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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 EQUITY INTEREST AND ASSETS IN VARIOUS COUNTRIES**

On 16 March 2017, the Company entered into the Acquisition Agreement with the Vendor for the acquisition of the Target Assets which comprise of, among others, equity interest in the Target Group Companies which are principally engaged in the manufacture and sale of jeans wear, the relevant land, properties and other assets and key employees associated with the business of the Target Group Companies.

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under Acquisition Agreement are more than 5% but less than 25%, the entering into of the Acquisition Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## **THE ACQUISITION AGREEMENT DATED 16 MARCH 2017**

### **Parties**

Purchaser: The Company

Vendor: Nien Hsing Textile Co., Ltd.

The Vendor and its subsidiaries are principally engaged in the manufacture and sale of jeans wear and denim fabric and the shares of the Vendor are listed on the Taiwan Stock Exchange.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

### **Assets to be acquired**

Pursuant to the Acquisition Agreement, the Vendor shall or shall procure to sell, and the Company shall acquire or shall procure to acquire the Target Assets.

## **Consideration**

The aggregate Consideration for the Acquisition was approximately US\$53.65 million (subject to adjustment as set out in the paragraph headed “Adjustment of Consideration” below) which shall be payable by the Company in the following manner:

- (1) approximately 30.0% of the Consideration (equivalent to approximately US\$16.09 million) shall be paid to the Vendor on the first business day after the signing of the Acquisition Agreement;
- (2) approximately 30.3% of the Consideration (equivalent to approximately US\$16.25 million) shall be paid to the Vendor on the Completion Date;
- (3) approximately 34.0% of the Consideration (equivalent to approximately US\$18.26 million) shall be placed in an escrow account on the Completion Date and shall be released to the Vendor in five instalments within five business days upon the completion of the transfer procedures for each of the Target Companies; and
- (4) approximately 5.7% of the Consideration (subject to the adjustment set out in the paragraph headed “Adjustment of Consideration” below) shall be paid to the Vendor on the date falling eight months from the Completion Date.

The Consideration was determined after arm-length’s negotiations between the Company and the Vendor with reference to the book value of the Target Assets as shown in the Management Account.

The Consideration will be settled by the internal resources and external financing of the Group.

## **Adjustment of Consideration**

After the signing of the Acquisition Agreement, the Vendor shall prepare the Completion Account in accordance with the International Financial Reporting Standards. The Consideration shall be adjusted upward or downward by an amount equivalent to the difference in the book value of net assets of the Target Assets as shown in the Completion Account as compared with the Management Account attributable to the profit (or loss) after tax generated from or incurred by the ordinary and usual course of business of the Target Group Companies.

## **Completion**

Completion of the Acquisition Agreement is not conditional upon the fulfillment of any conditions precedent and shall take place on 1 May 2017 or such other date as shall be agreed between the parties in writing.

## **INFORMATION OF THE TARGET ASSETS**

Set out below are the information of the Target Group Companies:

### **(1) Nien Hsing Garment (Vietnam) Co., Ltd.**

Nien Hsing Garment (Vietnam) Co., Ltd. is a limited company incorporated in Vietnam on 15 March 2007 having a charter capital and investment capital of US\$19,000,000 which is wholly and beneficially owned by the Vendor. Nien Hsing Garment (Vietnam) Co., Ltd. is principally engaged in the manufacture of jeans wear.

### **(2) Chu Hsing Garment (Cambodia) Co., Ltd.**

Chu Hsing Garment (Cambodia) Co., Ltd. is a limited company incorporated in Cambodia on 22 August 1996 having a registered capital of US\$14,000,000 which is wholly and beneficially owned by the Vendor. Chu Hsing Garment (Cambodia) Co., Ltd. is principally engaged in the manufacture of jeans wear.

### **(3) C Square Investment Co., Ltd.**

C Square Investment Co., Ltd. is a limited company incorporated in Samoa on 3 June 2010 having an authorized share capital of US\$15 million and an issued share capital of approximately US\$13.0 million which is wholly and beneficially owned by a wholly-owned subsidiary of the Vendor. C Square Investment Co., Ltd. is an investment holding company.

### **(4) Foster Capital Management Inc.**

Foster Capital Management Inc. is a limited company incorporated in Samoa on 1 April 2010 having an authorized share capital of US\$5 million and an issued share capital of US\$4.8 million which is wholly and beneficially owned by a wholly-owned subsidiary of the Vendor. Foster Capital Management Inc. principally holds certain real property interest of the Target Group Companies.

### **(5) Alpha Textil de Nicaragua, S.A.**

Alpha Textil de Nicaragua, S.A. is a limited company incorporated in Nicaragua on 20 April 2010 having an authorized and paid-in capital of US\$13,500 which is owned as to 99.8% by the Vendor and the remaining 0.2% by two individuals who are Independent Third Parties. Alpha Textil de Nicaragua, S.A. is principally engaged in dyeing of fabrics for leisure clothing.

### **(6) Zona Franca Mateare, S.A.**

Zona Franca Mateare, S.A. is a limited company incorporated in Nicaragua on 8 February 2001 having an authorized and paid-in capital of US\$339 which is owned by three individuals who are Independent Third Parties. Zona Franca Mateare, S.A. is an operational company under the Export Processing Zone Act of Nicaragua.

## **(7) C Square Garment Finishing Co., Ltd.**

C Square Garment Finishing Co., Ltd. is a limited company incorporated in Cambodia having a registered capital of US\$7,500,000 which is wholly owned by C Square Investment Co., Ltd. C Square Garment Finishing Co., Ltd. is principally engaged in provision of laundry and washing processing service for jeans wear.

Upon Completion, the Target Group Companies will become indirect wholly owned subsidiaries of the Company.

Other than the above Target Group Companies, the Vendor shall also procure the transfer of the Target Properties to the Company or as it shall direct.

Under the Acquisition Agreement, the Vendor shall also procure to transfer to the Company or its nominee other assets in association with the operation of the business of the Target Group Companies including among others, inventories, other receivables and intellectual properties.

In addition, the Vendor shall also procure certain key employees to directly or indirectly be engaged by the Target Group Companies or as the Group shall direct.

Based on the Management Account, the net book value of the Target Assets was approximately US\$53.65 million as of 31 December 2016. According to the Management Account, the unaudited consolidated net loss before tax and the unaudited consolidated net loss after tax of the Target Assets for the year ended 31 December 2016 were approximately US\$4.4 million and US\$4.0 million, respectively; and the unaudited consolidated net loss before tax and the unaudited consolidated net loss after tax of the Target Assets for the year ended 31 December 2015 were approximately US\$3.2 million and US\$2.7 million, respectively.

## **RESTRICTIVE COVENANTS**

Pursuant to the Acquisition Agreement, the Vendor undertakes that it shall not, and shall procure its relating parties not to, within three years from the Completion Date, either alone or jointly with or as agent for any person, firm or company directly or indirectly engage, employ or solicit for employment any employees of the Target Group Companies (save and except former employees whose employment with the Target Group Companies had been terminated before the date of signing of the Acquisition Agreement), or solicit any of such employees to terminate their employment with the Target Group Companies.

Pursuant to the Acquisition Agreement, the Company undertakes that it shall not, and shall procure its relating parties not to, within three years from the Completion Date, either alone or jointly with or as agent for any person, firm or company directly or indirectly engage, employ or solicit for employment any employees of the Vendor (save and except former employees whose employment with the Vendor had been terminated before the date of signing of the Acquisition Agreement), or solicit any of such employees to terminate their employment with the Vendor.

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

The Group is principally engaged in the manufacturing and sale of yarn, grey fabrics and garment fabrics as well as garments. It is the Group's intention to expand its development on jeans wear business. Currently, the production capacity of the Group's jeans wear teams and production lines in the PRC and overseas is over eight million pair of jeans per year. With the acquisition of the Target Assets, the Group will be able to capture a mature customer base of jeans wear with international well-known brands and increase its annual production capacity in jeans wear by 17 million pairs of jeans. The Target Group Companies currently have a production team comprising of about 10,000 employees with extensive experience and efficiency in jeans wear production. In addition, the Group could also set its foot in Nicaragua by acquiring the Target Assets, and develop business in the North and Central America market.

It is expected that capital expenditure on the Target Group Companies will amount to approximately US\$25 million for the year ending 31 December 2017, which is on top of the expected capital expenditure on the existing investments of the Group of RMB500 million as announced in the results announcement of the Company for the year ended 31 December 2016.

The Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement and the Consideration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under Acquisition Agreement are more than 5% but less than 25%, the entering into of the Acquisition Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## **DEFINITIONS**

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

“Acquisition”	the acquisition of the Target Assets by the Company (or as it shall direct)
“Acquisition Agreement”	a sale and purchase agreement entered into between the Company and the Vendor on 16 March 2017 in relation to the Acquisition
“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”	completion of the Acquisition in accordance with the Acquisition Agreement
“Completion Account”	proforma management account of the Target Assets as of 30 April 2017
“Completion Date”	1 May 2017
“Consideration”	an aggregate consideration of approximately US\$53.65 million (subject to adjustment) for the acquisition of the Target Assets
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	any person or company and their respective ultimate beneficial owner(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Management Account”	proforma management account of the Target Assets as of 31 December 2016
“PRC”	People’s Republic of China
“Shareholder”	shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Assets”	collectively, (i) the entire equity interest in the Target Companies; (ii) the Target Properties; and (iii) key employees and other assets in association with the operation of the business of the Target Group Companies including among others, inventories, other receivables and intellectual properties which are to be acquired by the Company under the Acquisition Agreement
“Target Companies”	collectively, Nien Hsing Garment (Vietnam) Co., Ltd., Chu Hsing Garment (Cambodia) Co., Ltd., C Square Investment Co., Ltd., Foster Capital Management Inc., Alpha Textil de Nicaragua, S.A. and Zona Franca Mateare, S.A.

“Target Group Companies”	the Target Companies and C Square Garment Finishing Co., Ltd., the particulars of the Target Group Companies are set out in the paragraph headed “Information of the Target Assets” in this announcement
“Target Properties”	the land and together with the structures erected thereon which are currently used by Chu Hsing Garment (Cambodia) Co., Ltd. and C Square Garment Finishing Co., Ltd. in Cambodia, as well as an adjacent piece of vacant land
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Nien Hsing Textile Co., Ltd., a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange
“%”	per cent.

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

Hong Kong, 16 March 2017

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