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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)**

### **DISCLOSEABLE TRANSACTION ACQUISITION OF A YARN FACTORY**

On 20 June 2013, the Company entered into the Framework Agreement for the acquisition of the entire equity interest of Morigin, which owns a yarn factory in Shandong, the PRC. The Group also entered into the Yarn Procurement Agreement with Morigin on 20 June 2013 for the procurement of yarn by the Group from Morigin. An Equity Transfer Agreement will be entered into by the Group with the Vendors on the date on which the necessary registration procedures regarding the increase in registered capital of Morigin are completed and the revised business licence of Morigin is obtained to give effect to the acquisition of the entire equity interest of Morigin by the Group.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules.

### **FRAMEWORK AGREEMENT DATED 20 JUNE 2013**

On 20 June 2013, the Company entered into the Framework Agreement with Yunsheng, Hui Yuan (Hong Kong) Company Limited and Morigin in relation to the acquisition of the entire equity interest of Morigin and the arrangement for the repayment of shareholders' loan due by Morigin to Yunsheng.

#### **Key terms of the Framework Agreement**

Under the Framework Agreement, it was agreed that:

- (1) Yunsheng shall, before 20 August 2013, inject to Morigin by way of increase in the registered capital of Morigin of RMB243 million, being an amount agreed among the parties by reference to the total outstanding debts and total asset value of Morigin as of the Record Date. Morigin shall complete the necessary registration procedures in respect of the increase in registered capital on or before 20 August 2013;

- (2) the additional registered capital to be injected into Morigin under paragraph (1) above shall be solely used by Morigin for its repayment of part of the shareholders' loan due by Morigin to Yunsheng;
- (3) the Company shall procure Texhong China to enter into a Yarn Procurement Agreement with Morigin for yarn procurement at the Consideration of RMB339.24 million, which equal to the then balance of the outstanding shareholder's loan owed by Morigin to Yunsheng, and Morigin shall use such amount to repay the remaining shareholders' loan due to Yunsheng;
- (4) on the date on which the necessary registration procedures regarding the increase in registered capital of Morigin are completed and the revised business licence of Morigin is obtained, Yunsheng shall, and shall procure the Vendors to, enter into the Equity Transfer Agreement for the transfer of the entire equity interest of Morigin by the Vendors to Texhong Shandong at the total consideration of RMB3;
- (5) Yunsheng and Morigin shall procure completion of the change of business registration in respect of the transfer of equity interest of Morigin from the Vendors to Texhong Shandong by 20 October 2013; and
- (6) each of Yunsheng and the Company shall deposit RMB10 million with Morigin as security payment for performance of their respective obligations under the Framework Agreement, and in the event any party is in default in performing its obligation, the security payment of the defaulting party shall be forfeited by Morigin. The security payment paid by Yunsheng shall also be used to settle any loss and damage that Morigin or the Company may suffer due to any undisclosed contingent liabilities of Morigin (which shall be assumed by Yunsheng pursuant to the Framework Agreement), and all or the balance thereof (as appropriate) shall be refunded to Yunsheng with interest on 31 May 2016.

## **YARN PROCUREMENT AGREEMENT DATED 20 JUNE 2013**

Pursuant to the Framework Agreement, Texhong China entered into the Yarn Procurement Agreement with Morigin on 20 June 2013 for the procurement of yarn.

### **Payment of Consideration**

The Consideration of RMB339.24 million for the procurement of yarn shall be payable by Texhong China to Morigin by way of prepayments in the following manner:

- (1) RMB305.32 million, being 90% of the Consideration, with RMB245.32 million by a commercial acceptance bill (which shall be exchanged with a bank's acceptance bill with the same amount within five business days after completion of the necessary procedures regarding the increase of the registered capital of Morigin) and RMB60 million by a bank's acceptance bill both drawn in favour of Morigin (both bank's acceptance bills mentioned above shall be further endorsed by Morigin for the benefit of Yunsheng pursuant to the Framework Agreement), have been placed at a safety box jointly opened by the designated persons of Yunsheng and the Company upon signing

of the Yarn Procurement Agreement. Within five business days after the Completion Date, the above acceptance bills shall be released to Yunsheng for part repayment of the outstanding shareholder's loan; and

- (2) RMB33.92 million, being the balance of the Consideration, by a bank's acceptance bill drawn in favour of Morigin (which shall be further endorsed by Morigin for the benefit of Yunsheng pursuant to the Framework Agreement). Under the Framework Agreement, such bank's acceptance bill shall be delivered by Texhong China to Morigin within five business days after the Completion Date, and shall be delivered by Morigin to Yunsheng for repayment of the balance of the outstanding shareholder's loan.

### **Termination of the Yarn Procurement Agreement**

The Group shall have the right to terminate the Yarn Procurement Agreement if (i) the Completion could not take place within 180 days after signing of the Framework Agreement; (ii) the administration bureau imposes any major restrictive condition regarding the transfer of the equity interest of Morigin; or (iii) occurrence of any force majeure event by the Company which renders it incapable to implement the Transaction. In such event, the Group shall have the rights to terminate the Framework Agreement, the Yarn Procurement Agreement and the Equity Transfer Agreement and any commercial acceptance bill or bank's acceptance bill delivered to Morigin or any deposit agent shall be returned to the Group.

### **EQUITY TRANSFER AGREEMENT**

Pursuant to the Framework Agreement, the Vendors and Texhong Shandong shall enter into the Equity Transfer Agreement on the date on which the necessary registration procedures regarding the increase in registered capital of Morigin are completed and the revised business licence of Morigin is obtained, whereby each of the Vendors shall transfer their respective equity interest in Morigin to Texhong Shandong at the consideration of RMB1, which shall be paid by Texhong Shandong in cash at Completion. Upon Completion, Morigin will become an indirect wholly owned subsidiary of the Company.

### **INFORMATION OF THE VENDORS AND MORIGIN**

The Vendors are investment holding companies.

Morigin is situated in Shandong Province, the PRC and is a sino-foreign equity joint venture enterprise established on 1 May 2004 under the laws of the PRC with a registered capital of RMB457 million. As at the date of this announcement, Morigin is owned by Yunsheng, Hui Yuan (Hong Kong) Company Limited and Bondex Investment Limited as to 50%, 45% and 5%, respectively. Immediately after increase of the registered capital of Morigin as contemplated under the Framework Agreement, it is expected that Morigin will be owned by Yunsheng, Hui Yuan (Hong Kong) Company Limited and Bondex Investment Limited as to 67.3%, 29.4% and 3.3%, respectively.

The principal business of Morigin is manufacture and sales of yarn. It has a yarn factory located at Jining City, Shandong, the PRC with about 240,000 spindles producing cotton yarn. Based on the audited accounts of Morigin for the year ended 31 December 2012, the net asset value of Morigin was approximately RMB193.89 million as at 31 December 2012.

Based on the same audited accounts, the net loss before and after tax of Morigin for the year ended 31 December 2011 amounted to RMB77.12 million, and the net loss before and after tax of Morigin for the year ended 31 December 2012 amounted to RMB111.28 million.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendors, Morigin and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Group is principally engaged in the manufacture and sale of yarns, grey fabrics and garment fabrics.

Sales volume of the yarn products of the Group for the five months ended 31 May 2013 have continued to be stable since the second half of 2012. For the five months ended 31 May 2013, the Group had already sold about 96,500 tonnes of yarns. The Directors believe that the demand for the Group's yarn products in the near future will remain strong, and therefore it is necessary for the Group to increase its production capacity by acquisition and/or construction of production facilities. The Directors believe that comparing with construction of new production facilities, the Transaction could allow the Group to increase its production capacity in a shorter period of time, and the Directors believe that Morigin will turnaround from its loss-making position to profit-making within a short period of time after the Group has obtained its control as the production facilities of Morigin will be better utilised to meet the orders of the Group. The production facilities of Morigin will be mainly used by the Group for production of synthetic fiber yarns. The Board believes that the Transaction is in line with the goal of the Group to sustain a high growth rate in profit and turnover through expansion of production capacity, thereby reinforcing the competitiveness and leading position within the industry.

The Directors (including the independent non-executive Directors) consider that the terms of the Transaction are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATION**

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules.

## DEFINITIONS

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

“Board”	board of Directors
“Company”	Texhong Textile Group Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the main board of the Stock Exchange
“Completion”	the completion of the change of business registration of Morigin in respect of the transfer of the entire equity interest from the Vendors to Texhong Shandong
“Completion Date”	the date of Completion
“Consideration”	the prepayment of RMB339.24 million payable by Texhong China for its purchase of yarn under the Yarn Procurement Agreement
“Directors”	the directors of the Company
“Equity Transfer Agreement”	an equity transfer agreement to be entered into between the Vendors and Texhong Shandong at Completion in relation to the transfer of the entire equity interest of Morigin from the Vendors to Texhong Shandong
“Framework Agreement”	a framework agreement dated 20 June 2013 entered into between Yunsheng, Hui Yuan (Hong Kong) Company Limited, the Company and Morigin in relation to the Transaction
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Morigin”	Shandong Morigin Textile Factory Co., Ltd., a sino-foreign joint venture established in the PRC, the entire issued capital of which is owned by the Vendors
“PRC”	the People’s Republic of China
“Record Date”	31 May 2013
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Texhong China”	Texhong (China) Investment Co., Ltd., a limited liability company established in the PRC which is a wholly-owned subsidiary of the Company
“Texhong Shandong”	Texhong Shandong Investment (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Transaction”	the acquisition of the entire equity interest of Morigin and the arrangement for the repayment of shareholders’ loan due by Morigin to Yunsheng as contemplated under the Framework Agreement, the Yarn Procurement Agreement and the Equity Transfer Agreement
“Vendors”	Yunsheng, Hui Yuan (Hong Kong) Company Limited, and Bondex Investment Limited
“Yarn Procurement Agreement”	the yarn procurement agreement dated 20 June 2013 and entered into between Morigin and Texhong China in relation to the procurement of yarn by Texhong China
“Yunsheng”	Yunsheng Holdings Group Co., Ltd., being one of the Vendors
“%”	per cent.

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:*

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

By order of the Board  
**Texhong Textile Group Limited**  
**Hong Tianzhu**  
*Chairman*

Hong Kong, 20 June 2013