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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
IN RELATION TO THE
SUPPLY OF UTILITIES, WASTEWATER TREATMENT SERVICES
AND ADMINISTRATIVE SERVICES**

To ensure continual supply of utilities and wastewater treatment services by Texhong Industrial Park to members of the Group after the expiry of the Texhong Dyeing Agreements, Texhong Galaxy Agreements and United Technology Vietnam Agreements, on 25 August 2021, Texhong Industrial Park and the Company entered into the Master Supply Agreement pursuant to which Texhong Industrial Park shall provide and supply Utilities, wastewater treatment service and Administrative Services to the Group for its uses at the Texhong Production Facilities with effect from 1 January 2022 to 31 December 2022.

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 Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios of the transactions contemplated under the Master Supply Agreement is 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, wastewater treatment service and Administrative Services under the Master Supply Agreement is 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 announcement of the Company dated 10 May 2019 and the supplemental announcement of the Company dated 17 May 2019 in relation to, among others, the supply of Utilities and wastewater treatment services by Texhong Industrial Park to each of Texhong Galaxy, Texhong Dyeing and United Technology Vietnam.

UTILITIES MASTER SUPPLY AND SERVICES AGREEMENT FOR THE GROUP

To ensure continual supply of utilities and wastewater treatment services by Texhong Industrial Park to each of Texhong Dyeing, Texhong Galaxy and United Technology Vietnam after the expiry of the Texhong Dyeing Agreements, Texhong Galaxy Agreements and United Technology Vietnam Agreements respectively, on 25 August 2021, Texhong Industrial Park and the Company entered into the Master Supply Agreement pursuant to which Texhong Industrial Park shall provide and supply Utilities, wastewater treatment service and Administrative Services to the Group for its uses at the Texhong Production Facilities with effect from 1 January 2022 to 31 December 2022.

Principal terms of the Master Supply Agreement

Date

25 August 2021

Parties

- (a) Texhong Industrial Park as supplier; and
- (b) the Company (for itself and on behalf of members of the Group) 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

(1) Supply of thermal oil

Texhong Industrial Park shall procure the supply of thermal oil to the Group at a price of USD22 per tonne (exclusive of tax). Such price had been determined by the parties with reference to the operating costs attributable to the supply of thermal oil by Texhong Industrial Park.

(2) Supply of power

Texhong Industrial Park shall procure the supply of electricity to the Group at government-prescribed prices in accordance with its registered use.

(3) *Supply of steam*

Texhong Industrial Park shall procure the supply of steam to the Group at the price of USD22 per tonne (exclusive of tax). Such price had been determined by the parties with references to the production costs of steam by Texhong Industrial Park and the operating costs attributable to the supply of steam by Texhong Industrial Park.

(4) *Provision of Wastewater Treatment Service*

Texhong Industrial Park shall procure the supply of wastewater treatment service to the Group at the price of USD0.852 per cubic meter (exclusive of tax and environmental fee). Such price had been determined by the parties with reference to the operating costs attributable to the provision of wastewater treatment service by Texhong Industrial Park and the prevailing market price for comparable wastewater treatment services provided by other independent service providers in other industrial parks located in Vietnam, provided that the terms of service shall not be less favourable than those terms offered by Texhong Industrial Park to its independent third party customers.

(5) *Supply of Water*

Texhong Industrial Park shall procure the supply of water to the Group at the price of USD0.3 per cubic meter (exclusive of tax). Such price had been determined by the parties with reference to the water resources fee prescribed by the Vietnam government and the operating costs attributable to the supply of water by Texhong Industrial Park, subject to price adjustment as prescribed by the Vietnam government (if any).

(6) *Supply of gas*

Texhong Industrial Park shall procure the supply of liquefied petroleum gas to the Group at a unit selling price of VND28,000 per kilogram (exclusive of tax and environmental fee), subject to price adjustment caused by fluctuation of liquefied petroleum gas market price in Vietnam. Such price had been determined by reference to the operating costs attributable to the supply of gas by Texhong Industrial Park and the procurement cost which Texhong Industrial Park sourced liquefied petroleum gas from its ultimate suppliers. In case of any price adjustment caused by the fluctuation in the market price of liquefied petroleum gas in Vietnam, the Group will obtain the relevant supplier invoice and the contract evidencing the price adjustment in the procurement cost of liquefied petroleum gas from Texhong Industrial Park and the relevant invoices for the supply of liquefied petroleum gas by Texhong Industrial Park to other independent third party customers to ensure that the price adjustment proposed by Texhong Industrial Park is on normal commercial term and shall be not less favourable than those offered by Texhong Industrial Park to its independent third party customers.

(7) *Administration Services*

Texhong Industrial Park shall provide administrative services to the Group at the Texhong Production Facilities, such as applying for working visa for employees, arranging of hotel accommodation for visiting guests and sourcing of office supplies.

The actual service fee payable by the Company for the Administrative Services shall be determined with reference to the actual cost and expenses incurred by Texhong Industrial Park in the course of providing the Administrative Services. The service fees payable by the Company for the Administrative Services shall be settled on a monthly basis.

Term and termination

The Master Supply Agreement has a term commencing from 1 January 2022 and expiring on 31 December 2022.

Proposed annual caps

The Directors anticipate that the aggregate annual fee payable by the Company to Texhong Industrial Park under the Master Supply Agreement for FY2022 is RMB430 million (equivalent to approximately HK\$517.2 million).

The annual cap was determined by the Directors with reference to the Group's estimated demand for supply of Utilities and wastewater treatment service for production and the estimated usage of the Administrative Services for FY2022.

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 and the use of the Administrative Services provided by Texhong Industrial Park instead of incurring capital expenditure or additional cost for construction of its own facility or sourcing from third party suppliers and the provision of Administrative Services from external service provider, as the fees will be based on the actual usage by the Group as determined by separate meters for measuring the amount of Utilities consumed by the Group at prescribed prices and the actual cost incurred by Texhong Industrial Park for the provision of Administrative Services.

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Master Supply Agreement 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 Master Supply Agreement 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 Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios of the transactions contemplated under the Master Supply Agreement 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, wastewater treatment service and Administrative Services under the Master Supply Agreement is 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 Master Supply Agreement 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:

“Administrative Services”	provision of administrative services by Texhong Industrial Park to the Group such as applying for working visa for employees, arranging of hotel accommodation for visiting guests and sourcing of office supplies
“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
“FY2022”	for the year ending 31 December 2022
“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
“Master Supply Agreement”	the master supply agreement dated 25 August 2021 and entered into between Texhong Industrial Park and the Company (for itself and on behalf of members of the Group) in relation to the supply of Utilities, the provision of wastewater treatment service and Administrative Services to the Group
“PRC”	The People’s Republic of China
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Texhong Dyeing”	Texhong Winnitex Vietnam Limited (天虹慶業染整越南有限公司) (formerly known as 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 agreements dated 10 May 2019 entered into between Texhong Industrial Park as supplier and Texhong Dyeing as customer for the provision and supply of power, steam, wastewater treatment service, water and liquefied petroleum gas from 1 January 2020 to 31 December 2021
“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 agreements dated 10 May 2019 entered into between Texhong Industrial Park as supplier and Texhong Galaxy as customer for the provision and supply of power, steam, wastewater treatment service and water from 1 January 2020 to 31 December 2021
“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%
“Texhong Production Facilities”	the production facilities operated by the Group at Texhong Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam

“United Technology Vietnam”	Texhong United Technology Vietnam Company Limited (天虹聯合科技越南有限公司, a company established in Vietnam and an indirect wholly-owned subsidiary of the Company
“United Technology Vietnam Agreements”	the agreements dated 10 May 2019 entered into between Texhong Industrial Park as supplier and United Technology Vietnam as customer for the provision and supply of power, steam, wastewater treatment service and water from 1 June 2019 to 31 December 2021
“USD”	United States dollars, the lawful currency of United States
“Utilities”	the supply of power, heat, water, steam and liquefied petroleum gas
“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 = RMB0.8314 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\$ and RMB 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, 25 August 2021

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