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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

**REVISION OF ANNUAL CAPS
FOR UTILITIES MASTER SUPPLY AND SERVICES AGREEMENTS**

**REVISION OF ANNUAL CAPS FOR UTILITIES MASTER SUPPLY AND
SERVICES AGREEMENTS**

Reference is made to (i) the announcement of the Company dated 23 May 2017 in relation to the supply of utilities and wastewater treatment services by Texhong Industrial Park to each of Texhong Galaxy Land and Texhong Dyeing Land; and (ii) the announcement of the Company dated 20 October 2017 in relation to supply of gas by Texhong Industrial Park to Texhong Dyeing Land.

As it is anticipated that there will be additional usage, the Board proposed to revise the annual caps under the Texhong Dyeing Agreements and the Texhong Galaxy 2017 Agreements.

LISTING RULES IMPLICATION

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, gas 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 (i) the announcement of the Company dated 23 May 2017 in relation to the supply of utilities and wastewater treatment services by Texhong Industrial Park to each of Texhong Galaxy Land and Texhong Dyeing Land; and (ii) the announcement of the Company dated 20 October 2017 in relation to supply of gas by Texhong Industrial Park to Texhong Dyeing Land.

REVISION OF ANNUAL CAPS OF TEXHONG DYEING AGREEMENTS

Principal terms of the Texhong Dyeing Agreements

Texhong Dyeing Power Master Supply Agreement

Pursuant to the Texhong Dyeing Power Master Supply Agreement entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer dated 23 May 2017, Texhong Industrial Park has been supplying electricity to Texhong Dyeing at government-prescribed prices in accordance with its registered use. 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

Pursuant to the Texhong Dyeing Water Master Supply Agreement into between Texhong Industrial Park as supplier and Texhong Dyeing as customer dated 23 May 2017, Texhong Industrial Park has been supplying 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

Pursuant to the Texhong Dyeing Steam Master Supply Agreement into between Texhong Industrial Park as supplier and Texhong Dyeing as customer dated 23 May 2017, Texhong Industrial Park has been supplying 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

Pursuant to the Texhong Dyeing Wastewater Treatment Service Agreement into between Texhong Industrial Park as supplier and Texhong Dyeing as customer dated 23 May 2017, Texhong Industrial Park has been supplying wastewater treatment service to Texhong Dyeing at the price of USD0.5 per cubic meter. 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.

Texhong Dyeing Gas Supply Agreement

Pursuant to the Texhong Dyeing Gas Supply Agreement into between Texhong Industrial Park as supplier and Texhong Dyeing as customer dated 20 October 2017, Texhong Industrial Park has been supplying liquefied petroleum gas at a price of VND18,000 per kilogram (excluding tax and environmental protection fee, if any), subject to any fluctuation in the market price of liquefied petroleum gas and the operating cost of Texhong Industrial Park. In case of any price adjustment, Texhong Industrial Park shall notify Texhong Dyeing in writing.

Term and termination

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

Based on the actual usage of utilities by Texhong Dyeing under each of the Texhong Dyeing Agreements for the year ended 31 December 2017 and the revised estimates of production capacity after trial production run and planned additions of new equipment, it is anticipated that there will be additional usage of utilities for the each of the year ending 31 December 2018 and 31 December 2019. It is expected that the aggregate annual fee payable by Texhong Dyeing to Texhong Industrial Park under each of the Texhong Dyeing Agreement for the year ending 31 December 2018 and 31 December 2019 will exceed the existing annual cap and has therefore proposed the Proposed Texhong Dyeing 2018 Annual Caps and Proposed Texhong Dyeing 2019 Annual Caps.

The table below sets out (a) the actual transaction amount for the year ended 31 December 2017; (b) the existing annual cap for the year ending 31 December 2018 and 2019; and (c) the proposed annual cap for the year ending 31 December 2018 and 2019 for the Texhong Dyeing Agreements.

Existing annual caps and revised annual caps

Texhong Dyeing Power Master Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB19.4 million	RMB20.3 million
Revised annual caps	Not applicable	RMB22.4 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB1,247,000.

Texhong Dyeing Water Master Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB2.0 million	RMB2.1 million
Revised annual caps	Not applicable	RMB3.0 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB260,000.

Texhong Dyeing Steam Master Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB20.0 million	RMB21.0 million
Revised annual caps	Not applicable	RMB29.1 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB1,728,000.

Texhong Dyeing Wastewater Treatment Service Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB299,250	RMB313,500
Revised annual caps	RMB2.6 million	RMB3.7 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB116,000.

Texhong Dyeing Gas Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB950,000	RMB1.5 million
Revised annual caps	RMB2.0 million	RMB3.1 million

During the year ended 31 December 2017, there was no transaction between Texhong Dyeing and Texhong Industrial Park under the above agreement.

The Proposed Texhong Dyeing 2018 Annual Caps and Proposed Texhong Dyeing 2019 Annual Caps are determined based on (i) the actual transaction amounts between Texhong Dyeing and Texhong Industrial Park for the supply of wastewater treatment, steam, water and power service for the year ended 31 December 2017; (ii) the anticipated increase of usage of utilities and wastewater treatment services after trial production run and planned additions of equipment; and (iii) the assumption that the sourcing costs for the supply of wastewater treatment, steam, water, gas and power service will increase at an annual inflation rate of 5%. In respect of the revised annual caps under the Texhong Dyeing Wastewater Treatment Service Agreement, the Directors wish to state that the existing annual caps were determined at the time before the production facilities started the trial-run while there has been an over than expected increase of need of wastewater treatment service when the production facilities have commenced production.

REVISION OF ANNUAL CAPS OF TEXHONG GALAXY 2017 AGREEMENTS

Principal terms of the Texhong Galaxy 2017 Agreements

Texhong Galaxy Steam Master Supply Agreement

Pursuant to the Texhong Galaxy Steam Master Supply Agreement entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer dated 23 May 2017, Texhong Industrial Park has been supplying 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 Water Master Supply Agreement

Pursuant to the Texhong Galaxy Water Master Supply Agreement entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer dated 23 May 2017, Texhong Industrial Park has been supplying 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 Wastewater Treatment Service Agreement

Pursuant to the Texhong Galaxy Wastewater Treatment Service Agreement entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer dated 23 May 2017, Texhong Industrial Park has been supplying 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 2017 Agreements have a term commencing from 23 May 2017 and expiring on 31 December 2019.

Based on the actual usage of utilities by Texhong Galaxy under each of the Texhong Galaxy 2017 Agreements for the year ended 31 December 2017, and as Texhong Galaxy had acquired land use right of two parcel of industrial land located at Texhong Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam for construction of factories for the manufacturing of yarns and grey fabrics in February 2018, it is anticipated that there will be additional usage of water, steam and wastewater treatment service for the each of the year ending 31 December 2018 and 31 December 2019 for the operation of the new factories. It is expected that the aggregate annual fee payable by Texhong Galaxy to Texhong Industrial Park under each of the Texhong Galaxy 2017 Agreements, for the year ending 31 December 2018 and 31 December 2019 will exceed the existing annual cap and has therefore proposed the Proposed Texhong Galaxy 2018 Annual Caps and Proposed Texhong Galaxy 2019 Annual Caps.

Existing annual caps and revised annual caps

The tables below sets out (a) the actual transaction amount for the year ended 31 December 2017; (b) the existing annual cap for the year ending 31 December 2018 and 2019; and (c) the Proposed Texhong Galaxy 2018 Annual Caps and Proposed Texhong Galaxy 2019 Annual Caps for the Texhong Galaxy 2017 Agreements.

Texhong Galaxy Water Master Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB380,000	RMB400,000
Revised annual caps	RMB880,000	RMB1,520,000

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB123,000.

Texhong Galaxy Steam Master Supply Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB4.0 million	RMB4.1 million
Revised annual caps	RMB8.3 million	RMB10.3 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB1.5 million.

Texhong Galaxy Wastewater Treatment Service Agreement

	For the year ending 31 December 2018	For the year ending 31 December 2019
Existing annual caps	RMB283,000	RMB298,000
Revised annual caps	RMB1.6 million	RMB2.2 million

The actual transaction amount for the year ended 31 December 2017 under the above agreement was approximately RMB103,000.

The Proposed Texhong Galaxy 2018 Annual Caps and Proposed Texhong Galaxy 2019 Annual Caps are determined based on (i) the actual transaction amounts for the year ended 31 December 2017 between Texhong Galaxy and Texhong Industrial Park for the supply of wastewater treatment, steam and water service; (ii) the anticipated increase of usage of utilities and wastewater treatment services as a result of further expansion of the production facilities; and (iii) the assumption that the sourcing costs for the supply of wastewater treatment, steam and water service will increase at an annual inflation rate of 5%. In respect of the revised annual caps under the Texhong Galaxy Wastewater Treatment Service Agreement, the Directors wish to state that the existing annual caps were determined at the time before the dyeing facilities started the trial-run while there has been an over than expected increase of need of wastewater treatment service when the production facilities have commenced production.

There is no change to the existing annual caps for the Texhong Galaxy Power Master Supply Agreement for each of the year ending 31 December 2018 and 31 December 2019 as the anticipated increase of usage of power upon the further acquisition of land use rights for expansion of production capacity by the Group as announced by the Company on 2 February 2018 has already been taken into account when the existing annual caps were determined.

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, gas 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”	People’s Republic of China
“Proposed Texhong Dyeing 2018 Annual Caps”	the proposed annual caps for the Texhong Dyeing Wastewater Treatment Service Agreement, Texhong Dyeing Gas Supply Agreement and the Texhong Dyeing Water Master Supply Agreement for the year ending 31 December 2018
“Proposed Texhong Dyeing 2019 Annual Caps”	the proposed annual caps for each of the Texhong Dyeing Agreements for the year ending 31 December 2019
“Proposed Texhong Galaxy 2018 Annual Caps”	the proposed annual caps for Texhong Galaxy Wastewater Treatment Service Agreement and Texhong Galaxy Steam Master Supply Agreement for the year ending 31 December 2018
“Proposed Texhong Galaxy 2019 Annual Caps”	the proposed annual caps for each of the Texhong Galaxy 2017 Agreements for the year ending 31 December 2019
“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, Texhong Dyeing Water Master Supply Agreement and Texhong Dyeing Gas Supply Agreement
“Texhong Dyeing Gas Supply Agreement”	the gas supply agreement dated 20 October 2017 and entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer in relation to the provision and supply of liquefied petroleum gas
“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 2017 Agreements and the Texhong Galaxy Power Master Supply Agreement
“Texhong Galaxy 2017 Agreements”	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%
“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 RMB1.00 = VND3,600 has 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, 19 June 2018

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