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Vanov Holdings Company Limited

環龍控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2260)

CHANGE IN USE OF PROCEEDS

References are made to (i) the prospectus issued by Vanov Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 December 2021 (the “**Prospectus**”) in relation to the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Listing**”), which sets out the intended use of the net proceeds from the issue of new shares of the Company (the “**Net Proceeds**”) at the time of preparing the Prospectus; and (ii) the disclosure on the utilization of the Net Proceeds in the interim reports of the Company for the six months ended 30 June 2022, 2023 and 2024 (the “**Interim Reports**”) and the annual reports of the Company for the year ended 31 December 2021, 2022 and 2023 (the “**Annual Reports**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus, the Interim Reports and the Annual Reports.

The Board hereby announces that after careful consideration and detailed evaluation of the Group’s operations and business strategy, the Board has resolved to change the use of the unutilised portion of the Net Proceeds in the manner as set out below.

CHANGE IN USE OF PROCEEDS

The original intended use of the Net Proceeds, which amounted to approximately HK\$97.0 million after deducting underwriting fees and commissions and other listing expenses and adding net proceeds from partial exercise of the over-allotment option, was disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

As at 31 December 2024, the Group had utilised approximately HK\$87.3 million of the Net Proceeds and the unutilised Net Proceeds amounted to approximately HK\$9.7 million (the “**Unutilised Net Proceeds**”). The original intended use of the Unutilised Net Proceeds is for pursuing strategic acquisitions.

The Board has resolved to change the use of the Unutilised Net Proceeds as follows:

	Intended use of net proceeds as disclosed in the Prospectus (HK\$ million)	Utilised Net Proceeds as at 31 December 2024 (HK\$ million)	Unutilised Net Proceeds as at 31 December 2024 (HK\$ million)	Proposed use of the Unutilised Net Proceeds (HK\$ million)
Purchase machinery to upgrade production sites	38.8	38.8	—	5.0
Strengthen research and development capabilities	19.4	19.4	—	4.7
Pursue strategic acquisitions	9.7	—	9.7	—
Reduce indebtedness	19.4	19.4	—	—
Working capital and other general corporate purpose	9.7	9.7	—	—
Total	<u>97.0</u>	<u>87.3</u>	<u>9.7</u>	<u>9.7</u>

The Company currently expects to fully utilize the Unutilised Net Proceeds by 31 December 2025.

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

The Directors have considered the following factors in deciding the change in use of proceeds:

Change in market condition

Although the papermaking industry as a whole demonstrated a rebound in 2024, however, the growth rate remains volatile and uncertain. Looking ahead to 2025, the papermaking industry is facing an abundant supply in the market. Although demand of paper products is expected to improve due to stimulation policies of the government of the People’s Republic of China (the “**PRC**”), the overall market is still at the critical stage of industry structure optimization and transformation upgrade where the supply and demand is yet to be improved. The industry is revitalizing its prosperity by ways of optimizing capacity

allocation and enhancing industry chain consolidation. In this context, strategic acquisitions under such market condition may increase the financial burden of the Group, which is not conducive to the sustainable development of the business of the Group. Meanwhile, enhancing research and development (“R&D”) capabilities and upgrading the production sites hold greater strategic significance for the Group.

The global papermaking industry has a significant cost increase problem, especially the fluctuation of raw material prices which has a significant impact on the production costs of papermaking enterprises. In 2025, although market demand is expected to improve under favourable policies of the PRC government, the uncertainty of the international trade environment and the fluctuation of raw material prices will still bring pressures to the Group’s operations.

Policy orientation

Global environmental protection policies continue to become stricter, and green development has become the main theme of the development of the papermaking industry. Papermaking enterprises need to increase their investments in environmental protection and promote clean production technologies to meet the increasing stringent environmental protection requirements. In 2025, as environmental protection standards in various countries are further increased, papermaking companies will face higher requirements for energy conservation and emission reduction in future. In this context, costs for strategic acquisitions may also be increased.

Recent years, the national and local governments have implemented a series of policies to promote the development of the papermaking industry towards intelligence, greenness and high-endness. At the same time, through measures such as tax and fee reductions and financial support have been provided for corporate technological innovation and transformation and upgrading. National policies continue to emphasize “strengthening the leading role of enterprises in scientific and technological innovation”, “improving the effectiveness of scientific and technological innovation” and “cultivating new quality productivity”, and policy orientations place more emphasis on continuous technological innovation. Continuous technological innovation capabilities have become the core competitiveness of the Group’s future development.

Feasibility of strategic acquisitions

The strategic acquisitions in current global economic condition face implementation difficulties, integration risks and uncertainties, there are limited high-quality acquisition targets, and the integration process may face problems such as cultural differences and different management styles. While investments in R&D and upgrade of the Group’s

production sites are more controllable and productive. During the years after the Listing, the Company had investigated and considered several potential acquisition targets in Italy, United States of America, Germany and Japan, but were unable to proceed with any acquisition plan due to certain latent issues on these potential acquisition targets.

The Directors also consider that strategic acquisitions require large amount of capital injections and may affect the Group's cash flow and operations. According to industry norm, a medium-sized acquisition usually requires an investment of more than RMB10 million, and the integration period may take several years, during which there may be a risk of tight capital chain. The overall prosperity of the industry is limited, and the expected return on investment of strategic acquisitions may not meet expectations. In contrast, using funds for R&D and production sites upgrades can enhance the Group's core competitiveness and achieve efficiency improvement in short period of time, but with less impact on cash flow of the Group.

The Group's strategic planning

The Group's strategic focus is to fully unleash the benefits of the new production line, promote product upgrades through technological innovation, and build a benchmark production sites for papermaking felts with world-leading technology, thereby enhancing market competitiveness and meeting high-end market demand. The Group focuses on lean production and cost control, reducing costs by optimizing production processes and improving production efficiency. Currently, the Group is promoting digital transformation to improve the level of automation and intelligence in the production process. In this context, implementing strategic acquisitions may increase management complexity and thus weaken the effectiveness of lean production and cost control.

Based on the changes in the current market environment, international policy orientation, the feasibility of strategic acquisitions and the adjustment of the Group's strategic planning direction, changing the use of the raised funds to "strengthen R&D capabilities" and "purchase machines to upgrade production sites" is the best option for the Group to achieve sustainable development. This move will help enhance the Group's core competitiveness, increase market confidence, and create greater long-term value for the Company and its shareholders.

Based on the above, the Board considers that changing the use of the Unutilised Net Proceeds to "strengthen R&D capabilities" and "purchase machines to upgrade production sites" is the best option for the Group to achieve sustainable development and is therefore fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Board confirms that there are no material changes in the nature of the business of the Group as set out in the Prospectus.

The Board will continuously assess the plan for the use of the Unutilised Net Proceeds and may revise or amend such plan where necessary to cope with the changing market conditions and strive for better business performance of the Group.

By order of the Board
Vanov Holdings Company Limited
Shen Genlian
Chairperson of the Board and executive Director

Hong Kong, 10 March 2025

As at the date of this announcement, the Board comprises Ms. Shen Genlian, Mr. Zhou Jun, Mr. Xie Zongguo and Ms. Yuan Aomei as the executive Directors; and Mr. Ip Wang Hoi, Mr. Zhang Shenjin and Mr. Wang Yunchen as the independent non-executive Directors.