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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
SUBSCRIPTION AND JOINT VENTURE AGREEMENT

Reference is made to the announcement of the Company dated 24 December 2015.

The Board wishes to announce that on 9 May 2016, the Group entered into the Joint Venture Agreement with Ms. Lo, Mr. Shiu and Hang Chi, for the subscription of the Subscription Shares, being 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. Completion of the subscription has immediately taken place upon signing of the Joint Venture Agreement.

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 Transactions constitute discloseable transaction of the Company under Chapter 14 of the Listing Rules.

INTRODUCTION

On 9 May 2016, the Group entered into the Joint Venture Agreement with Ms. Lo, Mr. Shiu and Hang Chi, for the subscription of the Subscription Shares, representing 49% of the total issued share capital of Hang Chi as enlarged by the Subscription. Completion of the subscription has immediately taken place upon signing of the Joint Venture Agreement.

PRINCIPAL TERMS OF THE JOINT VENTURE AGREEMENT

Summarised below are the principal terms of the Joint Venture Agreement.

Date

9 May 2016

Parties

- (i) Huafeng Knitting, a wholly-owned subsidiary of the Company;
- (ii) Ms. Lo;
- (iii) Mr. Shiu; and
- (iv) Hang Chi.

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

(a) Subscription and shareholding structures of the Wah Fung Group

Prior to the Subscription, the entire issued share capital of Hang Chi is owned as to 80% by Ms. Lo and 20% by Mr. Shiu. Hang Chi is the holding company of three wholly-owned subsidiaries in Hong Kong and one wholly-owned subsidiary in the PRC which is principally engaged in the knit fabric business in Hong Kong and the PRC.

Under the Joint Venture Agreement, Huafeng Knitting shall subscribe for the Subscription Shares representing 49% of the total issued share capital of Hang Chi as enlarged by the Subscription at the Subscription Price.

The total Subscription Price shall be HK\$1 which was determined by reference to the consolidated accounts of the Wah Fung Group as at 31 December 2015 after the Pre-Closing Adjustments.

(b) Post-completion Accounts

Subject to Completion, Ms. Lo and Mr. Shiu shall procure Hang Chi to deliver the Post-completion Accounts to the Group on or before 31 December 2016.

(c) Compensation

Ms. Lo and Mr. Shiu shall compensate the Group in cash before 31 December 2018:

- (1) the amount representing 49% of the absolute value of any net negative asset value of the Wah Fung Group as at 31 December 2015 (as adjusted by the Pre-Closing Adjustments); and
- (2) if any, 49% of any difference in the book value of the accounts receivables, inventories and other assets of the Wah Fung Group as at 31 December 2015 (as adjusted by the Pre-Closing Adjustments) when they are compared with their respective positions as at the Post-completion Accounts Date.

Should Ms. Lo or Mr. Shiu fails to fully pay the above compensation to the Group before 31 December 2018, the Group shall have the right to request Ms. Lo and Mr. Shiu to transfer all of her/his respective shares in Hang Chi to the Group at the nominal consideration of HK\$1.

(d) The capital structure and funding of the Wah Fung Group

Upon Completion, the entire issued share capital of Hang Chi shall be owned as to 49% by Huafeng Knitting, 40.8% by Ms. Lo and 10.2% by Mr. Shiu.

Under the Joint Venture Agreement, all costs and liabilities of the Wah Fung Group shall be borne by the Wah Fung Group with its own existing capital and other assets.

In the event that the board of directors of Hang Chi and/or its subsidiaries shall resolve that additional financing will be required by way of external borrowing, the guarantee and/or security shall be provided by:

- (1) Ms. Lo and Mr. Shiu if their then total interest in Hang Chi is at or above 50%;
- (2) all the then shareholders proportionally if the then total interest of Ms. Lo and Mr. Shiu in Hang Chi is at or over 15% but below 50%; or
- (3) all the then shareholders (except Ms. Lo and Mr. Shiu) proportionally if the then total interest of Ms. Lo and Mr. Shiu in Hang Chi is below 15%.

(e) Further cooperation in the Wah Fung Group

Under the Joint Venture Agreement, the parties agreed that the Group shall become the major yarn supplier of the Wah Fung Group after Completion, and shall grant a credit period of 90 days to the Wah Fung Group for such supplies. Ms. Lo and Mr. Shiu have charged 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 by entering into the Deed of Share Charge.

Ms. Lo and Mr. Shiu shall also 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.

(f) Establishment of a new knit fabric manufacturing and dyeing factory in Vietnam

Under the Joint Venture Agreement, the Group shall form the Project Company as the Company's indirect wholly-owned subsidiary in the BVI, which shall in turn establish a wholly-owned subsidiary in Vietnam. The Project Company shall be an investment holding company which subsidiary shall be principally engaged in the establishment of a new knit fabric manufacturing and dyeing factory in Texhong Haiha Industrial Park, Hai Ha District, Quang Ninh Province, Vietnam. The total investment by the Group in the Vietnam Group shall not exceed US\$60,000,000, which shall be made by subscription of shares and/or provision of shareholder's loan by the Group.

In order to facilitate the future business and operations to be carried out by the Vietnam Group, Ms. Lo, Mr. Shiu, Hang Chi and Huafeng Knitting have entered into the Technical Assistance Agreement upon signing of the Joint Venture Agreement.

Under the Technical Assistance Agreement, Ms. Lo and Mr. Shiu shall procure the Wah Fung Group to, and Hang Chi undertakes to, provide technical information and support to the Vietnam Group for manufacture of its products and/or its daily operation as requested by the Project Company from time to time. In addition, Ms. Lo and Mr. Shiu shall also procure the Wah Fung Group, and Hang Chi (for itself and on behalf of the Wah Fung Group) agrees, 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, and the use of the name of the Wah Fung Group in its operation.

In consideration and in exchange for the procurement of the provision of the licence, technical information and support by the Wah Fung Group, the Project Company shall allot and issue, credited as fully paid, to Mr. Shiu, Ms. Lo and her daughter such number of Consideration Shares which shall be calculated based on the following formula:

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

Whereas:

PCSP means the percentage of Consideration Shares to the total issued share capital of the Project Company as enlarged by the subscription of shares in the Project Company, 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 shown 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

(g) Management of the Wah Fung Group

The overall direction, supervision and management of Hang Chi and other members of the Wah Fung Group shall be managed by their respective board of directors.

The boards of directors of the Wah Fung Group from time to time shall each consist of a maximum of three directors. Any shareholder holding 30% or more of the total issued share capital of Hang Chi shall be entitled to nominate one director. If the Group or Ms. Lo and Mr. Shiu (in aggregate) hold 50% or more of the total issued share capital of Hang Chi, it/they shall be entitled to nominate one additional director. The chairman and deputy chairman of the board of directors shall be appointed by the board of directors.

(h) Completion

Completion shall take place upon signing of the Joint Venture Agreement.

INFORMATION ON THE GROUP

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

REASONS FOR AND BENEFITS OF ENTERING INTO THE JOINT VENTURE 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 management accounts of Hang Chi for the year ended 31 December 2015, the net asset value of Hang Chi was approximately HK\$143,613,000 as at 31 December 2015, the net loss (before taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2015 amounted to approximately HK\$239,336,000 and the net loss (after taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2015 amounted to approximately HK\$239,357,000. Based on the consolidated audited accounts of Hang Chi for the year ended 31 December 2014, the net loss (before taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2014 amounted to approximately HK\$6,418,000, while the net loss (after taxation and extraordinary items) attributable to Hang Chi for the year ended 31 December 2014 amounted to approximately HK\$7,518,000.

The Directors (including the independent non-executive Directors) are satisfied that the terms of the Joint Venture 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 Transactions, on an aggregated basis, exceed 5% but are less than 25%, the Transactions constitute discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors
“BVI”	the British Virgin Islands
“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 of the Joint Venture Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration Shares”	new shares of the Project Company which may be allotted and issued to Mr. Shiu, Ms. Lo and her daughter under the Technical Assistance Agreement
“Consideration Shares Allotment Date”	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 value of “PCSP” as derived from the formula under the paragraph headed “(f) Establishment of a new knit fabric manufacturing and dyeing factory in Vietnam” in the section headed “Principal Terms of the Joint Venture Agreement” above is 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

“Deed of Share Charge”	a deed of share charge dated 9 May 2016 entered into between Ms. Lo, Mr. Shiu and Huafeng Knitting for, inter alia, the charge of the respective interests of Ms. Lo and Mr. Shiu in the share capital of Hang Chi in favour of the Group as security for the payment obligations in respect of the supply of yarn to the Wah Fung Group, particulars of which are set forth under the paragraph headed “(e) Further cooperation in the Wah Fung Group” in the section headed “Principal Terms of the Joint Venture Agreement” above
“Directors”	the directors of the Company
“Framework Agreement”	the framework agreement dated 24 December 2015 entered into between the Company, Hang Chi, Ms. Lo and Mr. Shiu in relation to the Transactions
“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 immediately before the Completion
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Huafeng Knitting”	Huafeng Knitting Holdings Limited (華蜂針織控股有限公司), a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of the Company
“Joint Venture Agreement”	the agreement dated 9 May 2016 entered into between Huafeng Knitting, Ms. Lo, Mr. Shiu and Hang Chi setting out the corporate structure of the Wah Fung Group and the principles governing the ownership and management of Hang Chi, a summary of which is set forth in the section headed “Principal Terms of the Joint Venture Agreement” above
“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
“Post-completion Accounts”	audited accounts in respect of the Wah Fung Group as at the Post-completion Accounts Date

“Post-completion Accounts Date”	30 September 2016
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan
“Pre-Closing Adjustments”	adjustments in relation to certain assets and liabilities of the Wah Fung Group as agreed in the Framework Agreement
“Project Company”	a company to be incorporated in the BVI with limited liability and to be indirectly wholly-owned by the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Group on and subject to the terms and conditions of the Joint Venture Agreement
“Subscription Price”	HK\$1, being the total subscription price for the Subscription Shares
“Subscription Shares”	1,056,862 new shares of Hang Chi representing 49% of the total issued share capital of Hang Chi as enlarged by the Subscription
“Technical Assistance Agreement”	an agreement dated 9 May 2016 entered into between Ms. Lo, Mr. Shiu, Hang Chi and Huafeng Knitting for, inter alia, provision of business supporting services to the Vietnam Group by Ms. Lo and Mr. Shiu and the grant of a licence for the use of intellectual property by the Wah Fung Group to the Vietnam Group, particulars of which are set forth under the paragraph headed “(f) Establishment of a new knit fabric manufacturing and dyeing factory in Vietnam” in the section headed “Principal Terms of the Joint Venture Agreement” above
“Transactions”	the investment in the Wah Fung Group and the cooperation in connection with the establishment by the Group of a new knit fabric factory in Vietnam on and subject to the terms and conditions of the Joint Venture Agreement
“US\$”	United States dollars, the lawful currency of the United States of America

“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, 9 May 2016