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TEXHONG INTERNATIONAL GROUP LIMITED

天虹國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2678)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSEABLE AND CONNECTED TRANSACTION

SECOND SUPPLEMENTAL AGREEMENT IN RELATION TO THE ACQUISITION OF ASSETS IN VIETNAM

Reference is made to the announcements of the Company dated 7 November 2022, 8 December 2022, 3 February 2023 and 15 March 2024 (the “**March Announcement**”) and the circular of the Company dated 9 December 2022 (the “**Circular**”) in relation to, among others, the Acquisition. Terms used herein shall have the same meanings as defined in the March Announcement and the Circular unless otherwise indicated.

The Board wishes to provide the shareholders of the Company with more information on the background and current progress of the Registration and the reasons and benefits of the Second Supplemental Agreement.

CLASSIFICATIONS OF TECHNICAL INFRASTRUCTURE LAND

According to the Group’s Vietnam legal advisers, technical infrastructure land for “common use” refers to land providing necessary support to an industrial park, such that any infrastructure projects thereon must be the industrial park’s investment alone, and no third party investor is permitted to invest in or operate in any such infrastructure projects. Land rent exemptions are also granted for technical infrastructure land for “common use”. On the other hand, third party investors are allowed to invest in infrastructure projects on technical infrastructure land for “private use” and use them to carry out business activities.

As further elaborated below, Land Lot 2 has been recently classified by the Quang Ninh Economic Zone Authority (“**Quang Ninh EZA**”) as technical infrastructure land for “private use”. On the other hand, no formal opinion has been expressed by the Quang Ninh EZA for Land Lot 1 as at the date of this announcement. As noted by the Group’s Vietnam legal advisers, Land Lot 1 is classified as ‘technical infrastructure land’. However, its decisions of approval of planning and master plans do not further specify whether it is designated for “common use” or “private use”. If such land is classified as ‘common use’, applications need to be made to change its functions before transfer of the land use rights thereto can be made.

Based on the analysis of the Group’s Vietnam legal advisers, on the basis that (i) project on construction and business of infrastructure facilities of an industrial park refers to “an investment project using land for constructing synchronous technical infrastructure at the industrial park”, and the presence of the clean water treatment plant in the Industrial Water Facilities thereon is highly likely to be viewed as “synchronous technical infrastructure at the industrial park”, i.e. supporting infrastructure necessary for the operations of Hai Ha Industrial Park, such that Land Lot 1 may be viewed as a land “for constructing synchronous technical infrastructure at the industrial park” and therefore may be classified for “common use”; and (ii) the land rent exemption granted in respect of Land Lot 1 is applicable to land used for “construction of infrastructure for common use in industrial parks” pursuant to the applicable land laws, it is likely that the Quang Ninh EZA will consider Land Lot 1 to be technical infrastructure land for common use, therefore requiring an application to change the function of the land.

LAND RENT

Because Land Lot 1 and Land Lot 2 had previously been granted land rent exemptions by the Quang Ninh EZA and Quang Ninh Department of Tax, in order for Texhong Industrial Park to transfer the land use rights of the Land and the assets attached thereto, as disclosed in the Circular and as advised by the Group’s Vietnam legal advisers, it would be necessary to first make full payment of land rent on both lots of Land according to the applicable land laws by repealing the grant of land rent exemption and replacing it with another decision on collecting and calculating the land rent. Such land rent would need to be paid by Texhong Industrial Park in full before the transfer. However, because the licensing procedures for adjudicating the land rent payable and amending or repealing the previous grant of land rent exemptions are unclear and depend on the opinion and internal process of the competent authorities in the Quang Ninh Province, it is currently unclear the amount of land rent that would be payable and precisely when such adjustment will be completed.

As advised by the Group’s Vietnam legal advisers, the maximum amount of land rent exempted on both lots of Land would be approximately USD1,398,000.

STEPS TAKEN TO PROCURE THE REGISTRATION SINCE 31 MARCH 2023

Land Lot 1

The Group's Vietnam legal advisers had previously advised that, because no formal opinion on the use of land has been expressed by the Quang Ninh EZA for Land Lot 1, it would be prudent to make an application to change the function of Land Lot 1 before proceeding with the Registration.

To this end, bids had been submitted to the Quang Ninh EZA to select a consulting unit for changing the function as shown in the master plan in respect of Land Lot 1; an appraisal council for the master plan of urban and construction planning has been established under the approval authority of the Quang Ninh People's Committee; and the application for approval of the task of adjusting the master plan had been submitted to the Quang Ninh People's Committee. As at the date of this announcement, the Quang Ninh People's Committee is still considering the application for approval of the task of adjusting the master plan and no decision on approval of the task of adjusting the master plan has been rendered yet.

In addition, certain certificates of land use rights in respect of the Land have been applied for and re-issued to include certain assets attached on Land Lot 1 so as to comply with the applicable real estate and land laws and enable the transfer of the assets attached to the Land.

Land Lot 2

Based on the information provided by the Group's Vietnam legal advisers, according to the current interpretation and opinion of the Quang Ninh EZA, Land Lot 2 has been determined as technical infrastructure land for "private use" in early March 2024, and Texhong Industrial Park was therefore not required to change the function of Land Lot 2. However, as stated in the March Announcement and as mentioned above, certain adjustments to the land rent licenses to the Land would still need to be made before its land use rights can be transferred. As at the date of this announcement, the Quang Ninh EZA is still in the process of considering the application to repeal the decision on land rent exemption granted on Land Lot 2, after which the land rent payable shall be adjudicated.

Although the land use rights to the Land has not yet been transferred to the Group, the Group has been receiving the revenue generated by the Assets since the Completion Date. Notwithstanding that the transfer and Registration have not yet been completed, the operation of the Assets have not been affected. Under the Asset Purchase Agreement, (a) Texhong Industrial Park has a duty to manage the project sites on the Land and the data records pertaining to them pending the completion of the transfer, and pay to HK Co or its subsidiaries any revenue generated from the Assets after deducting any operating costs between the Completion Date and up to the date of the completion of the transfer procedures; and (b) HK Co shall be entitled to all revenue generated from the Assets from the Completion Date. Accordingly, as confirmed by the Group’s Vietnam legal advisers, the continued operation of the Assets by Texhong Industrial Park and consolidation of the revenue generated therefrom by the Group pending the completion of the transfer of the land use rights to the Land are in accordance with the terms of contract mutually agreed by the parties and are in compliance with the applicable laws.

LEGAL PROCEDURES TO BE CARRIED OUT FOR THE REGISTRATION

In light of the current circumstances, according to the Group’s Vietnam legal advisers, the below actions will need to be taken in respect of Land Lot 1 and Land Lot 2 in order to effect the Registration. The expected date by which they should be completed as set out below are based on the negotiations between Texhong Industrial Park and the relevant authorities.

Land Lot 1

PHASE	STEP	WORK DETAILS	APPRAISAL AND APPROVAL AUTHORITY	EXPECTED TIMELINE (dd/mm/yy)
I	1	Adjustment of the relevant master plan to change the function of Land Lot 1	Quang Ninh People’s Committee	01/06/2023– 29/04/2024
	2	Adjustment of the decision on lease of land and the decision on land rent exemption; issuance of new decision	Quang Ninh Department of Natural Resources and Environment; Quang Ninh People’s Committee; Quang Ninh EZA	02/05/2024– 31/05/2024
	3	Determination of land rent	Quang Ninh Department of Natural Resources and Environment shall calculate the land rent; Quang Ninh Department of Finance shall appraise; Quang Ninh People’s Committee shall approve.	01/06/2024– 31/07/2024

PHASE	STEP	WORK DETAILS	APPRAISAL AND APPROVAL AUTHORITY	EXPECTED TIMELINE (dd/mm/yy)
	4	Issuance of the notice on land rent payment; payment of land rent by Texhong Industrial Park	Quang Ninh EZA	01/08/2024– 15/08/2024
	5	Adjustment of the investment registration certificate	Quang Ninh EZA	16/08/2024– 16/10/2024
	6	Issuance of certificate of land use rights, ownership of houses and other assets attached to land (“LURCs”) for Texhong Industrial Park and HK Co	Quang Ninh Department of Natural Resources and Environment	17/10/2024– 18/11/2024

Land Lot 2

PHASE	STEP	WORK DETAILS	APPRAISAL AND APPROVAL AUTHORITY	EXPECTED TIMELINE (dd/mm/yy)
I	1	Abrogation of the decision on land rent exemption; issuance of new decision	Quang Ninh EZA	15/03/2024– 20/03/2024
	2	Determination of land rent	Quang Ninh Department of Natural Resources and Environment shall calculate the land rent; Quang Ninh Department of Finance shall appraise; Quang Ninh People’s Committee shall approve.	21/03/2024– 29/04/2024
	3	Issuance of the notice on land rent payment; payment of land rent by Texhong Industrial Park	Quang Ninh EZA	02/05/2024– 08/05/2024
	4	Adjustment of the investment registration certificate	Quang Ninh EZA	09/05/2024– 09/06/2024

PHASE	STEP	WORK DETAILS	APPRAISAL AND APPROVAL AUTHORITY	EXPECTED TIMELINE (dd/mm/yy)
	5	Adjustment of the relevant master plan to reflect the increase of land area	Quang Ninh EZA	10/06/2024–30/06/2024
	6	Appraisal of the environmental impact assessment report	Ministry of Natural Resources and Environment	01/07/2024–30/08/2024
	7	Appraisal of feasibility study report (basic design)	Quang Ninh EZA	01/07/2024–30/07/2024
	8	Approval of the design on fire prevention and fighting	Fire Prevention and Rescue Police Department — Quang Ninh Police	01/07/2024–30/08/2024
	9	Construction permit	Quang Ninh EZA	01/09/2024–15/09/2024
II	1	Adjustment of the investment registration certificate	Quang Ninh EZA	16/09/2024–30/10/2024
	2	Adjustment of the relevant master plan to reflect the increase of land area	Quang Ninh EZA	01/11/2024–20/11/2024
	3	Appraisal of the environmental impact assessment report	Ministry of Natural Resources and Environment	21/11/2024–31/01/2025
III	1	Adjustment of the investment registration certificate	Quang Ninh EZA	21/11/2024–31/12/2024
	2	Issuance of LURCs for Texhong Industrial Park and HK Co	Quang Ninh Department of Natural Resources and Environment	01/01/2025–31/01/2025

REASONS FOR AND BENEFITS OF THE SECOND SUPPLEMENTAL AGREEMENT

As disclosed in the March Announcement, the Board had considered, among others, the advice from the Group’s Vietnam legal advisers in respect of the applicable laws and regulations of Vietnam, the difficulties encountered in the Registration process as a result, the necessary steps to take and the expected time needed to complete them.

Based on the expected timeframe of the legal procedures as illustrated in the tables above, it is currently expected that the Registration can be completed by January 2025. As advised by the Group's Vietnam legal advisers, the likelihood of success of completing the Registration is high. To allow for some buffer to cater for any unexpected delay, the parties are hopeful that such can be completed by March 2025, and therefore an extension of 12 months to complete the Registration was considered sufficient. Furthermore, the Assets have, since Completion, constituted earning assets of the Group and all revenue generated therefrom have been consolidated into the financial statements of the Company. Upon Completion, the property and equipment constituting the Assets have been accounted for as property, plant and equipment of the Group, while the land use rights to the Land have been accounted for as right-of-use assets of the Group. Since the Completion Date and up to 31 December 2023, (1) the Assets have generated total revenue of approximately RMB109.2 million, comprising of external revenue of approximately RMB41.8 million, being revenue attributable to the supply of utilities to independent third party tenants in the Hai Ha Industrial Park, and revenue generated from supply of utilities to members of the Group of approximately RMB67.4 million; (2) the Assets have generated net profit of approximately RMB15.9 million; and (3) the Acquisition has been recorded as capital expenditure of approximately RMB321.1 million to the Group. Additionally, several new tenants have since entered Hai Ha Industrial Park and are expected to gradually commence operations there in 2024, so it is expected that more revenue and profit will be generated through the Assets in the future. The Assets have thus proven to be a viable source of revenue for generating working capital of the Group.

Furthermore, the Assets had been acquired with a view to reduce the reliance on Texhong Industrial Park, as they 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 supply of the same, as well as to reduce operating costs in the long run. Assuming the Group did not purchase the Assets and continued to purchase the Utilities from Texhong Industrial Park, the utilities fee which would have been paid by the Group to Texhong Industrial Park since the Completion Date and up to 31 December 2023 would be approximately RMB67.4 million. Acquisition of the Assets from Texhong Industrial Park as a one-off expenditure would thus be more beneficial to the Group in terms of saving on operating costs and diversifying income stream as compared with purchasing Utilities from Texhong Industrial Park monthly in the long run. The Board is of the view that, to insist on the Return Consideration and abandon the Acquisition would mean that the Group will have to inevitably return to engaging in continuing connected transactions with Texhong Industrial Park for the supply of Utilities in the Hai Ha Industrial Park. Besides, as mentioned above, notwithstanding that the Registration has not yet been completed, none of the Assets nor their operations have been affected as a result.

Accordingly, the Board is of the view that to insist on the Return Consideration at this stage without affording the parties more time to advance with the Registration would not be in the interests of the Group and the Shareholders.

As disclosed in the Circular, in case the Registration cannot be completed within 12 months from the Completion Date (now being extended to 31 March 2025), Texhong Industrial Park shall return to HK Co for the consideration received together with all the interest accrued 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 provisions 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 operation cost of the Utilities).

Save as disclosed in the March Announcement and this announcement, so far as the Directors are aware and as advised by the Group's Vietnam legal advisers, there is no other legal impediment to the completion of the Registration.

By Order of the Board
Texhong International Group Limited
Hong Tianzhu
Chairman

Hong Kong, 15 April, 2024

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:

Mr. Hong Tianzhu
Mr. Zhu Yongxiang

Independent non-executive Directors:

Prof. Tao Xiaoming
Prof. Cheng Longdi
Mr. Shu Wa Tung, Laurence