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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)

INSIDE INFORMATION

This announcement is made by Texhong Textile Group Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 5 April 2013 in relation to the proposed issue of USD senior notes (“**Proposed Notes Issue**”).

In connection with the Proposed Notes Issue, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, some of which has not previously been made public. An extract of such information is attached hereto for the reference of the shareholders of the Company and potential investors.

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

Hong Kong, 5 April 2013

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. Gong Zhao

Independent non-executive directors:

Ms. Zhu Lanfen
Prof. Cheng Longdi
Mr. Ting Leung Huel, Stephen

We are one of the largest cotton yarn manufacturers in the PRC and a leading textile enterprise focusing on manufacturing high value-added core-spun cotton textile products. We recorded total sales of RMB7,341.5 million (US\$1,178.4 million) and had a total production facility of approximately 1,000,000 spindles (producing over 240,000 tonnes of yarn per year) and over 900 air-jet looms in 2012.

We manufacture over 1,500 types of yarn products and over 2,700 types of fabric products. We focus on and specialize in the manufacturing and sale of high value-added stretchable core-spun yarn and other yarns, including denim yarn, which accounted for 80.6%, 84.2% and 83.7% of our revenue for the years ended December 31, 2010, 2011 and 2012, respectively.

We currently have 11 production bases located in Xuzhou, Taizhou, Changzhou and Nantong of Jiangsu Province and Pujiang of Zhejiang Province as well as a production base in Dong Nai Province, Vietnam. We also have a production base under construction in Quang Ninh Province, Vietnam, a production base in Tien Giang Province, Vietnam, which has not yet commenced construction due to delay in delivery of the land by the land developer. We have recently acquired one additional production base in Dong Nai Province, Vietnam, in March 2013. We are not aware of any presence of our PRC competitors in Vietnam since our first establishment of the production base in Vietnam in 2006. This has provided us with cost advantages over our PRC competitors with production facilities solely in the PRC as we are able to import cheaper cotton from overseas to Vietnam which is not subject to import tariff. We also enjoy lower labor costs and other production overheads and tax incentives in Vietnam. As of December 31, 2012, our production bases cover an overall area of approximately 1,963,300 square meters, of which workshops comprise approximately 802,000 square meters, with 12,779 employees. Our yarn production facilities operate 24 hours a day in three shifts except during the Lunar New Year holiday and when production facilities are under repair or routine maintenance. We also have a research and development center in Changzhou, PRC which focuses on product development to further enhance and differentiate our product mix by developing differentiated products. Our sales centers are located in Shanghai and Macau.

We currently have over 1,600 customers in China and overseas. As of December 31, 2012, we had approximately 1,400 PRC customers. Most of our domestic sales are made in Jiangsu and Zhejiang Provinces. For the years ended December 31, 2010, 2011 and 2012, our sales to the customers in Jiangsu and Zhejiang Provinces together accounted for approximately 59.0%, 58.6% and 61.6%, respectively, of our total sales. We also have over 200 overseas customers including in Brazil, Turkey, Bangladesh, Japan and South Korea.

In July 2012, we commenced the first phase of our second expansion plan in Quang Ninh Province, Vietnam. Subject to our cash flows and market conditions at such time, the second phase of our second expansion plan will begin in 2013 and is expected to be completed in 2014. Upon completion of the first two phases of our second expansion plan, we expect our yarn production facility to increase by approximately 400,000 spindles and 30 sets of open-end spinning machines. A third phase of this second expansion plan is being contemplated, but is subject to availability of land allocated by the local government. In order to benefit from the proximity to our existing production facility in Dong Nai and capitalize on the relatively low acquisition cost and short time from construction to production, in March 2013 we completed the acquisition of a production plant in Dong Nai for approximately

US\$4.6 million and we expect to make an additional investment in this plant to increase our annual production facility by approximately an additional 65,000 spindles. This plant has not commenced operations. We are in the process of adding an additional 330,000 spindles at our production bases in the PRC principally in Jiangsu Province, which is expected to be completed in 2013. In addition, we plan to invest a total of RMB400.0 million to build a synthetic fiber yarn production base in Uruguay, which construction is expected to be completed in 2014. We are also currently in discussion with an industrial zone in Turkey to procure approximately 200,000 square meters land for approximately US\$4 million for the construction of a production facility.

Regarding our production, cotton is the most important raw material for our production and accounted for a substantial percentage of our costs of sales. For each of the years ended December 31, 2010, 2011 and 2012, cotton costs accounted for 45.4%, 55.9% and 48.8%, respectively, of our costs of sales. The raw materials purchased by us from independent suppliers included yarn, cotton, spandex, rayon and polyester. Set out below is the percentage of the major cost components of our products as a percentage of the total cost of raw materials for the years ended December 31, 2010, 2011 and 2012:

	For the year ended December 31,		
	2010	2011	2012
	(percentages)		
Yarn	21.5	14.8	16.7
Cotton	54.6	65.2	58.5
Spandex, rayon and polyester	18.8	17.3	19.5
Other raw materials	<u>5.1</u>	<u>2.7</u>	<u>5.3</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The following table sets forth our contractual obligations as of December 31, 2012.

Contractual Obligations	Payment Due By Period				Total
	Less than 1 year	1–2 years	3–5 years	More than 5 years	
	(RMB'000)				
Debt obligations ⁽¹⁾	206,142	113,744	1,397,935	52,379	1,770,200
Operating lease commitments	2,640	1,979	6,361	26,933	37,913
Purchase obligations					
— raw materials	1,142,795	—	—	—	1,142,795
Purchase obligations					
— fixed assets	<u>821,108</u>	<u>52,149</u>	<u>—</u>	<u>—</u>	<u>873,257</u>
Total contractual obligations	<u>2,172,685</u>	<u>167,872</u>	<u>1,404,296</u>	<u>79,312</u>	<u>3,824,165</u>

(1) Our debt obligations comprise our bank borrowings under various facility agreements for working capital, trade finance and other bank borrowings and notes. The obligations mature at different times and are subject to acceleration under different circumstances, depending on the facility agreement or trust deed as applicable.