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China Weaving Materials Holdings Limited

中國織材控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03778)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF ALL EQUITY INTEREST IN HUACHUN

Financial Adviser to the Company



Guotai Junan Capital Limited

ACQUISITION

The Board is pleased to announce that on 30 September 2014, the Company, Jiangxi Jinyuan, the Vendors and the Vendor Holding Company entered into the Acquisition Agreement pursuant to which Jiangxi Jinyuan has conditionally agreed to acquire and the Vendors have conditionally agreed to sell all equity interest in Huachun for a total consideration of RMB200 million. The Consideration will be settled in cash by (i) Jiangxi Jinyuan as to RMB120 million payable to the Vendors and (ii) the Company as to RMB80 million payable to the Vendor Holding Company.

LISTING RULES IMPLICATIONS

Since all applicable percentage ratio(s) in respect of the Acquisition Agreement calculated pursuant to Chapter 14 of the Listing Rules are more than 25% but less than 100%, the Acquisition constitutes a major transaction under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and Shareholders' approval requirements under the Listing Rules.

GENERAL

A circular containing, among others, (i) further details of the Acquisition Agreement; (ii) further information about Huachun; and (iii) notice of the extraordinary general meeting approving the Acquisition will be dispatched to the Shareholders on or before 31 October 2014 as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

As completion of the Acquisition Agreement is subject to certain conditions, the Acquisition contemplated thereunder may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE ACQUISITION AGREEMENT

The Board is pleased to announce that on 30 September 2014, the Company, Jiangxi Jinyuan, the Vendors and the Vendor Holding Company entered into the Acquisition Agreement pursuant to which Jiangxi Jinyuan has conditionally agreed to acquire and the Vendors have conditionally agreed to sell all equity interest in Huachun for a total consideration of RMB200 million. The Consideration will be settled in cash by (i) Jiangxi Jinyuan as to RMB120 million payable to the Vendors and (ii) the Company as to RMB80 million payable to the Vendor Holding Company.

The particulars of the Acquisition Agreement are set out below.

Date

30 September 2014

Parties

- (i) the Company
- (ii) Jiangxi Jinyuan
- (iii) the Vendors
- (iv) the Vendor Holding Company

Consideration and Basis of Consideration

The total consideration for the acquisition of Huachun pursuant to the Acquisition Agreement shall be RMB200 million, out of which RMB120 million will be settled by cash payment to the Vendors by Jiangxi Jinyuan (the “**Onshore Consideration**”) and RMB80 million will be settled by cash payment to the Vendor Holding Company by the Company (the “**Offshore Consideration**”). The Consideration was determined through arm’s length negotiation among the parties with reference to, among other things, the production capacity of Huachun and the net assets of Huachun as of 30 April 2014.

Payment Method

Subject to all the Conditions Precedent having been satisfied or, where applicable, waived, the Onshore Consideration of RMB120 million is payable in full on the date which is the third anniversary of the date on which all necessary administrative procedures, including the registration of the Equity Transfer with the relevant administration of industry and commerce, have been duly completed (the “**Due Date**”),

to the Vendors, based on their pro rata share of the equity interests in Huachun to be transferred to Jiangxi Jinyuan. The Vendors are entitled to semi-annual interest payments at a simple annualized interest rate of 8% per annum for as long as the Onshore Consideration is outstanding. At any time before the Due Date, Jiangxi Jinyuan may repay all or part of the outstanding balance of the Onshore Consideration, together with accrued but unpaid interest to the date of repayment.

Subject to the satisfaction of the Conditions Precedent, the Offshore Consideration of RMB80 million is payable in full to the Vendor Holding Company on the date on which the Equity Transfer has been completed, as evidenced by the issue of an updated business license to Huachun by the relevant administration of industry and commerce.

The Consideration will be settled by the Group's internal resources or other fund raising activities.

Conditions Precedent

The obligation of the Group to consummate the closing under the Acquisition Agreement is subject to the satisfaction in their sole discretion or, where legally permissible, waiver by the Group in writing (either in whole or in part and such waiver may be made subject to such terms and conditions as the Group may require and as the Vendors may agree) of the following conditions:

- (i) the results of business, technical, financial, legal, and other due diligence pertaining to Huachun shall be satisfactory to the Group;
- (ii) consents, licenses, registrations, or declarations of, or filings with, any competent authority required to be obtained or made prior to closing under applicable laws shall have been obtained or made on a basis reasonably satisfactory to the Group;
- (iii) the representations and warranties of the Vendors set out in the Acquisition Agreement continuing to be true, accurate and correct in all material respects as of the date of closing;
- (iv) the Acquisition having been approved by the Shareholders in accordance with applicable requirements under the Listing Rules;
- (v) the Group having obtained all necessary consents and approvals in relation to the Acquisition Agreement and the transactions contemplated thereunder, as required under its articles of association, applicable law and the Listing Rules.

In the event that the closing conditions are not fulfilled (or waived to the extent permitted by law) within six months after signing of the Acquisition Agreement by the parties (i.e. 31 March 2015), the Acquisition Agreement shall become null and void and the parties shall automatically be released from their obligations under the Acquisition Agreement, except as otherwise agreed.

Completion

Huachun shall effect the Equity Transfer within ten (10) Business Days after all the Conditions Precedent have been satisfied or, where applicable, waived.

Upon completion of the registration of the Equity Transfer with the relevant administration of industry and commerce, interest on the Onshore Consideration begins to accrue. The Onshore Consideration is payable in full three years after the completion of the registration of the Equity Transfer.

Upon completion of the registration of the Equity Transfer with the relevant administration of industry and commerce, the Company shall pay the Offshore Consideration to the Vendor Holding Company.

Upon the completion of the Acquisition, Huachun will become a wholly-owned subsidiary of the Group and its financial statements will be consolidated to those of the Group.

Taxes and Expenses

Each party shall bear its own costs and expenses incidental to, arising out of or in connection with the preparation, negotiation and implementation of the Acquisition Agreement.

REASONS FOR AND BENEFITS OF THE ACQUISITION AGREEMENT

The Group is engaged in the manufacturing and sale of polyester yarns, polyester-cotton blended yarns and cotton yarns in the PRC. It is one of the Group's strategies to become a leading manufacturer of yarn products in the PRC and the Group has been constantly seeking acquisition or cooperation opportunities to expand its production capacity. Considering that Huachun is a manufacturer of polyester yarns, grey and deep grey melange yarns and cotton yarns based in Jiangxi province with an a production capacity of 300,000 spindles and an estimated production output of approximately 54,000 tonnes, the Acquisition Agreement enables the Group to, among others, (i) increase the Group's production capacity and output in a cost-efficient and timely manner, (ii) diversify the product portfolio of the Group to include grey and deep grey mélange yarn products which yield a better margin than polyester and cotton yarns, (iii) increase bargaining power of the Group in terms of pricing, (iv) achieve bargaining power in respect of raw materials by means of diversified and large-scale procurement effort, (v) benefit from preferential government policies which are available only to domestic enterprises in the PRC while Jiangxi Jinyuan, being the Group's sole operating entity in the PRC prior to the completion of the Acquisition is a wholly foreign owned enterprise, and (vi) further consolidate the Group's position as the leading yarn manufacturer in Jiangxi Province.

Considering the above, the Directors, including the independent non-executive Directors, are of the view that the Acquisition Agreement has been entered into on normal commercial terms and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Company and Jiangxi Jiyuan

The Company is a manufacturer of polyester yarns, polyester-cotton blended yarns and cotton yarns and a leading enterprise in the textile industry in Jiangxi Province. Jiangxi Jinyuan is a wholly owned subsidiary of the Company.

The Vendors and the Vendor Holding Company

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, each of the Vendors is an individual resident in the PRC and an Independent Third Party.

The Vendor Holding Company is a company incorporated under the laws of the British Virgin Islands and owned by the Vendors. As at the date of this announcement, the Vendor Holding Company was held by the Vendors, being seven individuals resident in the PRC, as to 39.83%, 17.50%, 8.33%, 4.17%, 4.17%, 17.67% and 8.33%, respectively. To the best of the knowledge and belief of the Directors having made all reasonable enquiries, the Vendor Holding Company is an Independent Third Party.

Huachun

Huachun was established under the laws of the PRC as a limited liability company on 30 April 2010 with a registered capital of RMB120 million. Huachun is principally engaged in manufacturing and trading of polyester yarns, grey and deep grey melange yarns and cotton yarns in Jiangxi province, the PRC.

The principal asset of Huachun is the production facility located at the Industrial Zone of Fengxin County, Jiangxi Province with total area of approximately 288 mu (approximately 192,096 square meters), comprising six production workshops, each having a production capacity of 50,000 spindles. The total production capacity of Huachun in terms of spindles and weight is 300,000 spindles and approximately 54,000 tonnes per annum, respectively. Huachun production capacities for polyester yarns, grey and deep grey melange yarns and cotton yarns, in terms of spindles, are 150,000, 100,000 and 50,000 spindles, respectively, and, in terms of weight, approximately 29,000, 20,000 and 5,000 tonnes per annum respectively.

As at the date of this announcement, Huachun was held by the Vendors, being seven individuals resident in the PRC, as to 39.83%, 17.50%, 8.33%, 4.17%, 4.17%, 17.67% and 8.33%, respectively.

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of Huachun and the Vendors is an Independent Third Party.

Set out below is the unaudited net profit/(loss) of Huachun before and after tax for the two years ended 31 December 2012 and 2013, prepared in accordance with the International Financial Reporting Standards:

	For the year ended 31 December 2012	For the year ended 31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit/(loss) (before tax and extraordinary items)	(12,416)	17,865
Net profit/(loss) (after tax and extraordinary items)	(16,924)	13,952

As at 30 April 2014, the unaudited net asset of Huachun was approximately RMB116,746,000.

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DEFINITIONS

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

“Acquisition”	the acquisition of all equity interest of Huachun by the Group, as contemplated under the Acquisition Agreement
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“Acquisition Agreement”	an acquisition agreement dated 30 September 2014 in relation to the acquisition of all equity interest in Huachun by the Group, entered into by the Company, Jiangxi Jinyuan, the Vendors and the Vendor Holding Company
“Board”	the board of Directors of the Company
“Business Day(s)”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	China Weaving Materials Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Conditions Precedent”	the conditions precedent to the Acquisition Agreement, as summarized in the paragraph headed “Conditions Precedent” in this announcement
“Consideration”	the total consideration of the Acquisition, being RMB200 million
“Director(s)”	the directors of the Company
“Equity Transfer”	the transfer of the entire equity interest in Huachun by the Vendors to Jiangxi Jinyuan pursuant to the Acquisition Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huachun”	Jiangxi Huachun Color Spinning Technology Development Co., Ltd* (江西華春色紡科技發展有限公司), a limited liability company established in the PRC on 30 April 2010
“Independent Third Party(ies)”	third party independent of the Company and connected persons of the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Jiangxi Jinyuan”	Jinyuan Textile Co., Ltd. Jiangxi (江西金源紡織有限公司), a wholly foreign-owned enterprise established in the PRC on 10 October 2005 and is a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor Holding Company”	Kingston Success Limited (金城有限公司) a company incorporated under the laws of the British Virgin Islands on 2 July 2014, which is wholly owned by the Vendors
“Vendors”	all shareholders of Huachun immediately prior to entering into the Acquisition Agreement, being seven individuals resident in the PRC, each an Independent Third Party

* *For identification only*

By Order of the Board
China Weaving Materials Holdings Limited
Zheng Hong
Chairman

Hong Kong, 30 September 2014

As at the date of this announcement, the Board comprises Mr. Zheng Hong, Mr. Zheng Yong Xiang as the executive Directors; Mr. Sze Irons, JP, as the non-executive Director; Ms. Chan Mei Bo, Mabel, Mr. Nie Jian Xin and Mr. Ng Wing Ka as the independent non-executive Directors.