumatic switch butterfly valve (3)
- 28 Pneumatic switch butterfly valve (4)
- 29 Pneumatic switch butterfly valve (5)
- 30 Pneumatic switch butterfly valve (6)

31	Activated carbon filter	Activated carbon filter
32		Granular columnar activated carbon
33		Refined quartz sand (8)
34		Refined quartz sand (9)
35		Flowmeter SED10
36		Pressure gauges
37		Pneumatic switch butterfly valve (7)
38		Pneumatic switch butterfly valve (8)
39		Pneumatic switch butterfly valve (9)
40		Pneumatic switch butterfly valve (10)
41		Pneumatic switch butterfly valve (11)
42		Pneumatic switch butterfly valve (12)
43	Sodium ion exchanger	Sodium ion exchanger
44		Pressed lipid layer
45		Cationic resin
46		Refined quartz sand
47		Resin trap
48		Flowmeter SED10
49		Pressure gauges
50		Pneumatic switch butterfly valve (13)
51		Pneumatic switch butterfly valve (14)
52		Pneumatic switch butterfly valve (15)
53		Pneumatic switch butterfly valve (16)
54		Pneumatic switch butterfly valve (17)
55		Pneumatic switch butterfly valve (18)
56		Pneumatic switch butterfly valve (19)
57	Water purification pump room	Roots blower
58		Backwash water pumps
59		Soft water supply pump
60		Boiler water supply pump
61		Mobile Air Compressor
62	Fire pump room	Firefighting System
63	Water collection points	River water pump (1)
64		River water pump (2)
65		River water pipe
66	Dosing room	Mixer (1)
67		Mixer (2)
68		Salt pump
69	Sludge tank	Sludge scraper
70		Sludge pump
71	Others	Automatic control system
72		Pipe and fittings

**5 low-pressure boilers and 2 oil furnaces****Boiler No. 1**

- 1.1 Pipeline
- 1.2 Main body
- 1.3 Auxiliary equipment
- 1.4 Water treatment system
- 1.5 Feedwater deaeration system
- 1.6 Drainage/Dosing
- 1.7 Steam system
- 1.8 Dust removal system
- 1.9 Insulation and furnace building
- 1.10 Electrical control system

**Boiler No. 2**

- 2.1 Pipeline
- 2.2 Main body
- 2.3 Auxiliary equipment
- 2.4 Water treatment system
- 2.5 Feedwater deaeration system
- 2.6 Drainage/Dosing
- 2.7 Steam system
- 2.8 Dust removal system
- 2.9 Insulation and furnace building
- 2.10 Electrical control system

**Oil Furnace No. 1**

- 3.1 Pipeline
- 3.2 Main body
- 3.3 Auxiliary equipment
- 3.4 Oil system high level oil tank
- 3.5 Oil system low oil tank
- 3.6 Dust removal system
- 3.7 Insulation and furnace building
- 3.8 Electrical control system

**Oil Furnace No. 2**

- 4.1 Pipeline
- 4.2 Main body
- 4.3 Auxiliary equipment
- 4.4 Oil system high level oil tank
- 4.5 Oil system low oil tank
- 4.6 Dust removal system
- 4.7 Insulation and furnace building
- 4.8 Electrical control system

**Boiler No. 3**

- 5.1 Pipeline
- 5.2 Main body
- 5.3 Auxiliary equipment
- 5.4 Water treatment system
- 5.5 Drainage/Dosing
- 5.6 Steam system
- 5.7 Dust removal system
- 5.8 Insulation and furnace building
- 5.9 Electrical control system

**Boiler No. 4**

- 6.1 Pipeline
- 6.2 Main body
- 6.3 Auxiliary equipment
- 6.4 Water treatment system
- 6.5 Drainage/Dosing
- 6.6 Steam system
- 6.7 Dust removal system
- 6.8 Insulation and furnace building
- 6.9 Electrical control system

**Boiler No. 5**

- 7.1 Pipeline
- 7.2 Main body
- 7.3 Auxiliary equipment
- 7.4 Water treatment system
- 7.5 Drainage/Dosing
- 7.6 Steam system
- 7.7 Dust removal system
- 7.8 Insulation and furnace building
- 7.9 Electrical control system

**20 tonnes medium-pressure boiler**

- 1.1 Pipeline 1
- 1.2 Pipeline 2
- 2.1 Main body
- 2.2 Auxiliary equipment
- 2.3 Water treatment system
- 2.4 Feedwater deaeration system
- 2.5 Drainage/Dosing
- 2.6 Steam system
- 2.7 Dust removal system
- 2.8 Insulation and furnace building
- 2.9 Electrical control system



**Natural gas station**

- 1 LPG storage tank (1)
- 2 LPG storage tank (2)

**90 tonnes boiler — under construction**

- 1 Fluidized bed boiler body
- 2 Dust removal system
- 3 Desulfurization system
- 4 Water pump
- 5 Pressure vessels (deaerator, etc.)
- 6 Temperature and pressure reducer
- 7 High-pressure heater
- 8 Large wind turbines
- 9 Refuelling fan
- 10 Steam engine room overhead crane + dry coal shed overhead crane
- 11 Coal feeders
- 12 Ash blower
- 13 Coal crusher
- 14 Cold slag machine
- 15 Slag delivery system
- 16 Cooling tower
- 17 Pneumatic ash conveying system
- 18 Air compressor
- 19 Oil ignition system + oil tank system
- 20 Chemical water equipment
- 21 Coal Transportation System
- 22 Boiler chimney
- 23 High-voltage inverters
- 24 AC power (non-stop UPS)
- 25 Dosing device
- 26 DCS System
- 27 Electric Valve
- 28 Flowmetres
- 29 Dry-type transformer-10KV
- 30 DC System
- 31 Integrated Microcomputer Protection Monitoring Device
- 32 Instrument sets
- 33 Coal conveying system dust collector
- 34 Boiler accident pump
- 35 Pipe and fittings
- 36 Recycling water bypass treatment and dosing
- 37 Water pump system (Triad Pumps)
- 38 Air cannon for coal bunker
- 39 Pressure transmitters and cables, etc.

**20,000 tonnes of water purification equipment — under construction**

1	Coagulation reaction tank	Pipeline mixer
2		Electromagnetic flowmeter
3		PAC dosing pump
4		PAM dosing pump
5		PAC electromagnetic flowmeter
6		PAC Electric-regulated butterfly valve
7	Incline pipe sedimentation tank	Incline tube filler
8		Stent
9		Pneumatic angle mud valve
10		Trench stainless steel 42.5m
11		Trench galvanised steel pipe 21m
12	Valveless filter tank	Refined quartz sand (10)
13		Refined quartz sand (11)
14		Refined quartz sand (12)
15		Refined quartz sand (13)
16		Refined quartz sand (14)
17		Inspection holes
18		Internal piping kit
19	Purification tank (Existing)	Lifting pumps (frequency motor)
20		Frequency converter
21		Electromagnetic flowmeter
22	De-ferromanganese filter	De-ferromanganese filter
23		Refined quartz sand (15)
24		Refined quartz sand (16)
25		Refined quartz sand (17)
26		Electromagnetic flowmeter
27		Pressure gauges
28		Pneumatic switch butterfly valve (20)
29		Pneumatic switch butterfly valve (21)
30		Pneumatic switch butterfly valve (22)
31		Pneumatic switch butterfly valve (23)
32		Pneumatic switch butterfly valve (24)
33		Pneumatic switch butterfly valve (25)

34	Activated carbon filter	Activated carbon filter
35		Granular columnar activated carbon
36		Refined quartz sand (18)
37		Refined quartz sand (19)
38		Electromagnetic flowmeter
39		Pressure gauges
40		Pneumatic switch butterfly valve (26)
41		Pneumatic switch butterfly valve (27)
42		Pneumatic switch butterfly valve (28)
43		Pneumatic switch butterfly valve (29)
44		Pneumatic switch butterfly valve (30)
45		Pneumatic switch butterfly valve (31)
46	Sodium ion exchanger	Sodium ion exchanger
47		Pressed lipid layer
48		Cationic resin
49		Refined quartz sand
50		Resin trap
51		Electromagnetic flowmeter
52		Pressure gauges
53		Pneumatic switch butterfly valve (32)
54		Pneumatic switch butterfly valve (33)
55		Pneumatic switch butterfly valve (34)
56		Pneumatic switch butterfly valve (35)
57		Pneumatic switch butterfly valve (36)
58		Pneumatic switch butterfly valve (37)
59		Pneumatic switch butterfly valve (38)
60	Backwash water recycling tank	Radar level gauge
61		Water diversion tank
62		Backwash water lifting pump
63	Others	Automatic control system
64		Electrical system
65		Pipe and fittings

## 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. DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

### Disclosure of interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) 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 he is taken or deemed to have under such provisions of SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### *Long position in ordinary shares of the Company*

Name of Director	Nature of interest	Number of Share(s) involved <i>(Note 1)</i>	Approximate percentage of shareholding
Mr. Hong Tianzhu	Interest of controlled corporation(s)	544,742,400 (L) <i>(Note 2)</i>	59.34%
	Beneficial owner	5,400,000 (L)	0.59%
Mr. Zhu Yongxiang	Interest of controlled corporation(s)	219,900,000 (L) <i>(Note 3)</i>	23.95%
Mr. Tang Daoping	Beneficial owner	1,253,000 (L)	0.14%

*Notes:*

1. The letter “L” denotes the person’s long position in the Shares.
2. Among these 544,742,400 Shares, as to 392,842,400 Shares are registered in the name of and beneficially owned by New Green Group Limited, the entire issued share capital of which is beneficially owned by Texhong Group Holdings Limited, a company wholly owned by Mr. Hong Tianzhu and as to 151,900,000 Shares are registered in the name of and beneficially owned by Trade Partner Investments Limited, the entire issued share capital of which is beneficially owned as to 57.44% by Mr. Hong Tianzhu through New Green Group Limited. Under the SFO, Mr. Hong Tianzhu is deemed to be interested in all the Shares held by New Green Group Limited and Trade Partner Investments Limited. Mr. Hong Tianzhu is a director of Texhong Group Holdings Limited, New Green Group Limited and Trade Partner Investments Limited.
3. Among these 219,900,000 Shares, as to 68,000,000 Shares are registered in the name of and beneficially owned by Wisdom Grace Investments Limited, the entire issued share capital of which is beneficially owned by Mr. Zhu Yongxiang and as to 151,900,000 Shares are registered in the name of and beneficially owned by Trade Partner Investments Limited, the issued share capital of which is beneficially owned as to 42.56% by Mr. Zhu Yongxiang through Wisdom Grace Investments Limited. Mr. Zhu Yongxiang is a director of Wisdom Grace Investments Limited and Trade Partner Investments Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interest and short position in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of SFO) which (i) 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 interest and short positions which he is taken or deemed to have under such provisions of SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) 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 or is proposed to have a service contract with any member of the Group which was not determinable by the Company or the relevant members of the Group within one year without payment of compensation other than statutory compensation.

### **4. INTEREST IN CONTRACTS AND ARRANGEMENTS OF SIGNIFICANCE**

None of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

## 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the Company's profit warning announcement dated 18 July 2022, the decrease in raw material prices and product selling prices as compared to the first half of 2022 and the decline in market demand on yarns as compared to last year, the Directors are not aware of any material adverse change in the financial or trading position of the Group subsequent to 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date.

## 6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group which would otherwise be required to be disclosed under Rule 8.10 of the Listing Rules if any of such Directors or his or her associates was a controlling Shareholder.

## 7. INTEREST IN ASSETS

As at the Latest Practicable Date, save for Mr. Hong Tianzhu and Mr. Zhu Yongxiang's interest in the Acquisition, none of the Directors had any interest, direct or indirect, in any asset which has since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, been 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.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or, advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Lego Corporate Finance Limited	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Vincorn Consulting and Appraisal Limited	independent valuer
YKVN	Legal advisers as to Vietnamese laws

The experts set out above have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their advice, their letter and summary of their opinion and reference to their name and logo in the form and context in which they respectively appears.

As at the Latest Practicable Date, the experts set out above were not beneficially interested in any 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; or have any direct or indirect interest in any assets which since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or lease, or was proposed to be acquired or disposed of by, or leased to any member of the Group.

## 9. DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.texhong.com](http://www.texhong.com)) from the date of this circular and up to and including the date which is 14 days from the date of this circular:

- (a) the Asset Purchase Agreement;
- (b) the Supplemental Asset Purchase Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 20 to 41 of this circular;
- (e) the valuation report for the Land from the Independent Valuer, the text of which are set out in Appendix I to this circular;
- (f) the valuation report for the Assets (excluding the Land) from the Independent Valuer, the text of which are set out in Appendix II to this circular;
- (g) the written consents referred to in the paragraph headed “8. Qualification and consent of experts” in this appendix; and
- (h) this circular.

## 10. MISCELLANEOUS

- (a) All references to dates in this circular refer to Hong Kong time and dates.
- (b) In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.

## NOTICE OF EGM



# 天虹紡織集團有限公司 TEXHONG TEXTILE GROUP LIMITED

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2678)**

## NOTICE OF EGM

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Texhong Textile Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) will be held at Function Room 1, 11th Floor, L’hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, Hong Kong at 2:30 p.m. on Wednesday, 28 December 2022 for the following purposes:

### ORDINARY RESOLUTION

To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

1. “**THAT**

- (a) the Asset Purchase Agreement (as defined in the circular of the Company dated 9 December 2022 (the “**Circular**”)) dated 7 November 2022 and the Supplemental Asset Purchase Agreement (as defined in the Circular) dated 8 December 2022, entered into between a wholly-owned subsidiary of the Company (the “**Purchaser**”), and Texhong Industrial Park Vietnam Limited (天虹工業園區越南有限公司) (the “**Vendor**”), pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Assets (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any director of the Company (the “**Director**”) or any other person authorised by the Directors be and is hereby authorised to do all such acts and things as they consider necessary and to sign, execute, amend and supplement all such documents, and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Asset Purchase Agreement and completing the transactions contemplated thereby.”



## NOTICE OF EGM

### SPECIAL RESOLUTIONS

As special business to consider and, if thought fit, pass with or without amendments, the following resolutions as special resolution:

2. “**THAT** subject to and conditional upon the necessary approval of the Registrar of Companies in the Cayman Islands being obtained, the English name of the Company be changed from “Texhong Textile Group Limited” to “Texhong International Group Limited” and the dual foreign name of the Company in Chinese of “天虹國際集團有限公司” be adopted in place of its existing dual foreign name “天虹紡織集團有限公司” (the “**Change of Company Name**”) with effect from the date on which the Registrar of Companies in the Cayman Islands issues the certificate of incorporation on change of name confirming the new name has been registered, and that any one of the Directors be and he/she is hereby authorised to do all such acts and things and execute such further documents and take all steps which, in his/her opinion, may be necessary, desirable or expedient to implement and give effect to the aforesaid change of the Company’s name and to attend to any necessary registration and/or filing for and on behalf of the Company.”
3. “**THAT** subject to the passing of the resolution numbered 2 above, and the new Company name being entered into the register of companies by the Registrar of Companies in the Cayman Islands, the amended and restated memorandum of association and the amended and restated articles of association of the Company (the “**Existing M&A**”) be amended in the manner as set out in the Circular; and the amended and restated memorandum of association and the amended and restated articles of association of the Company in the form produced to the meeting (the “**New M&A**”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the extraordinary general meeting for the purpose of identification, which consolidates all the proposed amendments mentioned in the Circular, be approved and adopted in substitution for and to the exclusion of the Existing M&A with effect upon the proposed Change of Company Name becoming effective and that any one of the Directors be and is hereby authorised to do all things necessary to implement the adoption of the New M&A.”

By order of the Board of  
**Texhong Textile Group Limited**  
天虹紡織集團有限公司  
**Hong Tianzhu**  
*Chairman*

Hong Kong, 9 December 2022

## NOTICE OF EGM

*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a shareholder of the Company but must attend the EGM in person to represent the member. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent his/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. It is possible that shareholders and/or their representatives may not be able to attend in person at the venue of the EGM depending on prevailing Government regulations.
2. In the case of joint holders of a share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share of the Company as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of votes of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names of the joint holders stand in the register of members of the Company in respect of the joint holding.
3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 2:30 p.m. on Monday, 26 December 2022) or the adjourned meeting (as the case may be).
4. The register of members of the Company will not be closed to ascertain shareholders' eligibility to attend and vote at the EGM. However, in order to qualify for attending and voting at the EGM, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited, at its address shown in Note 3 above for registration no later than 4:30 p.m. on Friday, 23 December 2022.
5. In case Typhoon Signal No. 8 or above is hoisted, or a Black Rainstorm Warning Signal or "extreme conditions caused by a super typhoon" announced by the Government is/are in force in Hong Kong at or at any time after 12:00 noon on the date of the EGM, the meeting will be adjourned. The Company will post an announcement on the websites of the Company ([www.texhong.com](http://www.texhong.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) to notify shareholders of the date, time and place of the adjourned meeting.  
  
The meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the EGM under bad weather conditions bearing in mind their own situation.
6. Subject to the development of the COVID-19 and the requirements or guidelines of the Government and/or regulatory authorities, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company ([www.texhong.com](http://www.texhong.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for further announcements and updates on the EGM arrangements.
7. References to time and dates in this notice are to Hong Kong time and dates.
8. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.