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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)**

## CONNECTED TRANSACTION INVESTMENT IN JOINT VENTURE

Reference is made to the announcement of the Company dated 2 June 2015 in relation to the Investment Framework Agreement.

On 6 August 2015, Texhong Western, an indirect wholly owned subsidiary of the Company, entered into the Cooperation Agreement with Texhong Xinjiang, Yihua Ventures and Huixin Global in relation to the investment in the Project Company for the purpose of the establishment of yarn production bases in Xinjiang.

Mr. Hong is indirectly interested in the entire issued share capital of Texhong Xinjiang and Huixin Global. Mr. Zhu is indirectly interested in the entire issued share capital of Yihua Ventures. As both Mr. Hong and Mr. Zhu are executive Directors, Texhong Xinjiang, Yihua Ventures and Huixin Global are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the Cooperation 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 Cooperation Agreement exceed 0.1% but are less than 5%, the Cooperation 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

Reference is made to the announcement of the Company dated 2 June 2015 in relation to the Investment Framework Agreement.

On 6 August 2015, Texhong Western, an indirect wholly owned subsidiary of the Company entered into the Cooperation Agreement with Texhong Xinjiang, Yihua Ventures and Huixin Global in relation to the investment in the Project Company.

## **PRINCIPAL TERMS OF THE COOPERATION AGREEMENT**

Summarised below are the principal terms of the Cooperation Agreement.

### **Date**

6 August 2015

### **Parties**

- (i) Texhong Western, an indirect wholly owned subsidiary of the Company;
- (ii) Texhong Xinjiang;
- (iii) Yihua Ventures; and
- (iv) Huixin Global.

Mr. Hong is indirectly interested in the entire issued share capital of Texhong Xinjiang and Huixin Global, both of which are principally engaged in investment holding. Mr. Zhu is indirectly interested in the entire issued share capital of Yihua Ventures, which is principally engaged in investment holding. As both Mr. Hong and Mr. Zhu are executive Directors, Texhong Xinjiang, Yihua Ventures and Huixin Global are connected persons of the Company under the Listing Rules.

### **Investment in and purpose of the Project Company**

As at the date of this announcement, the Project Company has been set up by Mr. Hong and his associates. The initial registered capital of the Project Company is RMB10 million, of which RMB2 million has been paid up by Mr. Hong and his associates.

Pursuant to the Cooperation Agreement, Texhong Western, Texhong Xinjiang, Yihua Ventures and Huixin Global shall invest in the Project Company. The Project Company will be owned as to 50% by the Group, 32% by Texhong Xinjiang, 8% by Yihua Ventures and 10% by Huixin Global. The Project Company will be for the purpose of establishment of yarn production bases in Xinjiang.

### **Funding**

The Project Company shall have an aggregate registered capital of RMB40 million, which shall be contributed as to RMB20 million by the Group, as to RMB12.8 million by Texhong Xinjiang, as to RMB3.2 million by Yihua Ventures and as to RMB4 million by Huixin Global.

The Group, Texhong Xinjiang, Yihua Ventures and Huixin Global shall contribute the first installment of the registered capital of RMB20 million by way of capital injection at RMB10 million, RMB6.4 million, RMB1.6 million and RMB2 million respectively, within three business days after signing of the Cooperation Agreement. Upon receipt of the first installment of the registered capital, the Project Company shall complete the necessary filings with and seek approvals from the relevant authorities for the transfer of equity

interest from Mr. Hong and his associates to Texhong Western, Texhong Xinjiang, Yihua Ventures and Huixin Global and commence the establishment of yarn production bases in Xinjiang.

Meanwhile, RMB180 million shall also be injected into the Project Company by the Group, Texhong Xinjiang, Yihua Ventures and Huixin Global by way of shareholder's loan or entrusted loan in proportion to their respective equity interest in the Project Company.

If any additional funding requirement is required by the Project Company, it shall be provided by the Group, Texhong Xinjiang, Yihua Ventures and Huixin Global by way of shareholder's loan, entrusted loan, guarantee or other financial assistance in proportion to their respective equity interest in the Project Company, provided that the aggregate amount of capital contribution, loans, guarantees or financial assistance shall not exceed RMB400 million. Subject to the aforesaid, upon demand of the Project Company, the remaining registered capital of RMB20 million shall be contributed by the Group, Texhong Xinjiang, Yihua Ventures and Huixin Global in proportion to their respective equity interest in the Project Company.

The above funding arrangement is for the purposes of tax planning and satisfaction of potential requirements of machinery providers. The capital contribution to be made by the Group was determined after arm's length negotiation between the Group, Texhong Xinjiang, Yihua Ventures and Huixin Global having taken into account the expected working capital required for 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 internal resources of the Group.

### **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 Texhong Xinjiang, Yihua Ventures and Huixin Global. The chairman of the Project Company shall be appointed jointly by the Group, Texhong Xinjiang, Yihua Ventures and Huixin Global.

### **REASONS FOR, AND BENEFITS OF, THE COOPERATION AGREEMENT**

The Board considered that the investment in the Project Company with such large scale would allow the Group to enjoy more favourable policy support from municipal governments, while mitigating the risk of high leverage and the investment by the Group is limited and under control. Moreover, the product portfolio and the revenue of the Group will be further strengthened and boosted as the Group will have the first right to act as the sales agent of the yarns produced by the Project Company. For details of the reasons for, and benefits of, the Project, please refer to the announcement of the Company dated 2 June 2015.

The Directors (including the independent non-executive Directors) are satisfied that the terms of the Cooperation 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**

Mr. Hong is indirectly interested in the entire issued share capital of Texhong Xinjiang and Huixin Global. Mr. Zhu is indirectly interested in the entire issued share capital of Yihua Ventures. As both Mr. Hong and Mr. Zhu are executive Directors, Texhong Xinjiang, Yihua Ventures and Huixin Global are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the Cooperation 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 Cooperation Agreement exceed 0.1% but are less than 5%, the Cooperation 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 Cooperation Agreement and they have abstained from voting on the resolutions in relation to the Cooperation 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
“Cooperation Agreement”	the cooperation agreement dated 6 August 2015 entered into between Texhong Western, Texhong Xinjiang, Yihua Ventures and Huixin Global in relation to the investment in the Project Company
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Huixin Global”	Huixin Global (Hong Kong) Limited (匯新環球(香港)有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by Mr. Hong
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Hong”	Mr. Hong Tianzhu, the chairman of the Company and an executive Director
“Mr. Zhu”	Mr. Zhu Yongxiang, an executive Director
“PRC”	the People’s Republic of China
“Project”	the establishment of yarn production bases in Xinjiang
“Project Company”	上海虹慧投資管理有限公司, a company established in the PRC and is ultimately and wholly owned by Mr. Hong and his associates, which will be transformed into a joint venture pursuant to the Cooperation 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
“Texhong Western”	Texhong Western Investment (Hong Kong) Limited (天虹西部投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company
“Texhong Xinjiang”	Texhong Xinjiang Holdings Limited (天虹新疆控股有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by Mr. Hong
“Yihua Ventures”	Yihua Ventures (Hong Kong) Limited (益華創投(香港)有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by Mr. Zhu
“%”	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, 6 August 2015