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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)

CONTINUING CONNECTED TRANSACTIONS
UTILITIES MASTER SUPPLY AND SERVICES AGREEMENTS

The Board announces that on 23 May 2017, Texhong Industrial Park and Texhong Galaxy entered into the Texhong Galaxy Agreements pursuant to which Texhong Industrial Park shall provide and supply utilities and wastewater treatment service to Texhong Galaxy for its uses on the Texhong Galaxy Land with effect from 23 May 2017 and expiring on 31 December 2019. On the same day, Texhong Industrial Park and Texhong Dyeing also entered into the Texhong Dyeing Agreements pursuant to which Texhong Industrial Park shall provide and supply utilities and wastewater treatment service to Texhong Dyeing for its uses on the Texhong Dyeing Land with effect from 23 May 2017 and expiring on 31 December 2019.

Texhong Industrial Park is a connected person of the Company by virtue of its being an associate of Mr. Hong Tianzhu, the chairman of the Company and an executive Director. Therefore, the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions contemplated under the Agreements will be aggregated and treated as one transaction. As all of the applicable percentage ratios of the transactions contemplated under the Agreements are expected to be less than 5% but the total consideration (on an annual basis) is expected to be more than HK\$3,000,000, the provision and supply of utilities and wastewater treatment service under the Agreements will be subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcements of the Company dated 21 January 2015, 5 November 2015, 13 April 2016 and 18 May 2016 in relation to the acquisition of land use rights in Vietnam for the construction of production base and the announcement of the Company dated 28 January 2016 in relation to the power master supply agreement for the Texhong Galaxy Land.

The Board announces that on 23 May 2017, Texhong Industrial Park and Texhong Galaxy entered into the Texhong Galaxy Agreements pursuant to which Texhong Industrial Park shall provide and supply utilities and wastewater treatment service to Texhong Galaxy for its uses on the Texhong Galaxy Land with effect from 23 May 2017 and expiring on 31 December 2019. On the same day, Texhong Industrial Park and Texhong Dyeing also entered into the Texhong Dyeing Agreements pursuant to which Texhong Industrial Park shall provide and supply utilities and wastewater treatment service to Texhong Dyeing for its uses on the Texhong Dyeing Land with effect from 23 May 2017 and expiring on 31 December 2019.

PRINCIPAL TERMS OF THE TEXHONG GALAXY AGREEMENTS

Date

23 May 2017

Parties

- (a) Texhong Industrial Park as supplier; and
- (b) Texhong Galaxy as customer.

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 co-chief executive officer of the Group and an executive Director. Texhong Industrial Park is principally engaged in infrastructure development.

Fees

Texhong Galaxy Power Master Supply Agreement

Texhong Industrial Park shall procure the supply of electricity to Texhong Galaxy at government-prescribed prices in accordance with its registered use. Texhong Galaxy shall maintain a bank guarantee in the sum of VND8,143,000,000 in favour of Texhong Industrial Park during the term of the Texhong Galaxy Power Master Supply Agreement and up to at least one month upon termination of the Texhong Galaxy Power Master Supply Agreement. Such bank guarantee shall be cancelled within two days upon early termination of the Texhong Galaxy Power Master Supply Agreement. The fees payable by Texhong Galaxy shall be settled every ten days and shall be payable by Texhong Galaxy within seven days after the date of the relevant invoice issued by Texhong Industrial Park.

Texhong Galaxy Water Master Supply Agreement

Texhong Industrial Park shall procure the supply of water to Texhong Galaxy at the price of VND6,828 per cubic meter, subject to price adjustment as prescribed by government. The fees payable by Texhong Galaxy shall be settled on a monthly basis and shall be payable by Texhong Galaxy no later than the 12th day of the following month.

Texhong Galaxy Steam Master Supply Agreement

Texhong Industrial Park shall procure the supply of steam to Texhong Galaxy at the price of VND386,920 per cubic meter, subject to price adjustment as prescribed by government. The fees payable by Texhong Galaxy shall be settled on a monthly basis and shall be payable by Texhong Galaxy no later than the 10th day of the following month.

Texhong Galaxy Wastewater Treatment Service Agreement

Texhong Industrial Park shall procure the supply of wastewater treatment service to Texhong Galaxy at the price of USD0.5 per cubic meter, which is determined with reference to market price. The fees payable by Texhong Galaxy shall be settled on a monthly basis and shall be payable by Texhong Galaxy no later than the 16th day of the following month.

Term and termination

The Texhong Galaxy Agreements shall have a term commencing from 23 May 2017 and expiring on 31 December 2019.

Upon the Texhong Galaxy Power Master Supply Agreement becoming effective, the power master supply agreement dated 28 January 2016 and entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer in relation to the provision and supply of electricity as announced by the Company on 28 January 2016 shall terminate immediately and cease to have effect.

Proposed annual caps

The Directors anticipate that the aggregate annual fee payable by Texhong Galaxy to Texhong Industrial Park under the Texhong Galaxy Power Master Supply Agreement shall not exceed RMB180.0 million (equivalent to approximately HK\$203.4 million) for the year ending 31 December 2017, RMB248.0 million (equivalent to approximately HK\$280.3 million) for the year ending 31 December 2018 and RMB260.3 million (equivalent to approximately HK\$294.2 million) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of electricity for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the electricity service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Galaxy to Texhong Industrial Park under the Texhong Galaxy Water Master Supply Agreement shall not exceed RMB170,000 (equivalent to approximately HK\$192,200) for the year ending 31 December 2017, RMB380,000 (equivalent to approximately HK\$429,400) for the year ending 31 December 2018 and RMB400,000 (equivalent to approximately HK\$452,000) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of water for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the water service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Galaxy to Texhong Industrial Park under the Texhong Galaxy Steam Master Supply Agreement shall not exceed RMB1.9 million (equivalent to approximately HK\$2.1 million) for the year ending 31 December 2017, RMB4.0 million (equivalent to approximately HK\$4.5 million) for the year ending 31 December 2018 and RMB4.1 million (equivalent to approximately HK\$4.6 million) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of steam for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the steam service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Galaxy to Texhong Industrial Park under the Texhong Galaxy Wastewater Treatment Service Agreement shall not exceed RMB126,000 (equivalent to approximately HK\$142,400) for the year ending 31 December 2017, RMB283,000 (equivalent to approximately HK\$319,800) for the year ending 31 December 2018 and RMB298,000 (equivalent to approximately HK\$336,800) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of wastewater treatment service for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the wastewater treatment service will increase at an annual inflation rate of 5%.

PRINCIPAL TERMS OF THE TEXHONG DYEING AGREEMENTS

Date

23 May 2017

Parties

- (a) Texhong Industrial Park as supplier; and
- (b) Texhong Dyeing as customer.

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 co-chief executive officer of the Group and an executive Director. Texhong Industrial Park is principally engaged in infrastructure development.

Fees

Texhong Dyeing Power Master Supply Agreement

Texhong Industrial Park shall procure the supply of electricity to Texhong Dyeing at government-prescribed prices in accordance with its registered use. Texhong Dyeing shall maintain a bank guarantee in the sum of VND8,143,000,000 in favour of Texhong Industrial Park during the term of the Texhong Dyeing Power Master Supply Agreement and up to at least one month upon termination of the Texhong Dyeing Power Master Supply Agreement. Such bank guarantee shall be cancelled within two days upon early termination of the Texhong Dyeing Power Master Supply Agreement. The fees payable by Texhong Dyeing shall be settled every ten days and shall be payable by Texhong Dyeing within seven days after the date of the relevant invoice issued by Texhong Industrial Park.

Texhong Dyeing Water Master Supply Agreement

Texhong Industrial Park shall procure the supply of water to Texhong Dyeing at the price of VND6,828 per cubic meter, subject to price adjustment as prescribed by government. The fees payable by Texhong Dyeing shall be settled on a monthly basis and shall be payable by Texhong Dyeing no later than the 12th day of the following month.

Texhong Dyeing Steam Master Supply Agreement

Texhong Industrial Park shall procure the supply of steam to Texhong Dyeing at the price of VND386,920 per cubic meter, subject to price adjustment as prescribed by government. The fees payable by Texhong Dyeing shall be settled on a monthly basis and shall be payable by Texhong Dyeing no later than the 10th day of the following month.

Texhong Dyeing Wastewater Treatment Service Agreement

Texhong Industrial Park shall procure the supply of wastewater treatment service to Texhong Dyeing at the price of USD0.5 per cubic meter, which is determined with reference to market price. The fees payable by Texhong Dyeing shall be settled on a monthly basis and shall be payable by Texhong Dyeing no later than the 16th day of the following month.

Term and termination

The Texhong Dyeing Agreements shall have a term commencing from 23 May 2017 and expiring on 31 December 2019.

Proposed annual caps

The Directors anticipate that the aggregate annual fee payable by Texhong Dyeing to Texhong Industrial Park under the Texhong Dyeing Power Master Supply Agreement shall not exceed RMB12.3 million (equivalent to approximately HK\$13.9 million) for the year ending 31 December 2017, RMB19.4 million (equivalent to approximately HK\$21.9 million) for the year ending 31 December 2018 and RMB20.3 million (equivalent to approximately HK\$22.9 million) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of electricity for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the electricity service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Dyeing to Texhong Industrial Park under the Texhong Dyeing Water Master Supply Agreement shall not exceed RMB1.0 million (equivalent to approximately HK\$1.1 million) for the year ending 31 December 2017, RMB2.0 million (equivalent to approximately HK\$2.3 million) for the year ending 31 December 2018, and RMB2.1 million (equivalent to approximately HK\$2.4 million) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of water for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the water service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Dyeing to Texhong Industrial Park under the Texhong Dyeing Steam Master Supply Agreement shall not exceed RMB9.5 million (equivalent to approximately HK\$10.7 million) for the year ending 31 December 2017, RMB20.0 million (equivalent to approximately HK\$22.6 million) for the year ending 31 December 2018 and RMB21.0 million (equivalent to approximately HK\$23.7 million) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of steam for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the steam service will increase at an annual inflation rate of 5%.

The Directors anticipate that the aggregate annual fee payable by Texhong Dyeing to Texhong Industrial Park under the Texhong Dyeing Wastewater Treatment Service Agreement shall not exceed RMB142,500 (equivalent to approximately HK\$161,000) for the year ending 31 December 2017, RMB299,250 (equivalent to approximately HK\$338,100) for the year ending 31 December 2018 and RMB313,500 (equivalent to approximately HK\$354,300) for the year ending 31 December 2019. The annual caps were determined by the Directors by reference to (i) the Group's estimated demand for supply of wastewater treatment service for production during the years ending 31 December 2019; and (ii) on the assumption that the sourcing costs for the wastewater treatment service will increase at an annual inflation rate of 5%.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in the manufacture and distribution of quality yarn, grey fabrics and garment fabrics as well as garments, especially high value-added core-spun yarn.

The Directors consider that it is for the commercial benefit of the Group to source utilities and wastewater treatment service from Texhong Industrial Park instead of incurring capital expenditure or additional cost for construction of its own facility or sourcing from third party suppliers, as the fees will be based on the actual usage by Texhong Galaxy and Texhong Dyeing as determined by separate meters for measuring the amount of utilities consumed by Texhong Galaxy and Texhong Dyeing at government-prescribed prices.

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Agreements have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms of the Agreements and the annual caps are fair and reasonable and in the interests of the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Texhong Industrial Park is a connected person of the Company by virtue of its being an associate of Mr. Hong Tianzhu, the chairman of the Company and an executive Director. Therefore, the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions contemplated under the Agreements will be aggregated and treated as one transaction. As all of the applicable percentage ratios of the transactions contemplated under the Agreements are expected to be less than 5% but the total consideration (on an annual basis) is expected to be more than HK\$3,000,000, the provision and supply of utilities and wastewater treatment service under the Agreements will be subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Hong Tianzhu and Mr. Zhu Yongxiang had material interests in the transactions contemplated under the Agreements and have abstained from voting on the board resolution. Save as disclosed above, none of the Directors had a material interest in such transactions.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreements”	the Texhong Dyeing Agreements and the Texhong Galaxy Agreements
“associate”	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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Texhong Dyeing”	Texhong Dyeing And Printing Vietnam Limited (越南天虹染整責任有限公司), a company established in Vietnam and an indirect non wholly-owned subsidiary of the Company
“Texhong Dyeing Agreements”	the Texhong Dyeing Power Master Supply Agreement, the Texhong Dyeing Steam Master Supply Agreement, the Texhong Dyeing Wastewater Treatment Service Agreement and the Texhong Dyeing Water Master Supply Agreement

“Texhong Dyeing Land”	a parcel of industrial land located at Texhong Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam with a site area of approximately 123,228 square meters and the infrastructure erected thereon
“Texhong Dyeing Power Master Supply Agreement”	the power master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer in relation to the provision and supply of electricity
“Texhong Dyeing Steam Master Supply Agreement”	the steam master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer in relation to the provision and supply of steam
“Texhong Dyeing Wastewater Treatment Service Agreement”	the wastewater treatment service agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer in relation to the provision and supply of wastewater treatment service
“Texhong Dyeing Water Master Supply Agreement”	the water master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer in relation to the provision and supply of water
“Texhong Galaxy”	Texhong Galaxy Technology Limited (天虹銀河科技有限公司), a company established in Vietnam and an indirect wholly-owned subsidiary of the Company
“Texhong Galaxy Agreements”	the Texhong Galaxy Power Master Supply Agreement, the Texhong Galaxy Steam Master Supply Agreement, the Texhong Galaxy Wastewater Treatment Service Agreement and the Texhong Galaxy Water Master Supply Agreement
“Texhong Galaxy Land”	two parcels of industrial land located at Texhong Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam with a site area of approximately 225,000 square meters and 215,000 square meters, respectively, and the infrastructure erected thereon
“Texhong Galaxy Power Master Supply Agreement”	the power master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer in relation to the provision and supply of electricity
“Texhong Galaxy Steam Master Supply Agreement”	the steam master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer in relation to the provision and supply of steam

“Texhong Galaxy Wastewater Treatment Service Agreement”	the wastewater treatment service agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer in relation to the provision and supply of wastewater treatment service
“Texhong Galaxy Water Master Supply Agreement”	the water master supply agreement dated 23 May 2017 and entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer in relation to the provision and supply of water
“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 by Mr. Hong Tianzhu, the chairman of the Group and an executive Director as to 78% and Mr. Zhu Yongxiang, the co-chief executive officer of the Group and an executive Director as to 22%
“USD”	United States dollar, the lawful currency of the United States of America
“Vietnam”	the Socialist Republic of Vietnam
“VND”	Vietnamese dong, the lawful currency of Vietnam
“%”	per cent.

For the purpose of this announcement, the exchange rate of HK\$1.00 = RMB0.8849 and RMB1.00 = VND3,230 have been used for currency conversions. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$, RMB and VND have been, could have been or may be converted at such rate or any other exchange rate.

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

Hong Kong, 23 May 2017

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
Mr. Ji Zhongliang

Independent non-executive Directors:

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