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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
INVESTMENT IN A KNIT FABRIC GROUP
AND
COOPERATION IN CONNECTION WITH
THE GROUP'S ESTABLISHMENT OF
NEW KNIT FABRIC FACTORIES IN VIETNAM**

On 24 December 2015, the Company entered into the Framework Agreement with Hang Chi, Ms. Lo and Mr. Shiu in relation to (i) the proposed investment by the Group in Hang Chi, the holding company of the Wah Fung Group which is principally engaged in the knit fabric business in Hong Kong and the PRC by way of Subscription of such number of new shares in Hang Chi representing 49% (subject to adjustment) of the enlarged issued share capital of Hang Chi; and (ii) the proposed cooperation among the parties in respect of the Group's establishment of new knit fabric factories in Vietnam.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Transactions, on an aggregated basis, exceed 5% but are less than 25%, the Framework Agreement constitutes a discloseable transaction of the Company which is subject to the announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

On 24 December 2015, the Company entered into the Framework Agreement with Hang Chi, Ms. Lo and Mr. Shiu in relation to the Transactions.

PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT

Summarised below are the principal terms of the Framework Agreement.

Date

24 December 2015

Parties

- (i) the Company;
- (ii) Hang Chi; and
- (iii) Ms. Lo and Mr. Shiu.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Hang Chi and/or its ultimate beneficial owner, Ms. Lo and Mr. Shiu are third parties independent of the Company and its connected persons.

Investment and further cooperation in the Wah Fung Group

Pursuant to the Framework Agreement, the Company shall, by itself or through its subsidiary, invest in the Wah Fung Group by way of Subscription in cash of the Subscription Shares, being such number of new shares in the share capital of Hang Chi representing 49% (subject to adjustment) of the total issued share capital of Hang Chi as enlarged by the Subscription at the maximum Subscription Price of HK\$40,000,000. Hang Chi is a company incorporated in Hong Kong and, based on information provided by Hang Chi and to the best knowledge, information and belief of the Directors having made all reasonable enquiry, Hang Chi is the holding company of the Wah Fung Group which is principally engaged in the knit fabric business in Hong Kong and the PRC.

The aggregate subscription price (the “**Subscription Price**”) for the Subscription Shares shall be determined by reference to the consolidated net asset value of the Wah Fung Group as at 31 December 2015 as stated in the consolidated financial statements of the Wah Fung Group to be audited by an international firm of accountants as agreed among the parties and after certain adjustments in relation to certain assets and liabilities of the Wah Fung Group (the “**Pre-Closing Adjustments**”), subject to the maximum Subscription Price of HK\$40,000,000 and shall be determined by the following formula:

$$\text{ISP} = (\text{ANAV}/51\%) - \text{ANAV}$$

Whereas:

ISP means the Subscription Price, subject to the maximum of HK\$40,000,000;

ANAV means the adjusted consolidated net asset value of the Wah Fung Group as at 31 December 2015.

The Group shall, within five Business Days after signing of the Framework Agreement, pay to Hang Chi a deposit for the sum of HK\$20,000,000 which shall be applied towards part or full payment of the Subscription Price upon Completion. If the Subscription Price exceeds HK\$20,000,000, the Group shall pay the balance to Hang Chi on Completion. If the Subscription Price is lower than HK\$20,000,000, Hang Chi shall return the balance of the deposit to the Group within three days upon determination of the Subscription Price. If the Group, Hang Chi, Ms. Lo and Mr. Shiu fail to enter into the Formal Agreement within six months after signing of the Framework Agreement or a date as mutually agreed by all

parties, whichever is later, Hang Chi shall unconditionally return the entire deposit of HK\$20,000,000 to the Group within five business days upon receipt of written notice by the Group.

In addition, if Completion takes place on or before 30 September 2016 and the accounts receivables and other receivables, inventories and other assets of the Wah Fung Group as at 31 December 2015 (as adjusted by the Pre-Closing Adjustments) are not fully recovered, not used or (as the case may be) not realised at their respective book values in full as at 30 September 2016, the respective book values of these unrecovered, unused or unrealised assets as at 31 December 2015, and thus the Subscription Price, shall deem to have been downward adjusted (the “**Post-Closing Adjustments**”), and Ms. Lo and Mr. Shiu shall compensate the Group in full by paying the Group a sum equivalent to the Post-Closing Adjustments before 31 December 2018, provided that, should there be any shortfall (the “**Shortfall**”) in payment of such compensation, the Group shall have the right to request Ms. Lo, Mr. Shiu and Hang Chi to take either of the following remedial actions by written request:

- (i) Hang Chi shall, and Ms. Lo and Mr. Shiu shall procure Hang Chi to, allot and issue such number of shares in Hang Chi, credited as fully paid, to the Group and/or person(s) nominated by the Group for the Shortfall so that the percentage of shares in Hang Chi held by the Group and/or person(s) nominated by the Group shall represent the quotient of (i) the Subscription Price as divided by (ii) the aggregate of the Subscription Price, the Monetary Compensation and the audited consolidated net asset value of the Wah Fung Group as at 31 December 2015 as adjusted by the Pre-Closing Adjustments (in any case the audited consolidated net asset value after Pre-Closing Adjustments is subject to the maximum of HK\$41,632,653) and Post-Closing Adjustments (the “**Post-Closing Formula**”); or
- (ii) Hang Chi shall, and Ms. Lo and Mr. Shiu shall procure Hang Chi to, repurchase such number of shares in Hang Chi held by Ms. Lo and Mr. Shiu so that the percentage of shares in Hang Chi held by the Group shall equal to that as determined by the Post-Closing Formula, at the nominal consideration of HK\$1;

provided that, if, by allotment and issue of new Hang Chi shares pursuant to (i) above, the enlarged issued share capital of Hang Chi will exceed 100 times of the then issued share capital of Hang Chi, then, in lieu of allotment and issue of new shares, each of Ms. Lo and Mr. Shiu shall, within five Business Days after written request by the Group, transfer all of her/his respective shares in Hang Chi to the Group at the nominal consideration of HK\$1.

Under the Framework Agreement, the parties agreed that the Group will become the major yarn supplier of the Wah Fung Group after Completion, and will grant a credit period of 90 days to the Wah Fung Group for such supplies. Ms. Lo and Mr. Shiu will charge their respective interests in the share capital of Hang Chi in favour of the Group as security for the payment obligations in respect of such supply of yarn. The Group will also use its best endeavours to assist the Wah Fung Group in, among others, the supply of yarns, product development, expansion of market, investment and financing. On the other hand, Ms. Lo and Mr. Shiu shall procure the Wah Fung Group to participate in the product design and development for the related upstream and downstream products with a view to achieve a vertical integration and to bring synergy between the Group and the Wah Fung Group.

Under the Framework Agreement, Ms. Lo and Mr. Shiu have undertaken that they will, and will procure their close associates not to, invest or participate in the operation of any textile business (other than the Wah Fung Group) after Completion.

Establishment of new knit fabric factories in Vietnam

Pursuant to the Framework Agreement, the Group shall form the Project Company as the Company's wholly-owned subsidiary in Hong Kong, which will in turn establish a wholly-owned subsidiary in Vietnam. The Project Company will be an investment holding company whose subsidiaries will be principally engaged in the establishment of new knit fabric factories in Texhong Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam. It is expected that the total investment by the Company in the Vietnam Group shall not exceed US\$60,000,000, which shall be made by subscription of shares or provision of shareholder's loan by the Group.

Under the Framework Agreement, Hang Chi, Ms. Lo and Mr. Shiu have agreed to provide the business supporting services to the Vietnam Group. In particular, they shall use their best endeavours to provide assistances and supports services to the daily operation and production of the Vietnam Group under the name of the Wah Fung Group. Ms. Lo and Mr. Shiu shall also procure the Wah Fung Group to grant to the Vietnam Group a licence for the use of its intellectual property, including but not limited to trademarks and patents, at nil consideration.

In consideration and in exchange for the services to be provided by Hang Chi, Ms. Lo and Mr. Shiu as aforesaid, the Group shall procure the Project Company to allot and issue, credited as fully paid, to Ms. Lo and Mr. Shiu jointly such number of shares (the "**Consideration Shares**") which will be calculated based on the following formula:

$$PCSP = [(RE \times 15\%) / PCSC] \times 100\%$$

Whereas:

PCSP means the percentage of Consideration Shares to the total issued share capital of the Project Company as enlarged by the Subscription, subject to the maximum of 15% and downward adjustment so that no fraction shares in the Project Company will be allotted and issued;

RE means the US\$ equivalent of the latest audited consolidated distributable retained earnings of the Vietnam Group as showed in the latest audited consolidated financial statements of the Vietnam Group immediately prior to the date of the Consideration Shares Allotment Date (as defined below); and

PCSC means the US\$ equivalent of the aggregate amount of investment by the Group to the Vietnam Group by way of subscription of shares in the Project Company

The "**Consideration Shares Allotment Date**" mean the fifth Business Day after the date of issue of the audited consolidated financial statements of the Vietnam Group for the financial year ending 31 December 2020, provided that, if the PCSP will be not less than 15% based on the audited consolidated financial statements of the Vietnam Group for any financial year

prior to the financial year ending 31 December 2020, then the “**Consideration Shares Allotment Date**” shall mean the fifth Business Day after the date of issue of the audited consolidated financial statements of the Vietnam Group for that financial year.

Funding

The Subscription Price was determined after arm’s length negotiation between the Group, Ms. Lo and Mr. Shiu having taken into account the net asset value of the Wah Fung Group. The total investment to be made by the Group in the Project Company is determined based on the Group’s assessment for the initial capital requirement of the Vietnam Group.

It is contemplated that the Subscription Price and the investment amount for the investment in the Vietnam Group to be provided by the Group will be funded by the Group’s internal resources and external financing if necessary.

Conditions precedent

The Completion is conditional upon, among other things:

- (i) the technical, financial and legal due diligence review in respect of the Transactions having been completed to the satisfaction of the Company;
- (ii) the approval by the Board and (if required) shareholders of the Company having been obtained; and
- (iii) the Formal Agreement having been entered into based on the principles of the Framework Agreement.

Termination of the Framework Agreement

The Framework Agreement shall be terminated upon the occurrence of the following events (whichever is the earlier):

- (i) if the Formal Agreement is not entered into within six months from the date of the Framework Agreement or a date as mutually agreed by all parties, whichever is later;
- (ii) if the parties to the Framework Agreement mutually agree to terminate the Framework Agreement in writing; or
- (iii) if there is any breach of the Framework Agreement by a party and the breach is not remedied within 60 days upon request by the non-defaulting party, the non-defaulting party may serve a written notice to terminate the Framework Agreement.

INFORMATION ON THE GROUP

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

REASONS FOR, AND BENEFITS OF, THE FRAMEWORK AGREEMENT

The Wah Fung Group is principally engaged in the knit fabric business in Hong Kong and the PRC which possesses both experienced personnel and assets relevant to knit fabric business. Through investment in the Wah Fung Group, the Group will involve in its daily operation and management. Further, relying on the experience and assets owned by Hang Chi, Ms. Lo and Mr. Shiu, the Group will be able to expand into the knit fabric business in Vietnam through the cooperation in the Vietnam Group. This will help further strengthen the product portfolio and boost the revenue of the Group.

Based on the consolidated audited accounts of Hang Chi for the year ended 31 December 2014, the net asset value of Hang Chi was approximately HK\$382,970,350 as at 31 December 2014. Based on the same consolidated audited accounts, the net profit (before taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2013 amounted to HK\$74,435,074 and the net loss (before taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2014 amounted to HK\$8,618,482, while the net profits (after taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2013 amounted to HK\$74,972,427 and the net loss (after taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2014 amounted to HK\$7,518,279.

The Directors (including the independent non-executive Directors) are satisfied that the terms of the Framework Agreement had been arrived upon arm's length negotiations between 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 the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the capital contribution to be provided by the Group for the Wah Fung Group and the Project Company under the Framework Agreement exceed 5% but are less than 25%, the Framework Agreement constitutes a discloseable transaction of the Company which is subject to the announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors
“Business Day(s)”	business day(s) in Hong Kong
“close associate(s)”	has the same meaning ascribed thereto under the Listing Rules

“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
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Framework Agreement and the Formal Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Formal Agreements”	the formal agreements to be entered into between the Company, Hang Chi, Ms. Lo and/or Mr. Shiu in connection with the Transactions based on the principles of the Framework Agreement
“Group”	the Company and its subsidiaries
“Hang Chi”	Hang Chi Enterprise Company, Limited (恒志企業有限公司), a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is owned as to 80% by Ms. Lo and 20% by Mr. Shiu
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Shiu”	Mr. Shiu King Wah
“Ms. Lo”	Ms. Lo Mo Ching
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, The Macau Special Administrative Region and Taiwan
“Project Company”	a company to be incorporated in the British Virgin Islands for the establishment of new knitting factories in Texhong Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam pursuant to the Framework Agreement
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscription”	the subscription of such number of the Subscription Shares by the Group on and subject to the terms and conditions of the Framework Agreement
“Subscription Shares”	such number of new shares in the share capital of Hang Chi representing 49% of the total issued share capital of Hang Chi as enlarged by the Subscription, subject however to adjustments as more particularly referred to in the paragraph headed “Principal terms of the Framework Agreement” in this announcement
“Transactions”	the investment in the Wah Fung Group and the cooperation in connection with the establishment by the Group of new knitting factories in Vietnam on and subject to the terms and conditions of the Framework Agreement
“US\$”	United States dollars, the lawful currency of the United States
“Vietnam Group”	the Project Company and its subsidiaries
“Wah Fung Group”	Hang Chi and its subsidiaries
“%”	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. Hui Tsz Wai
Mr. Ji Zhongliang

Independent non-executive directors:

Prof. Tao Xiaoming
Prof. Cheng Longdi
Mr. Ting Leung Huel, Stephen

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

Hong Kong, 24 December 2015