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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 INTEREST IN TEXTILE PRODUCTS
BUSINESS COMPANIES IN THE UNITED STATES AND MEXICO**

THE AGREEMENT

The Board is pleased to announce that on 17 March 2018, the Company entered into the Agreement with the Vendor and Target Company in relation to the acquisition of interest in the Target Group.

On 22 June 2018, the parties entered into the Supplemental Agreement to amend the terms of the Agreement, among which, the Company has granted the Put Option to the Vendor.

IMPLICATIONS UNDER THE LISTING RULES

The Share Transfer does not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

For the reason that the grant of the Put Option under the Supplemental Agreement of which the exercise is not at the Company's discretion, the Put Option is aggregated with the Share Transfer as a single transaction. Further, since the Company intends to exercise the Call Option and the Issue Option on the same date as the Share Transfer Completion, for prudence sake, they are also aggregated with the Share Transfer and the Put Option as a single transaction.

As the applicable percentage ratio (as defined in the Listing Rules) for the Share Transfer, the Call Option, the Issue Option and the Put Option, on an aggregate basis, exceeds 5% but is less than 25%, the transactions contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

THE AGREEMENT

Date

17 March 2018 (as supplemented and amended by the Supplemental Agreement)

Parties

- (1) the Vendor
- (2) the Company
- (3) Target Company

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

Reorganisation

Before the signing of the Agreement, members of the Target Group are directly or indirectly held by the Vendor. In order to rationalize the structure, the Vendor agreed, in accordance with the Agreement, to procure the reorganisation of the Target Group which involved, among others, the steps below:

- (a) incorporation of Vendor Company by the Vendor;
- (b) incorporation of New Holding Co by Vendor Company;
- (c) acquisition of the Target Group by New Holding Co; and
- (d) repayment of all debt due by New Holding Co or Target Group to the Vendor or his associates.

The above reorganisation shall be completed before the Share Transfer Completion.

Subject matter of the Agreement

Pursuant to the Agreement, it was agreed that:

- (a) the Vendor shall procure Vendor Company to sell 47.5% of the issued share capital in New Holding Co to the Company for a consideration of USD8,075,000 payable at Share Transfer Completion and a further consideration of USD562,500 payable within 10 days after the Share Transfer Completion (the "**Share Transfer**");
- (b) the Company shall have the right to request the Vendor to procure Vendor Company to sell 8.75% of its shareholding in New Holding Co to the Company for a consideration of USD1,487,500 (the "**Call Option**");

- (c) New Holding Co shall grant a share option (the “**Issue Option**”) to the Company whereby the Company shall have the right to request New Holding Co to allot and issue new shares to the Company at the exercise price of USD4,250,000 such that the Company would hold 65% shareholding in New Holding Co upon the transfer of interest in (a) above and the exercise of the Call Option and the Issue Option; and
- (d) During the period between the third to the fifth year after the date of the Agreement, the Vendor may request the Company to purchase all of his interest in New Holding Co (the “**Put Option**”), and the Company may also request the Vendor to sell all of the Vendor’s interest in New Holding Co, at the consideration of 6.5 times of the then average audited profit after tax of the Target Group for the last three financial years immediately before the exercise of the Put Option multiplied by the then percentage of interest of the Vendor in New Holding Co.

The above consideration was determined after arm’s length negotiations between the Company and the Vendor on normal commercial terms principally with reference to an agreed multiple to the average adjusted profit-after-tax of the Target Group from the financial years of 2015 to 2017.

Completion

The Share Transfer Completion shall take place on or before 1 July 2018 after completion of the reorganisation as disclosed in the paragraph headed “Reorganisation” above.

The Company intends to exercise the Call Option and the Issue Option on the same date as the Share Transfer Completion.

Management of New Holding Co and the Target Group

After the Share Transfer Completion and exercise of the Call Option and the Issue Option, the board of directors of each of New Holding Co and the Target Group shall comprise of three directors. The Company shall be entitled to nominate two directors and the Vendor shall be entitled to nominate one director.

Term of service of the Vendor

The Vendor shall continue to serve at New Holding Co and the Target Group for at least five years after the Share Transfer Completion, and shall fully assist continuation of business and customer relationships of Target Group.

Non-compete undertaking

Under the Agreement, the Vendor guarantees and warrants that unless with the written consent of the Company, for so long as (i) the Vendor holds any shares in New Holding Co or the Target Group or (ii) within five years after the Share Transfer Completion (whichever longer), the Vendor, his spouse, children and parents, trustees of any trust of which the Vendor and/or his above family members is a beneficiary and any company (other than interests in any publicly listed company of not exceeding 5% and that none of the above persons has been or will be involved in the operation and management of such publicly listed company and/or its business) which the Vendor, his above family members or the

trustees has any direct or indirect interest shall not engage in and shall not cause, appoint other persons to engage in the operation of business of the relevant fabrics and apparels and brand operations operated by the Target Group and will not participate in competing business of New Holding Co or the Target Group.

Right of first refusal

Under the Agreement, if the Vendor (or Vendor Company) or the Company sells any shares in New Holding Co or the Target Group within five years after the signing of the Agreement or any period to be agreed in the shareholder's agreement, the non-selling party shall have the right of first refusal to acquire the shares of the selling party.

Put/call option exercisable between the third and fifth year

During the period between the third to the fifth year after the date of the Agreement, the Vendor may request the Company to purchase all of his interest in New Holding Co (the **"Put Option"**), and the Company may also request the Vendor to sell all of the Vendor's interest in New Holding Co, at the consideration of 6.5 times of the then average audited profit after tax of the Target Group for the last three financial years immediately before the exercise of the Put Option multiplied by the then percentage of interest of the Vendor in New Holding Co.

INFORMATION OF THE NEW HOLDING CO AND THE TARGET GROUP

The New Holding Co is a limited liability company incorporated in the BVI on 16 March 2018 for the purpose of holding the interest in the Target Group. It has no activity other than the holding of the Target Group.

Target Company and Company D are companies incorporated in the United States which are principally engaged in fabrics and apparel sales.

Company A and Company C are companies incorporated in the United States which are principally engaged in holding of intellectual property rights.

Company B is a company incorporated in the United States which is principally engaged in fabrics processing business.

Company E is a company incorporated in the United States which is principally engaged in operating the product sample center of Target Company.

Company F is a company incorporated in Mexico which is principally engaged in the documentation and logistics of fabrics sales of Target Company in Mexico.

Based on the unaudited accounts of the Target Group for the year ended 31 December 2017, the profit before and after tax for the year ended 31 December 2017 was approximately USD3,189,000 and USD2,200,000, respectively and the profit before and after tax for the year ended 31 December 2016 was approximately USD3,814,000 and USD2,632,000, respectively.

The unaudited net asset value of the Target Group as at 31 December 2017 was approximately USD8,314,000.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

The Group is principally engaged in the manufacturing and sales of yarns, fabrics as well as garments.

The Target Group is principally engaged in the sales of textile products in the United States and Mexico and they have competent sales team and solid customer base. Led by the Vendor, who has over 30 years of experience in the textile industry, the Target Group currently has an annual sales of about USD130 million. With the retention of the Vendor in the Target Group, the Board believes that the Target Group will continue its normal operation notwithstanding the acquisition of majority stake by the Group. The Board believes that the Target Group could also supplement the growth of the business in the Americas for products produced at our production bases in Central America and Vietnam.

The terms of the Agreement were determined after arm's length negotiations between the parties thereto and the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The Share Transfer does not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

For the reason that the grant of the Put Option under the Supplemental Agreement of which the exercise is not at the Company's discretion, the Put Option is aggregated with the Share Transfer as a single transaction. Further, since the Company intends to exercise the Call Option and the Issue Option on the same date as the Share Transfer Completion, for prudence sake, they are also aggregated with the Share Transfer and the Put Option as a single transaction.

As the applicable percentage ratio (as defined in the Listing Rules) for the Share Transfer, the Call Option, the Issue Option and the Put Option, on an aggregate basis, exceeds 5% but is less than 25%, the transactions contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Agreement”	the agreement dated 17 March 2018 (as amended and supplemented by the Supplemental Agreement) entered into between the Vendor, the Company and Target Company
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Call Option”	the option granted by the Vendor to the Company as described under the paragraph headed “Subject matter of the Agreement” in this announcement
“Company”	Texhong Textile Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
“Company A”	a company incorporated in the United States which is wholly owned by New Holding Co as at the date of this announcement
“Company B”	a company incorporated in the United States and 100% of its issued shares is held by New Holding Co as at the date of this announcement
“Company C”	a company incorporated in the United States and 100% of its issued shares is owned by New Holding Co as at the date of this announcement
“Company D”	a company incorporated in the United States which is a wholly owned subsidiary of Target Company
“Company E”	a company incorporated in the United States which is wholly owned by New Holding Co as at the date of this announcement
“Company F”	a company incorporated in Mexico which is wholly owned by the Vendor as at the date of this announcement and which shall be transferred to New Holding Co as part of the reorganisation under the Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Issue Option”	the option granted by New Holding Co to the Company as described under the paragraph headed “Subject matter of the Agreement” in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Holding Co”	a company incorporated in the BVI which is the holding company of the Target Group
“PRC”	the People’s Republic of China
“Put Option”	the option granted by the Company to the Vendor as described under the paragraph headed “Subject matter of the Agreement” in this announcement
“Share Transfer”	the transfer of 47.5% of the issued share capital in New Holding Co by Vendor Company to the Company as described under the paragraph headed “Subject matter of the Agreement” in this announcement
“Share Transfer Completion”	completion of the Share Transfer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 22 June 2018 entered into between the Vendor, the Company and Target Company in relation to, among others, the grant of the Put Option
“Target Company”	a company incorporated in the United States with limited liability which is wholly owned by New Holding Co as at the date of this announcement
“Target Group”	collectively, Target Company, Company A, Company B, Company C, Company D, Company E and Company F
“United States”	The United States of America
“USD”	United States Dollars, the lawful currency of the United States
“Vendor”	a natural person holding United States passport

“Vendor Company” a company incorporated in the BVI which is wholly owned by the Vendor

“%” per cent.

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

Hong Kong, 25 June 2018

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