

ASIA FASHION HOLDINGS LIMITED
(Company Registration No. 41195)
(Incorporated in Bermuda)

THE PROPOSED ACQUISITION OF 100% OF THE SHARE CAPITAL OF CHINA CONSTRUCTION MATERIAL (HONG KONG) LIMITED

A. INTRODUCTION

The Board of Directors (the “**Board**”) of Asia Fashion Holdings Limited (the “**Company**”) wishes to announce that the Company has entered into a sale and purchase agreement (the “**SPA**”) between the Company as purchaser and China Construction Material Holdings Limited as vendor (the “**Vendor**”) on 3 January 2014 in connection with the acquisition (the “**Proposed Acquisition**”) of 100% of the share capital of China Construction Material (Hong Kong) Limited (“**CCMH**”).

The Proposed Acquisition will be conditional upon approval by shareholders of the Company (“**Shareholders**”) in a general meeting to be convened by the Company.

B. THE PROPOSED ACQUISITION

1. Information on CCMH and the Proposed Acquisition

CCMH was incorporated on 29 May 2013 under the laws of the Hong Kong. CCMH has a share capital of HK\$10,000 divided into 1 share of HK\$10,000, which has been issued and fully paid-up. CCMH is an investment holding company.

CCMH is the legal and beneficial owner of 100% of the registered capital of Zhongzhuang (Xuzhou) Construction Material Co., Ltd. (“**Xuzhou Zhongchuang**”), a company incorporated on 1 July 2013 under the laws of the People’s Republic of China (“**PRC**”). Xuzhou Zhongchuang is the legal and beneficial owner of 100% of the registered capital (amounting to RMB90.8 million) of Xuzhou Zhongsen Tonghao New Board Co., Ltd (“**Xuzhou Zhongsen**”), a company incorporated on 14 November 2007 under the laws of the PRC.

Xuzhou Zhongsen’s principal activities are the manufacture and sale of the following products:

(i) *Base material boards*

Base material board is a basic and core wood-based product which is used in the production of other products. Base material board may be nailed, sawed, drilled, and planed while being environmental friendly, waterproof, fireproof, soundproof and not easy to deform with integration capabilities. Base material board can be used in ceiling panels, wall panels, insulation board, fireproof board, and waterproof board. Base material boards can be either directly sold to customers or further processed to produce other building and decoration materials.

(ii) *Floor and grainy board*

Floor and grainy board is produced by further processing of the base material board. These include geothermal dedicated flooring and titanium flooring. Geothermal dedicated flooring has characteristics such as being environmental friendly, fire and water proof, not easy to deform, and able to withstand wear, scratch and stain. It is wear-proof in accordance with the relevant national standards in the PRC. Titanium flooring is fireproof, waterproof, resists deformation, and has comprehensive environmental characteristics. Its paint surface is able to withstand wear, scratch, stain and integration performance, and it can be used as decorative panels for, *inter alia*, home, hotels, and office floors.

(iii) *Decorative boards*

Decorative boards are produced by processing the base material boards with various surfaces, such as by coating the surfaces of base material boards with aluminium or magnesium products. Decorative boards processed with certain metals may be aesthetically pleasing with vein lines and grains resembling marble, granite or wood. Such decorative boards are also environmentally friendly, waterproof, fireproof, and resistant to deformation, wear, scratches, and stains. Based on different surface treatments, decorative boards may be widely used for cabinets and other kinds of interior and exterior décor.

(iv) *Aluminium products*

Aluminium products are aluminium plates with various customized designs and colors that are incorporated using printing technology. These products are produced with transfer printing technology, which can allow the final product to look like natural materials, such as marble and granite. Aluminium panels have fire safety, insulation, energy-saving, environmental-friendliness and other functions, and can be widely used in energy efficient building facades and wall decorations with a product life of up to 30 years. At the end of the product life cycle, after removal from buildings, through the separation and recycling technologies, the aluminium can be re-used, in the interests of the environment. Products made with nano-glaze aluminium coating are eco-friendly, non-toxic and able to withstand light, scratches, corrosion, and extreme temperatures. Aluminium products can be either sold as finished goods or used with base material boards to produce decorative boards.

Pursuant to the SPA, the Company will acquire an aggregate of 1 fully paid up ordinary share of HK\$10,000 each in the share capital of CCMH, which represents 100% of the share capital of CCMH (the “**CCMH Sale Share**”). Upon completion of the Proposed Acquisition (“**Completion**”), CCMH will become a 100% wholly owned subsidiary of the Company, and Xuzhou Zhongchuang and Xuzhou Zhongsen will become indirect subsidiaries of the Company.

2. Consideration payable pursuant to the Proposed Acquisition

The aggregate consideration (“**Consideration**”) for the purchase of the CCMH Sale Share is equivalent to the amount of RMB 100,000,000. The Consideration was arrived at on a willing-seller-willing-buyer basis after arms’ length negotiations between the parties taking into account, *inter alia*, the NTA value of Xuzhou Zhongsen of RMB 128,522,000 as at 31 December 2012, the net profit after tax for the year ended 31 December 2012 of Xuzhou Zhongsen of approximately RMB 30,180,000, the historical performance and potential business growth of Xuzhou Zhongsen, and the rationale for the Proposed Acquisition set out in Section C(1). The net profit after tax attributable to the CCMH Sale Share for the year ended 31 December 2012 was RMB 30,180,000.

The Consideration represents 77.81% of the NTA per share of CCMH and a multiple of approximately 3.3 times of the net profit after tax of RMB 30,180,000 attributable to Xuzhou Zhongsen for the year ended 31 December 2012. The auditor of Xuzhou Zhongsen is Zhong Lei CPA Co., Ltd. The Company has engaged Deloitte & Touche Financial Advisory Services Limited, Beijing Branch and King & Wood Mallesons, to perform a financial and legal due diligence exercise respectively on Xuzhou Zhongsen.

The Consideration shall be satisfied in full by (i) the issuance of such number of shares in the capital of the Company equivalent to the amount of RMB 50,000,000 based on the volume weighted average price for trades done on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in respect of the shares of the Company for the latest sixty market days (provided that if there were no trades done on any particular day during the sixty market days period, the sixty market days calculation period should be extended such that sixty market days on which the shares were traded are taken into account) preceding the date of the SPA¹, and (ii) the payment of up to the amount of RMB 50,000,000 according to the following schedule:

- (a) RMB 25,000,000 shall be payable to the Vendor on the date of the first anniversary of Completion; and
- (b) RMB 25,000,000 shall be payable to the Vendor on the date of the second anniversary of Completion.

The Company intends to fund the Proposed Acquisition partly through internal resources and partly from the proceeds of the placement of 100 million Shares, which was announced by the Company on 15 August 2013 (the “**Proposed Placement**”).

3. Material conditions of the SPA

Conditions precedent

The completion of the sale and purchase of the CCMH Sale Share is conditional upon:

- (i) the transfer of the CCMH Sale Share not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the SPA by any legislative, executive or regulatory body or authority which is applicable to the Vendor or the Company;
- (ii) the Company being satisfied in its sole and absolute discretion with the results of the due diligence (whether legal, financial, contractual, tax or otherwise) on each of the Vendor, CCMH and CCMH’s subsidiaries;
- (iii) all governmental, regulatory and third party approvals, consents and/or authorisations being obtained for the transactions contemplated hereunder, if necessary (including the approval of the shareholders of the Company and the SGX-ST); and
- (iv) the warranties made by the Vendor under the SPA remaining true and not misleading in any

¹ The sixty-day volume weighted average price for the Shares is approximately S\$0.0548. Accordingly, based on the indicative exchange rate of approximately RMB4.7706 : S\$1 as at 3 January 2014, 191,256,605 Shares will be issued as part consideration for the Proposed Acquisition to the Vendor.

be made to respect at Completion, as if repeated at Completion and at all times between the date of the SPA and Completion.

At any time prior to the Completion Date, where the Vendor is in breach of any of the warranties, and:

- (i) where such breach is capable of remedy, the Vendor shall have up to 30 days (or such other later date as the parties may agree) to remedy the breach to the satisfaction of the Company. The failure to remedy such breach shall entitle the Company to exercise its rights under the following paragraph; and
- (ii) where such breach is incapable of being remedied within the period provided for in the paragraph above, the Company shall be entitled by notice in writing to the Vendor to terminate the SPA, without prejudice to any claim by the Company against the Vendor arising from any breach of the terms hereof.

The Company may in its absolute discretion waive (in whole or part) any or all of the conditions in the foregoing paragraphs above and such waiver may be given subject to such conditions as the Company may stipulate. Under the Agreement, Completion shall take place no later than 30 June 2014.

4. Financial effects of the Proposed Acquisition

The pro-forma financial effects of the Proposed Acquisition is for illustration purposes only and do not reflect the actual financial results of the Company after Completion of the Proposed Acquisition.

The following pro-forma financial effects have been prepared based on the audited consolidated financial statements of the Company for the financial year ended 31 December 2012, and assuming that the Proposed Acquisition had been completed on:

- (i) 1 January 2012 for illustrating the financial effect on the consolidated earnings and earnings per share of the Company and its subsidiaries (the “Group”); and
- (ii) 31 December 2012 for illustrating the financial effect on the consolidated net tangible assets and consolidated net asset value of the Group.

Earnings / (Losses) per Share

	Earnings / (Losses) attributable to Shareholders (RMB'000)	Weighted average number of Shares	Earnings / (Losses) per Share (RMB cents)
Before the Proposed Acquisition	(95,648)	548,802,638	(17.43)
After the Proposed Acquisition	(65,468)	740,059,243	(8.85)

NTA

	NTA (RMB'000)	Number of Shares as at 31 December 2012	NTA per Share (RMB cents)
Before the Proposed Acquisition ⁽¹⁾	421,442	548,802,638	76.79
After the Proposed Acquisition ⁽¹⁾	549,964	740,059,243	74.31

Note:

(1) Based on the indicative exchange rate of RMB4.7706 : S\$1 as at 3 January 2014.

5. Relative figures under Rule 1006 applicable to the Proposed Acquisition

Based on the latest announced audited consolidated results of the Group for the financial year ended 31 December 2012, the relative figures applicable to the Proposed Acquisition computed on the bases pursuant to Rule 1006 (a) to (d) of the Listing Manual of the SGX-ST are as follows:

Listing Rule	Basis	Relative figures (%)
Rule 1006(a)	Net asset value of assets being disposed of, as compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable.
Rule 1006(b)	Net profits attributable to the CCMH Sale Share, compared with the net profits of the Group.	Not meaningful as the Group is currently loss-making. ⁽¹⁾
Rule 1006(c)	Aggregate value of consideration given for the acquisition of the CCMH Sale Share, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	44.73% ⁽²⁾
Rule 1006(d)	The number of equity securities to be issued by the Company as consideration for the acquisition of the CCMH Sale Share, compared with the number of equity securities previously in issue.	34.85% ⁽³⁾
Rule 1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable.

Notes:

- (1) The net profits attributable to the CCMH Sale Share is RMB30,180,000 for the financial year ended 31 December 2012 and the net loss of the Group is RMB95,648,000 for the financial year ended 31 December 2012.
- (2) As at 2 January 2014, the volume weighted average price of the Shares is S\$0.0854, the number of issued Shares is 548,802,638 and the market capitalisation of the Company is S\$46,867,745.
- (3) Based on the sixty-day volume weighted average price for the Shares of approximately S\$0.0548, calculated in the manner set out in Section B(2) above, the issue of 191,256,605 Shares as part consideration for the Proposed Acquisition to the Vendor, and not assuming the completion of the Proposed Placement prior to the issuance of the Consideration Shares.

The Proposed Acquisition will constitute a “major transaction” to the Company within the meaning of Chapter 10 of the Listing Manual of the SGX-ST, as computed on the above bases. Accordingly, the Proposed Acquisition will be made conditional upon approval by Shareholders in a special general meeting to be convened. In compliance with the Listing Manual, the Company is seeking Shareholders’ approval for the Proposed Acquisition.

A circular containing the information required under Chapter 10 of the Listing Manual of the SGX-ST will be sent to all Shareholders in due course.

C. OTHER INFORMATION

1. Rationale

In the Company’s annual report for the financial year ended 31 December 2012, the Company announced a total loss of RMB 95,512,000 before taxation. On 7 August 2013, the Company released a profit warning to inform the shareholders that the Group is expected to record a significant drop in its revenue and report an operating loss for the Group’s unaudited financial results for the second quarter ended 30 June 2013 (“**2Q2013**”). On 12 August 2013, the Company released the results for 2Q2013, reflecting RMB 451,485,000 in total comprehensive losses.

On 9 June 2013, 12 June 2013, 6 August 2013, 15 August 2013, 2 September 2013 and 25 September 2013, the Company announced that its wholly-owned subsidiary, Fujian Qianfeng Textile Technology Co., Ltd (“**Fujian Qianfeng**”) has received claims amounting to RMB 517,034,640 from several customers (“**Claimants**”) for delivered products that allegedly failed to meet customers’ specified requirements. On 2 September 2013, the Company announced that it had on 30 August 2013 entered into settlement agreements with the Claimants, on substantially similar terms. According to the terms of the settlement agreements, the cash compensation will be reduced to RMB 300,000,000 and had been settled in late September 2013. The remaining RMB 161,500,000 will be utilised by the Claimants to deduct from future sales of fabric materials over the next five years, up till 31 July 2018. Pursuant to the terms of settlement agreements, the Claimants have also waived their rights to commence any litigation or other analogous proceedings against the Group, and will ensure that their customers will not commence any such proceedings against the Group (including for any alleged loss of profits).

Rule 1311 of the Listing Manual provides as follows:

“The Exchange will place an issuer on the watch-list, if it records:—

- (1) *pre-tax losses for the three (3) most recently completed consecutive financial years (based on the latest announced full year consolidated accounts, excluding exceptional or non-recurrent income and extraordinary items); and*
- (2) *an average daily market capitalisation of less than \$40 million over the last 120 market days on which trading was not suspended or halted. For the purpose of this rule, trading is deemed to be suspended or halted if trading is ceased for a full market day."*

The Company may be placed on the Watch-List if it continues to record pre-tax losses for the next two financial years.

Xuzhou Zhongsen has a profitable track record over the last two financial years. In the years ended 31 December 2011 and 31 December 2012, Xuzhou Zhongsen recorded net profits after tax of RMB 16,223,000 and RMB 30,180,000. In view of the profitable track record of Xuzhou Zhongsen, the Company believes that the Proposed Acquisition presents an opportunity for the Group that is in line with the Company's strategic intent to acquire new businesses that will improve the financial performance and profitability of the Group, with a view to avoid being placed on the Watch-List. The Company does not believe that liquidation is in the best interests of the Company or the Shareholders in view of the low current valuation of the Company. The Company currently does not have any other business acquisition plans other than the Proposed Acquisition.

The Proposed Acquisition will also enlarge the range of products and services of the Group and enable it to penetrate the growing construction material industry. Further, the Proposed Acquisition is expected to provide the Group with a relatively more stable income stream compared to the capricious nature of the Group's current fabric business. For these reasons, the Directors of the Company consider the Proposed Acquisition to be in the interests of the Company and the shareholders.

2. Interests of Directors or Controlling Shareholders

None of the Directors, and to the best knowledge of the Directors, none of the controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition.

There are no directors proposed to be appointed to the Company in connection with the Proposed Acquisition.

3. Documents for inspection

Copies of the SPA are available for inspection during normal business hours at the Company's registered office for 3 months from the date of this announcement.

BY THE ORDER OF THE BOARD

Neo Chee Beng
Executive Chairman
6 January 2014