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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 LEASE OF LAND IN VIETNAM

THE LEASE AGREEMENT

On 7 December 2021, Haiha Industrial Park as landlord entered into the Lease Agreement with Texhong Galaxy as tenant in relation to the lease of the Land for a term commencing from 7 December 2021 until 24 April 2064.

LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 “Leases”, the Company will recognise the value of the right-of-use asset in connection with the Lease Agreement on its consolidated statement of financial position. Accordingly, the entering into of the Lease Agreement will be regarded as an acquisition of asset by the Group under Rule 14A.24(1) of the Listing Rules.

Haiha Industrial Park is a connected person of the Company by virtue of it being an associate of Mr. Hong Tianzhu, the chairman of the Group and an executive Director and Mr. Zhu Yongxiang, the chief executive officer of the Group and an executive Director. The entering into of the Lease Agreement between Haiha Industrial Park and Texhong Galaxy therefore constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios in respect of the Transaction exceeds 0.1% but are less than 5%, pursuant to Chapter 14A of the Listing Rules, the Transaction is subject to the reporting and announcement requirements but is exempted from the circular, independent financial advice and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board announces that on 7 December 2021, Haiha Industrial Park as landlord entered into the Lease Agreement with Texhong Galaxy as tenant in relation to the lease of the Land for a term commencing from 7 December 2021 until 24 April 2064.

The principal terms of the Lease Agreement is set out below:

Date: 7 December 2021

Parties: (1) Haiha Industrial Park, as landlord
(2) Texhong Galaxy, as tenant

Term: from 7 December 2021 until 24 April 2064

Location and size: The Land is located at Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam with an aggregate site area of approximately 383,822.15 square meters with land use rights expiring on 24 April 2064.

Usage: The Land will be used for the construction of production facilities

Rent: The total rent for the lease of the Land shall be VND808,680,646,300 (equivalent to approximately RMB228.5 million), which was calculated based on VND2,106,915 (equivalent to approximately RMB595) per square meter of the Land. The rent under the Lease Agreement was determined after arm's length negotiation between Haiha Industrial Park and Texhong Galaxy with reference to the prevailing market rent for similar land in different industrial zones in Quang Ninh Province, Vietnam, the government fee payable for the lease of the Land and the latest land cost per square meter of Haiha Industrial Park.

Other charges: Infrastructure maintenance fee and services fee payable by Texhong Galaxy shall be fixed at VND2,695,582,959 (equivalent to approximately RMB762,000) per annum for the first three years of the term of the Lease Agreement, subject to price adjustment as agreed between the parties.

Payment terms:

The total rent for the lease of the Land shall be settled by the Group in the following manner:

- (i) 30% of the total rent for the lease of the Land, being VND242,604,193,890 (equivalent to approximately RMB68.55 million) shall be paid within ten days after entering into the Lease Agreement; and
- (ii) 70% of the total rent for the lease of the Land, being VND566,076,452,410 (equivalent to approximately RMB159.95 million) shall be paid within ten days after the handover of the Land.

The payment of the rent for the Lease Agreement will be financed by the internal resources of the Group.

Other principal terms of the Lease Agreement

Pursuant to the Lease Agreement, Haiha Industrial Park and Texhong Galaxy (or a party nominated by Texhong Galaxy) shall enter into a formal lease agreement on the same terms and conditions as the Lease Agreement to replace the Lease Agreement during the term of the Lease Agreement, and Texhong Galaxy shall set up a wholly owned subsidiary to take up the lease of the Land as tenant.

Under the Lease Agreement, Haiha Industrial Park shall assist Texhong Galaxy on the application for land use right certificate and warrant that the Land shall be free of any dispute or encumbrances. Haiha Industrial Park shall undertake to complete the infrastructures and roads surrounding the Land.

ESTIMATED VALUE OF THE RIGHT-OF-USE ASSET IN RESPECT OF THE LEASE AGREEMENT

Pursuant to HKFRS 16, the Group is required to recognise a lease as a right-of-use asset. The right-of-use asset represents the Company's right to use the underlying leased asset over the lease term. The value of the right-of-use asset to be recognised by the Company under the Lease Agreement is expected to be approximately RMB228.5 million, which includes the present value of the total rental to be made under the Lease Agreement during the lease term in accordance with HKFRS 16 "Leases".

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group is principally engaged in the manufacture and sale of yarn, grey fabrics and garment fabrics as well as garments.

Haiha Industrial Park was established in Vietnam and is ultimately owned by Mr. Hong Tianzhu, the chairman of the Group and an executive Director as to 78% and Mr. Zhu Yongxiang, the chief executive officer of the Group and an executive Director as to 22%. Haiha Industrial Park is principally engaged in infrastructure development.

It is the intention of the Group to establish a sizeable production base for the manufacturing of yarn in Vietnam, the Group therefore decided to lease the Land to build a factory and expand the Group's production capacity in Vietnam.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transaction are on normal commercial terms and fair and reasonable as far as the Company and the Shareholders are concerned and thus the Transaction is in the interests of the Group and the Shareholders as a whole.

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

DEFINITIONS

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

“associate”	has the meaning as ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Company”	Texhong Textile Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning as ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Haiha 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 chief executive officer of the Group and an executive Director as to 22%
“HKFRS”	Hong Kong Financial Reporting Standards
“Land”	a parcel of industrial land located at Texhong Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam with a site area of approximately 383,822.15 square meters and the infrastructure erected thereon

“Lease Agreement”	a framework lease agreement dated 7 December 2021 and entered into between Haiha Industrial Park as landlord and Texhong Galaxy as tenant in relation to the Transaction
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“RMB”	Renminbi, the lawful currency of People’s Republic of China
“Share(s)”	ordinary shares of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Texhong Galaxy”	Texhong Galaxy Investment Limited (天虹銀河投資有限公司), a company established in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Transaction”	the lease of the Land pursuant to the Lease Agreement
“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 RMB1.00 = VND3,539 has been used for currency conversions. This is for the purpose of illustration only and does not constitute a representation that any amounts in 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, 7 December 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