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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
ACQUISITION OF EQUITY INTERESTS AND
LOANS IN JOINT VENTURE

On 13 October 2015, Texhong Western, an indirect wholly owned subsidiary of the Company, entered into the following agreements with Texhong Xinjiang and Yihua Ventures in relation to the Acquisition:

- (i) the S&P Agreement in relation to the acquisition of an aggregate of 40% equity interests in the Project Company at an aggregate Equity Interests Consideration of RMB1,600,000; and
- (ii) the Supplemental Agreement in relation to the acquisition of the Loans at an aggregate Loans Consideration of RMB39,280,000.

Mr. Hong is indirectly interested in the entire issued share capital of Texhong Xinjiang. Mr. Zhu is indirectly interested in the entire issued share capital of Yihua Ventures. As both Mr. Hong and Mr. Zhu are executive Directors, Texhong Xinjiang and Yihua Ventures are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the S&P Agreement and the Supplemental Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the aggregate Consideration under the S&P Agreement and the Supplemental Agreement exceed 0.1% but are less than 5%, the S&P Agreement and the Supplemental Agreement constitute a connected transaction of the Company which is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the June Announcement and the August Announcement.

On 13 October 2015, Texhong Western, an indirect wholly owned subsidiary of the Company, entered into the S&P Agreement and the Supplemental Agreement with Texhong Xinjiang and Yihua Ventures in relation to the Acquisition.

PRINCIPAL TERMS OF THE S&P AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

Summarised below are the principal terms of the S&P Agreement and the Supplemental Agreement.

Date: 13 October 2015

Parties:

Vendors: Texhong Xinjiang
Yihua Ventures

Purchaser: Texhong Western, an indirect wholly owned subsidiary of the Company

Assets to be acquired

Pursuant to the S&P Agreement, Texhong Western has agreed to purchase 32% and 8% of the equity interests in the Project Company held by Texhong Xinjiang and Yihua Ventures, respectively.

Pursuant to the Supplemental Agreement, Texhong Western has agreed to acquire the Loans in the amount of RMB31,424,000 and RMB7,856,000 owed by the Project Company to Texhong Xinjiang and Yihua Ventures, respectively.

Consideration

The aggregate Consideration for the Acquisition is RMB40,880,000 which comprises of:

- (i) the Equity Interests Consideration of RMB1,600,000, including RMB1,280,000 and RMB320,000 for the 32% and 8% equity interests in the Project Company respectively, which shall be payable by Texhong Western to the Vendors within six months upon completion of approval of the S&P Agreement by and necessary filings with the relevant government authorities and obtaining of a new business licence by the Project Company under the S&P Agreement, and
- (ii) the Loans Consideration of RMB39,280,000, including RMB31,424,000 and RMB7,856,000 for the Loans on a dollar-to-dollar basis respectively, which shall be payable by Texhong Western to the Project Company for its repayment to the Vendors at the time of necessary filings with the relevant government authorities for the equity transfer under the Supplemental Agreement.

The Consideration was determined after arm's length negotiations between Texhong Western and the Vendors with reference to the then paid-up capital of the Project Company and the nominal amount of the Loans. The Consideration will be funded by internal resources of the Group.

The original costs contributed by the Vendors for the 40% equity interests of the Project Company and the Loans to be transferred by the Vendors to Texhong Western amounted to RMB40,880,000, which equal to the Consideration.

INFORMATION ON THE PROJECT COMPANY

The Project Company is a joint venture established in the PRC on 20 January 2014, which, immediately before completion of the Acquisition, is owned by Texhong Western, Texhong Xinjiang, Yihua Ventures and Huixin Global for the purpose of establishment of yarn production bases in Xinjiang, the PRC. As at the date of this announcement, the registered capital of the Project Company is RMB20,000,000. Based on the audited accounts of the Project Company for the year ended 31 December 2014, the net book value of the Project Company is RMB1,997,654. The net loss (both before and after taxation and extraordinary items) attributable to the Project Company for the year ended 31 December 2014 amounted to approximately RMB2,346.

In addition, Mr. Hong will transfer all of his indirect interest in Huixin Global to not less than 20 key employees of the Group, including Mr. Tang Daoping (an executive Director) for incentive purpose. All of the above key employees, other than Mr. Tang Daoping and certain key employees who are directors of certain subsidiaries of the Company, are third parties independent of the Company and its connected persons.

Upon completion of the Acquisition, the Project Company will be held as to 90% and 10% by Texhong Western and Huixin Global respectively, and the Project Company will become an indirect non-wholly owned subsidiary of the Company and its financial results will be consolidated into the accounts of the Company.

INFORMATION ON THE GROUP AND THE VENDORS

The Group is engaged primarily in the manufacturing and sale of yarn, grey fabrics and garment fabrics.

Texhong Xinjiang is a company incorporated in Hong Kong with limited liability which is wholly owned by Mr. Hong. Texhong Xinjiang is principally engaged in investment holding.

Yihua Ventures is a company incorporated in Hong Kong with limited liability which is wholly owned by Mr. Zhu. Yihua Ventures is principally engaged in investment holding.

REASONS FOR, AND BENEFITS OF, THE ACQUISITION

The Project has been scaled down from the initial plan to construct a total of 3,000,000 spindles in different locations in Xinjiang, the PRC by phases to a total of 1,000,000 spindles while it could still obtain the favourable policy supports from municipal governments as mentioned in the June Announcement. As at the date of this announcement, the construction of 450,000 spindles has commenced, while the remaining target of 550,000

spindles will be implemented in accordance with the then cash flow and financing capacity of the Project Company. After the Project being scaled down, the Board considered that the Group has the capacity to increase its control in the Project while the Group is still able to comply with the requirements under the financial covenants of its other borrowings and finance leases based on the internal financial projection. By obtaining a majority stake in the Project Company through the Acquisition, the Group will be able to exercise substantial control over the management of, and enjoy financial benefits from, the Project Company. The Directors believe that the acquisition of greater control of the Project Company can facilitate the decision making process and therefore enhance the operation efficiency and synergies between the Company and the Project Company.

In addition, taking up the Project by the Group itself will also lower the financing cost and allow the Project Company to have more financing options. For instance, under the initial plan whereby the Project Company is not a subsidiary of the Company, purchase of major equipments by the Project Company could only be financed by finance lease while under the current plan, financing could be arranged by way of project financing and various banking facilities with guarantee to be provided by the Company which is of a much lower interest rate than finance lease.

The Directors (including the independent non-executive Directors) are satisfied that the terms of the S&P Agreement and the Supplemental Agreement had been arrived upon arm's length negotiations among the parties, are on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Group and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Hong is indirectly interested in the entire issued share capital of Texhong Xinjiang. Mr. Zhu is indirectly interested in the entire issued share capital of Yihua Ventures. As both Mr. Hong and Mr. Zhu are executive Directors, Texhong Xinjiang and Yihua Ventures are connected persons of the Company under the Listing Rules, therefore the transaction contemplated under the S&P Agreement and the Supplemental Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the aggregate Consideration under the S&P Agreement and the Supplemental Agreement exceed 0.1% but are less than 5%, the S&P Agreement and the Supplemental Agreement constitute a connected transaction of the Company which is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Hong and Mr. Zhu had a material interest in the transaction contemplated under the S&P Agreement and the Supplemental Agreement and they have abstained from voting on the resolutions in relation to the S&P Agreement and the Supplemental Agreement proposed to the Board. As Mr. Tang Daoping is also interested in the Project Company by virtue of his indirect interest in Huixin Global, he has also abstained from voting on the above resolutions.

DEFINITIONS

Unless the context otherwise requires, the following terms shall have the meanings set out below:

“Acquisition”	the Equity Interests Acquisition and the Loans Acquisition
“August Announcement”	the announcement of the Company dated 6 August 2015
“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
“Consideration”	the Equity Interests Consideration and the Loans Consideration
“Directors”	the directors of the Company
“Equity Interests Acquisition”	the acquisition by Texhong Western and the disposal by the Vendors of an aggregate of 40% equity interests in the registered capital of the Project Company pursuant to the S&P Agreement
“Equity Interests Consideration”	RMB1,600,000, being the consideration for the Equity Interests Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huixin Global”	Huixin Global (Hong Kong) Limited (匯新環球(香港)有限公司), a company incorporated in Hong Kong with limited liability and is one of the shareholders of the Project Company
“June Announcement”	the announcement of the Company dated 2 June 2015
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loans”	loans in the amount of RMB31,424,000 and RMB7,856,000 owed by the Project Company to Texhong Xinjiang and Yihua Ventures respectively

“Loans Acquisition”	the acquisition by Texhong Western and the disposal by the Vendors of the Loans pursuant to the Supplemental Agreement
“Loans Consideration”	RMB39,280,000 being the consideration for the Loans Acquisition
“Mr. Hong”	Mr. Hong Tianzhu, the chairman of the Company and an executive Director
“Mr. Zhu”	Mr. Zhu Yongxiang, an executive Director
“PRC”	the People’s Republic of China
“Project”	the establishment of yarn production bases in Xinjiang
“Project Company”	上海虹慧投資管理有限公司, a PRC sino-foreign joint venture enterprise established in the PRC on 20 January 2014
“RMB”	Renminbi, the lawful currency in the PRC
“S&P Agreement”	the agreement in relation to the Equity Interests Acquisition dated 13 October 2015 entered into between the Vendors and Texhong Western
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the S&P Agreement in relation to the Loans Acquisition dated 13 October 2015 entered into between the Vendors and Texhong Western
“Texhong Western”	Texhong Western Investment (Hong Kong) Limited (天虹西部投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company
“Texhong Xinjiang”	Texhong Xinjiang Holdings Limited (天虹新疆控股有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by Mr. Hong
“Vendors”	Texhong Xinjiang and Yihua Ventures

“Yihua Ventures”

Yihua Ventures (Hong Kong) Limited (益華創投(香港)有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by Mr. Zhu

“%”

per cent.

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

Hong Kong, 13 October 2015

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