

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



# 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)**

## CONNECTED TRANSACTION

### FORMATION OF JOINT VENTURE

On 2 June 2015, the Company entered into the Investment Framework Agreement with Mr. Hong and Mr. Zhu in relation to the formation of the Project Company. The Project Company will be formed for the purpose of the establishment of yarn production bases in Xinjiang.

As both Mr. Hong and Mr. Zhu are executive Directors, they are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the Investment Framework Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total commitment to be provided by the Group for the Project Company under the Investment Framework Agreement exceed 0.1% but are less than 5%, the Investment Framework Agreement constitutes a connected transaction of the Company which is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## INTRODUCTION

On 2 June 2015, the Company entered into the Investment Framework Agreement with Mr. Hong and Mr. Zhu in relation to the formation of the Project Company.

## PRINCIPAL TERMS OF THE INVESTMENT FRAMEWORK AGREEMENT

Summarized below are the principal terms of the Investment Framework Agreement.

### Date

2 June 2015

## **Parties**

- (i) the Company;
- (ii) Mr. Hong; and
- (iii) Mr. Zhu.

Both Mr. Hong and Mr. Zhu are executive Directors and therefore are connected persons of the Company under the Listing Rules.

## **Formation and purpose of the Project Company**

Pursuant to the Investment Framework Agreement, Mr. Hong and Mr. Zhu shall, through the JV Partner, form the Project Company with the Group. The Project Company will be owned as to 50% by the Group and 50% by the JV Partner. The Project Company will be formed for the purpose of establishment of yarn production bases in Xinjiang with a target of three million spindles in stages. The first stage of one million spindles is expected to be completed in 2016. The remaining production capacity will be built based on the then cash flow and the financing capability of the Project Company.

Since the Project Company will be a jointly-controlled entity, it is expected that equity accounting will be adopted to recognise the financial results of the Project Company.

## **Funding**

The Project Company will be established with registered capital of RMB400 million, which will be contributed by the Group as to RMB200 million in cash and by the JV Partner as to RMB200 million in cash. The Group and the JV Partner shall contribute the first installment of the registered capital, each at RMB100 million, by the time when the bank account of the Project Company has been set up. The remaining registered capital shall be contributed by the Group and the JV Partner according to the requirement of the Project Company in accordance with the relevant rules and regulations.

The capital contribution to be made by the Group was determined after arm's length negotiation between the Group, Mr. Hong and Mr. Zhu having taken into account the potential government policy support and the potential financing arrangement of the Project to be conducted by the Project Company.

It is contemplated that the above registered capital to be contributed by the Group will be funded by the internal resources of the Group.

Other than the above registered capital, it is expected that the Group will not be required to provide any other financial assistance to the Project Company.

## **Board composition of the Project Company**

The board of directors of the Project Company will consist of four directors, two of whom shall be appointed by the Group and two of whom shall be appointed by the JV Partner. The chairman of the Project Company will be appointed jointly by the Group and the JV Partner.

## **Distribution of profits of the Project Company**

The profits after taxation and allocation to statutory reserve according to the relevant rules and regulations shall be available for distribution to the Group and the JV Partner according to their respective capital contribution in the Project Company as recommended from time to time by the board of directors of the Project Company having regard to the operation needs of the Project Company.

## **REASONS FOR, AND BENEFITS OF, THE INVESTMENT FRAMEWORK AGREEMENT**

The Board considered that:

1. the scale of the Project has to be big in order to ask for more favorable policy supports from municipal governments. However, some of these policies will expire in the coming years and the municipal governments may soon stop inviting potential industry players after their targets are met. As a result, high leverage will be required to build up the facilities within a rather short period of time, whilst the Group has to comply with certain financial covenants of the borrowings and finance leases, its is not suitable for the Group to run the Project by itself;
2. the setting up of the Project Company can help mitigate the risk of high leverage and the investment by the Group is limited and under control. In the meantime, such investment opportunity can be captured. This will also help the Group maintain its competitiveness in China since some of the industry players in China have already started or committed to set up big scale yarn spinning mills in Xinjiang to enjoy the government policies; and
3. the Group will have the first right to act as the sales agent of the yarns produced by the Project Company based on the terms to be agreed on arm's length basis subject to the compliance of the Listing Rules and other applicable laws and regulations. This will help further strengthen the product portfolio and boost the revenue of the Group. While the Project Company shall operate the Project by leveraging on its initial registered capital, local policy supports and financing capabilities, the Group can also share the potential good financial result of the Project Company with limited risk on investment as the Group is only required to provide the initial registered capital of the Project Company.

The Directors (including the independent non-executive Directors) are satisfied that the terms of the Investment Framework Agreement had been arrived upon arm's length negotiations between the parties, are on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As both Mr. Hong and Mr. Zhu are executive Directors, they are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the Investment Framework Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total commitment to be provided by the Group for the Project Company under the Investment Framework Agreement exceed 0.1% but are less than 5%, the Investment Framework Agreement constitutes a connected transaction of the Company which is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Hong and Mr. Zhu had a material interest in the transaction contemplated under the Investment Framework Agreement and they have abstained from voting on the resolutions in relation to the Investment Framework Agreement proposed to the Board.

## **GENERAL**

The Company is engaged primarily in the manufacturing and sale of yarn, grey fabrics and garment fabrics.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Texhong Textile Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Investment Framework Agreement”	the investment framework agreement dated 2 June 2015 entered into between the Company, Mr. Hong and Mr. Zhu in relation to the establishment of the Project Company
“JV Partner”	an investment holding company to be held by Mr. Hong and Mr. Zhu (or their respective associates), which will form the Project Company with the Group pursuant to the Investment Framework Agreement
“Mr. Hong”	Mr. Hong Tianzhu, the chairman of the Company and an executive Director

“Mr. Zhu”	Mr. Zhu Yongxiang, an executive Director
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Project”	the establishment of yarn production bases in Xinjiang
“Project Company”	a joint venture to be established in the PRC pursuant to the Investment Framework Agreement for the purpose of the Project
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

*Executive Directors:*

Mr. Hong Tianzhu  
Mr. Zhu Yongxiang  
Mr. Tang Daoping  
Mr. Hui Tsz Wai

*Independent non-executive Directors:*

Prof. Tao Xiaoming  
Prof. Cheng Longdi  
Mr. Ting Leung Huel, Stephen

By Order of the Board  
**Texhong Textile Group Limited**  
**Hong Tianzhu**  
*Chairman*

Hong Kong, 2 June 2015