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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Weaving Materials Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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: 3778)**

#### **CONTINUING CONNECTED TRANSACTION FRAMEWORK SUPPLY AGREEMENT WITH BAOYUAN AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to  
Independent Board Committee and Independent Shareholders**



**Giraffe Capital Limited**

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A letter from the Board is set out on pages 3 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 21 of this circular.

A notice convening the EGM to be held at the Conference Room, 2nd Floor, the Office Building, Jinyuan Textile Company Limited, Jiangxi, Fengtian Development Zone, Fengxin County, Jiangxi Province, the PRC, at 10:30 a.m. on Friday, 8 September 2017 is set out on pages N-1 to N-2 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and deposit the same with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the commencement of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

18 August 2017

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 7 July 2017
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Baoyuan”	Jiangxi Baoyuan Colourful Textile Co. Ltd.* (江西寶源彩紡有限公司), a limited liability company established in the PRC on 8 January 2008 and is 80% owned by Ms. Lin Xiaochun as at the Latest Practicable Date
“Baoyuan Continuing Connected Transactions”	the transactions contemplated under the Framework Supply Agreement
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and the Hong Kong Special Administrative Region, for the purpose of this circular)
“Company”	China Weaving Materials Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3778)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Dtex”	the abbreviation of decitex, the mass in grams per 10,000 meters. The most commonly used unit of measurement for the linear mass density of fibers
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps
“Framework Supply Agreement”	the framework supply agreement dated 7 July 2017 entered into between Baoyuan and Xinyuan in relation to the sale and purchase of PSF
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Independent Financial Adviser” or “Giraffe Capital Limited”	Giraffe Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders other than Mr. Zheng Yongxiang, Mr. Zheng Hong and their respective associates, who are not required to abstain from voting at the EGM
“Latest Practicable Date”	16 August 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Proposed Annual Caps”	the proposed maximum transaction amounts for the Baoyuan Continuing Connected Transactions for the following periods, for the year ending 31 December 2017, from 1 January 2018 to 31 December 2018, from 1 January 2019 to 31 December 2019 and from 1 January 2020 to 30 June 2020
“Percentage Ratios”	the percentage ratios as set out in Rule 14.07 of the Listing Rules
“PSF”	polyester staple fibres
“PTA”	purified terephthalic acid
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinyuan”	Jiangxi Xinyuan Special Fibres Company Ltd.* (江西鑫源特種纖維有限公司), a limited liability company established in the PRC on 5 December 2014 and is 51% indirectly owned by the Company as at the Latest Practicable Date

\* *English names for reference only*

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## LETTER FROM THE BOARD

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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: 3778)**

*Executive Directors:*

Mr. Zheng Hong (*Chairman*)

Mr. Zheng Yongxiang

*Non-executive Director:*

Mr. Sze Irons, *BBS, JP*

*Independent non-executive Directors:*

Ms. Zhang Baixiang

Mr. Ng Wing Ka, *JP*

Mr. Xu Yiliang

*Registered office:*

Cricket Square

Hutchins Drive

P. O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Principal place of business*

*in Hong Kong:*

Unit 806, 8/F, AXA Centre

151 Gloucester Road

Wanchai

Hong Kong

18 August 2017

*To the Shareholders,*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTION FRAMEWORK SUPPLY AGREEMENT WITH BAOYUAN

#### I. INTRODUCTION

Reference is made to the Announcement of the Company dated 7 July 2017 in relation to the Framework Supply Agreement with Baoyuan and the transactions contemplated under the Framework Supply Agreement.

The purpose of this circular is to provide you with, among other things, (i) details of the Framework Supply Agreement and the Proposed Annual Caps; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the entry into the Framework Supply Agreement and the Proposed Annual Caps; and (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the entering into the Framework Supply Agreement and the Proposed Annual Caps.

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## LETTER FROM THE BOARD

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### II. DETAILS OF THE FRAMEWORK SUPPLY AGREEMENT

The principal terms of the Framework Supply Agreement are set out below:

- Date:** 7 July 2017
- Parties:** (i) Baoyuan as the buyer; and (ii) Xinyuan as the seller.
- Duration:** For a term commencing from the effective date of the Framework Supply Agreement to 30 June 2020.
- Subject:** Supply of PSF from Xinyuan to Baoyuan which meet Baoyuan's quality and specification requirements, with a monthly cap of 900 tonnes. Such monthly cap is subject to adjustment by mutual agreement between the parties from time to time.
- Price and payment terms:** The unit price and payment terms for each sale and purchase transaction shall be determined and agreed between the parties by reference to the average quoted price of PSF (i.e. reasonable market prices of PSF) and other payment terms at which Xinyuan could sell the same type of PSF in similar quantities to independent third parties (whether local or overseas) at the time. For the purpose of obtaining the reasonable market prices of PSF, Xinyuan will seek quotations from at least two independent parties seeking to purchase or supply the same type of PSF in similar quantities ("**Proposed Approach**"). Xinyuan will only supply PSF to Baoyuan on terms no less favorable than those which the Group would have obtained from independent third party. The Group will not confirm any price quotation from Baoyuan which does not meet such criteria.
- Effective Date:** The Framework Supply Agreement is effective on the date on which approval of the Framework Supply Agreement and the Baoyuan Continuing Connected Transactions by the Independent Shareholders at the EGM, as required under the Listing Rules, has been obtained.

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## LETTER FROM THE BOARD

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### III. PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The Proposed Annual Caps for the Baoyuan Continuing Connected Transactions for the following periods, for the year ending 31 December 2017, from 1 January 2018 to 31 December 2018, from 1 January 2019 to 31 December 2019 and from 1 January 2020 to 30 June 2020, are RMB40,000,000, RMB85,000,000, RMB95,000,000 and RMB50,000,000, respectively. The Proposed Annual Caps are determined by reference to

- (i) the historical transaction amounts between the Group and its suppliers in relation to PSF. As a matter of the general technology in production of yarn products, which is used by both the Group and Baoyuan, the utilization of PSF in the production of polyester related yarn products by each of the Group and Baoyuan are generally comparable on a pro rata basis based on the spindle capacities, (i.e. tonnes of PSF per 10,000 spindles). The Directors are of the view that it would be reasonable for Baoyuan, which has approximately 60% of the production capacity of the Group and with emphasis in polyester yarns production, to purchase at least 60% of the amount of PSF utilised by the Group annually. The Group purchased around 78,000 tonnes of PSF for the year ended 31 December 2016;
- (ii) the average market prices of PSF, which are determined by reference to sales prices obtained from customers who are independent third parties or quotations from other independent suppliers or publicly available price information, including websites specializing in the provision of related price information, like The China Chemical Fibre website (中國化纖信息網, [www.ccf.com.cn](http://www.ccf.com.cn)); and
- (iii) expected movement in market prices of PSF during the term of the Framework Supply Agreement. The Directors consider the price of crude oil is expected to increase during the same periods of the Proposed Annual Caps and the price of PSF normally have a positive correlation with that of crude oil.

PSF are a type of chemical fibre made of synthetic polymers and are one of the most common raw materials for the manufacturing of polyester yarns. Synthetic polymers are downstream chemical products of oil. Therefore, fluctuations in the price of crude oil affect the price of PSF. Prices of PSF normally have a positive correlation with that of crude oil.

There are many different specifications for PSF. PSF could be manufactured with PTA or recycled plastic chips. The prices of PSF manufactured with recycled plastic chips are generally lower than that of PSF manufactured with PTA. The prices of PSF manufactured with recycled plastic chips and PSF manufactured with PTA have been trending higher since 2016 and fluctuated between RMB4,900 per tonne to RMB6,250 per tonne and RMB5,250 per tonne to RMB7,700 in 2016 and the first half of 2017 respectively (source: The China Chemical Fibre Website (中國化纖信息網, [www.ccf.com.cn](http://www.ccf.com.cn))). Xinyuan has been involved in the production of PSF manufactured with recycled plastic chips. Its production facilities could be converted into the production of PSF using PTA if market opportunities arise.

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## LETTER FROM THE BOARD

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The Proposed Annual Caps for the Baoyuan Continuing Connected Transactions for the following periods are tabulated as follows:

	the year ending 31 December 2017	from 1 January 2018 to 31 December 2018	from 1 January 2019 to 31 December 2019	from 1 January 2020 to 30 June 2020
Proposed Caps	RMB40,000,000	RMB85,000,000	RMB95,000,000	RMB50,000,000
Estimated Volume	6,300 tonnes <i>(note)</i>	10,800 tonnes	10,800 tonnes	5,400 tonnes
Estimated average price per tonne	RMB6,350	RMB7,900	RMB8,800	RMB9,300

*Note:* based on a monthly volume of 900 tonnes from the production from September to December 2017 plus existing inventory of 2,700 tonnes.

The estimated average price for the year ended 31 December 2017 is based on the historic transaction price between Xinyuan and Baoyuan in June 2017, which is approximately RMB5,774 per tonne, plus an allowance of approximately 10% for upward price fluctuation. The estimated average price for the period from 1 January 2018 to 30 June 2020 are based on the following assumptions: (i) the price of crude oil is expected to increase during the same periods of the Proposed Annual Caps and the price of PSF normally have a positive correlation with that of crude oil; (ii) the product quality of PSF manufactured by Xinyuan is expected to enhance as workers get more familiar with the production process and become skilled, which allows the Company to charge higher prices. Despite the high degree of automation in the production of PSF, some production process, like handling of input raw material, re-setting of the machine after interruption and maintenance of the production environment, still require manual effect. The skill level of the workers will affect the production process which require manual effect and eventually will affect the uniformity of the PSF so produced. In general, skilled labour will improve the overall handling of the production process, enhance the production environment and reduce the interruption rate, resulting in a smoother production which could enhance the uniformity of the PSF so produced. The higher the uniformity of the PSF produced by Xinyuan, the better is its quality. Although differentiation among PSF products with the same specifications is low and PSF with same specification are generally sold at the same price, the PSF products with better brands could be sold at marginally higher prices in recognition of their better qualities; and (iii) a buffer for price increase in order to allow for the flexibility to the production of PSF to adapt to a different specification.

### HISTORICAL TRANSACTION AMOUNT

Prior to the Framework Supply Agreement, Xinyuan had since June 2017 supplied PSF to Baoyuan. The historical transaction amount between Xinyuan and Baoyuan for June 2017 was approximately RMB772,264 representing approximately 133.76 tonnes at an average price of approximately RMB5,774 per tonne.



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## LETTER FROM THE BOARD

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### IV. INTERNAL CONTROL AND MECHANISM TO REGULATE THE TRANSACTIONS CONTEMPLATED UNDER THE FRAMEWORK SUPPLY AGREEMENT

To ensure that the actual prices for the transactions contemplated under the Framework Supply Agreement are on normal commercial terms and on terms no less favourable to the Group than that available from independent third parties, the Group will conduct the following internal control procedures to monitor the Baoyuan Continuing Connected Transactions:

1. Upon the receipt of any purchase order from Baoyuan, the Sales Department of Xinyuan will compare such quotation from Baoyuan with the prices of sales transactions of PSF with same specification of similar quantity and payment terms between the Group and each of two independent customers. If the price quotation from Baoyuan is lower than that from the independent customers, the Sales Department of Xinyuan will have to negotiate a price higher than that of the independent customers. Otherwise, no sales can be transacted.
2. If there is no available sales transactions of PSF with same specification of similar quantity and payment terms between the Group and two independent customers on the same day the order is received from Baoyuan, the Sales Department of Xinyuan shall make enquiries and obtain at least two sales price indication from independent customers or PSF suppliers of the Group; and compare such prices with the quotation from Baoyuan. After obtaining the sales price indication, the Sales Department of Xinyuan will ensure that price is not lower than that of the indication. Upon the agreement of price, quantity and payment terms, the Sales Department of Xinyuan will prepare a sales contract.
3. After compared by the Sales Department of Xinyuan, the sales price will be sent to the Finance Department of Xinyuan for checking. The finance manager of Xinyuan will examine the sales price comparison and check against at least two most recent sales transaction to ensure the comparison is reasonable.
4. After checking by the Finance Department of Xinyuan, the sales contract will be passed to the General Manager of Xinyuan for approval.
5. The Chief Financial Officer of the Group will carry out checking monthly to ensure the procedures have been carried out properly and will monitor the Proposed Annual Caps to ensure they will not be exceeded.
6. In accordance with the Listing Rules, the independent non-executive Directors and the auditors of the Company will also perform an annual review of the terms and implementation of the Baoyuan Continuing Connected Transactions to confirm that the pricing policy and the Proposed Annual Caps remain fair and reasonable and that appropriate internal control procedures are in place.

Given the internal control procedures implemented by the Group and the fact that PSF is considered a commodity which is a kind of basic raw materials for polyester yarns, there is an established market for such basic raw material and actual prevailing range of sale prices or price quotations for any particular type of PSF are generally readily available in the market. The Directors consider the Proposed Approach is viable and practicable.

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## LETTER FROM THE BOARD

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### V. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK SUPPLY AGREEMENT

Xinyuan is involved in the production and sales of PSF. PSF are a type of chemical fibre made of synthetic polymers and are one of the most common raw materials for the manufacturing of polyester yarns. They are also one of the most commonly used chemical fibres in the textile industry. PSF bears a high resemblance to cotton, and are commonly used in the production of apparel. Synthetic polymers, including PSF, are downstream chemical products of oil. Therefore, fluctuations in the price of crude oil affect the price of PSF. Also, differentiation among PSF products with same specifications is low and PSF with same specifications are generally sold at similar prices. The specification of a PSF fiber generally refers its linear mass density (i.e. the weight) and length. The most commonly used units of measurements for weight and length of a fiber are dtex and mini meters (mm) respectively.

Xinyuan currently has installed one production line for PSF with a designed maximum annual capacity of 30,000 tonnes. It has commenced production at the end of 2016 and the current production volume is around 1,500 tonnes per month. Since production has only commenced for a few months, it will take time for Xinyuan's workers to get familiar with the production process and become skilled. The production volume of Xinyuan has yet to reach the optimal level and product quality has been difficult to maintain. Also, the sales of Xinyuan have not been satisfactory. The textile industry, including the chemical fibre industry, in the PRC is highly fragmented; there are many players of different scales. According to the National Bureau of Statistics of China, as of June 2017, there were over 1,800 chemical fibres manufactures with revenue from principal business over RMB20 million. Chemical fibres are commodity type products and are homogenous by nature. PSF is a kind of chemical fibre which is commonly used as a raw material for the production of yarns. Differentiation among PSF with the same specification is limited and competition by taking advantages of particular product attributes is difficult. Given the abundance of supply and lack of product differentiation, the Directors consider the PSF market is very competitive. Xinyuan is a new market participant and its products have yet to establish brand recognition in the market. Currently, sales to other members of the Group account for over 90% of the sales of Xinyuan. The establishment of Xinyuan is to fulfill the Group's strategy of vertical integration. In this connection, Xinyuan supplies PSF to other members of the Group to satisfy their production requirements. However, the Group has a large product portfolio which utilizes different kinds of raw material and might not be able to consume all the production of Xinyuan. Therefore, apart from fulfilling the primary mission of supplying PSF to other members of the Group, Xinyuan will also sell PSF to other yarn manufacturers who are involved in the production of polyester yarns in order to achieve certain economy of scales. Due to unsatisfactory sales performance, Xinyuan has been accumulating inventory. The inventory level as at the end of May 2017 was approximately 5,000 tonnes, representing approximately 3 months of production.

By entering into the Framework Supply Agreement, Xinyuan will be able to achieve the following benefits: i) immediately increases sales and reduces inventory level; ii) increases its client base; iii) increases market awareness of its brand by enlarging its portfolio of regular customers by addition of Baoyuan as Baoyuan is considered a large scale yarn manufacturer with a fairly long trading history; and iv) increases production volume closer to the optimal level and thereby reduces the per unit production cost.

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## LETTER FROM THE BOARD

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The Directors (including the INEDs, having received and considered the advice from the Independent Financial Adviser), consider that the Framework Supply Agreements entered into in the usual and ordinary course of business of the Group and is negotiated on an arm's length basis; and that the terms of the Framework Supply Agreement are on normal commercial terms or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions. As such, they are of the view that the terms of the Baoyuan Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### VI. INFORMATION ON THE PARTIES

The Group is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. For the year ended 31 December 2016, the sales of the products of the Group were approximately as follows: polyester-cotton and viscose-cotton blended yarns (39.7%), polyester yarns (32.6%), cotton yarns (6.1%), viscose and stretchable core viscose yarns (7.8%), grey and deep grey mélange yarns (13.4%) and raw material (0.4%). The Group offers a wide range of products with around 100 types of yarn products of different material mix and yarns counts to cater for different needs of the customers. The Group has a large customer base. As at 31 December 2016, it has over 2,100 customers. The Group does not rely on a few large customers. During the year ended 31 December 2016, sales to the Group's five largest customers accounted for 12.6% of the total sales of the Group for 2016 and sales to the largest customer included therein accounted for 4.3% of the total sales of the Group for the same year. For the year ended 31 December 2016, the sales and profit attributable to the yarn segment of the Group was approximately RMB1,435.9 million and RMB31.1 million respectively. The production capacity of the Group was approximately 690,000 spindles. The production and sales volume of the Group for the year ended 31 December 2016 was approximately 118,709 tonnes and 122,351 tonnes respectively.

Xinyuan is an indirect non-wholly owned subsidiary of the Company and is involved in the production and sales of PSF, which is one of the basic raw materials for yarn production. Xinyuan currently has installed one production line for PSF with a designed maximum annual capacity of 30,000 tonnes. It has commenced production by the end of 2016 and the current production volume is around 1,500 tonnes per month. Xinyuan is currently using recycled plastic chips as the input raw material. For the year ended 31 December 2016, the sales and loss attributable to Xinyuan was approximately RMB2.1 million and RMB4.3 million respectively. As at the Latest Practicable Date, the Company indirectly owns 51% of the equity interests in Xinyuan. The remaining 26% and 23% of the equity interests is owned by Shaoyang Second Weaving Machine Limited Liability Company (邵陽二紡機有限責任公司) and Huang Xiulin, respectively, both of which are independent third parties of the Group.

Baoyuan was established in the PRC in January 2008 and is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. According to information provided by Baoyuan, its production capacity as at the end of 2016 was approximately 400,000 spindles; its production and sales volume for the year ended 31 December 2016 was approximately 75,000 tonnes; it currently offers around 20 different types of yarn products to its customers; and for the year ended 31 December 2016, it was estimated that the sale and production of Baoyuan's polyester yarn products, polyester-cotton products and polyester-viscose products represented 75%, 20% and 5%, respectively, of its total sales and production of yarn products. Baoyuan also confirmed that it is not engaged in the production and/or trading of PSF. As at the Latest Practicable Date, Ms. Lin Xiaochun owned 80% of the equity interests in Baoyuan. The remaining 5%, 10%, 2.5% and 2.5% of the equity interests owned by Huayang Group (Hong Kong) Limited (華陽集團(香港)有限公司), Lin Changxing, Chen Chunying and Zheng Weiwei, respectively, who are all independent third parties of the Group.

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## LETTER FROM THE BOARD

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The Directors consider the textile market in the PRC to be highly fragmented with numerous players. Even Baoyuan is engaged in the same industry as the Group as far as yarn production is concerned, the Directors do not consider any potential competition between the Group and Baoyuan will have a material effect on the operation of the Group, taking into consideration the following factors: 1) The Group has a much larger product portfolio of around 100 products than that of Baoyuan of around 20 products; 2) The Group has a very large and diversified customer base of over 2,100 customers and 3) The Group has been able to sell substantially all its production every year the since its listing in 2011.

### VII. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Ms. Lin Xiaochun owned 80% of the equity interests in Baoyuan. Ms. Lin Xiaochun is the mother of Mr. Zheng Yongxiang, an executive Director of the Company, and Mr. Zheng Hong, an executive Director and the controlling shareholder of the Company. Baoyuan is therefore an associate of Mr. Zheng Yongxiang and Mr. Zheng Hong and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Baoyuan Continuing Connected Transactions constitute continuing connected transactions of the Company and as one or more of the applicable Percentage Ratios in respect of the largest Proposed Annual Caps exceed 5%, the Baoyuan Continuing Connected Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Mr. Zheng Yongxiang, an executive Director and Mr. Zheng Hong, an executive Director and the controlling shareholder of the Company, have abstained from voting on the board resolutions approving the Framework Supply Agreement (including the Proposed Annual Caps thereof).

### EGM

A notice convening the EGM to be held at the Conference Room, 2nd Floor, the Office Building, Jinyuan Textile Company Limited, Jiangxi, Fengtian Development Zone, Fengxin County, Jiangxi Province, the PRC, at 10:30 a.m. on Friday, 8 September 2017 is set out in this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the Framework Supply Agreement (including the Proposed Annual Caps thereunder).

The ordinary resolution to be proposed at the EGM to approve the Framework Supply Agreement (including the Proposed Annual Caps thereunder) will be determined by way of poll by the Shareholders. Mr. Zheng Hong, Mr. Zheng Yongxiang (1.88%) and their respective associates (including Popular Trend Holdings Limited (41.07%)), who together held approximately 42.95% of the voting rights in the Company's general meeting as at the Latest Practicable Date, will be required to abstain from voting at the EGM in respect of the ordinary resolution to approve the Framework Supply Agreement (including the Proposed Annual Caps thereunder).

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Share Registrar and Transfer Office, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

An Independent Board Committee comprising all independent non-executive Directors has been set up to advise the Independent Shareholders in relation to the Framework Supply Agreement (including the Proposed Annual Caps thereunder). Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in relation to the Framework Supply Agreement (including the Proposed Annual Caps thereunder). The Directors (including the INEDs, having received and considered the advice from the Independent Financial Adviser) consider that the Agreement is entered into in the usual and ordinary course of business of the Group, is negotiated on an arm's length basis and on normal commercial terms or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions, and the terms of the Baoyuan Continuing Connected Transaction are fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of the EGM enclosed to this circular.

### GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Giraffe Capital Limited and the additional information set out in the appendix to this circular and the notice of the EGM.

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 5 September 2017 to Friday, 8 September 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 September 2017.

Yours faithfully,  
For and on behalf of the Board of  
**China Weaving Materials Holdings Limited**  
**Zheng Hong**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD

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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: 3778)**

18 August 2017

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTION FRAMEWORK SUPPLY AGREEMENT WITH BAOYUAN**

We refer to the circular (the “**Circular**”) dated 18 August 2017 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to advise you whether, in its opinion, the terms of the Framework Supply Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out in their letter set out on pages 13 to 21 of the Circular. Your attention is also drawn to the “Letter from the Board” set out on pages 3 to 11 of the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Framework Supply Agreement, and the advice of the Independent Financial Adviser, we consider that the Framework Supply Agreement is entered into in the usual and ordinary course of business of the Group and is negotiated on an arm’s length basis; and that the terms of the Framework Supply Agreement are on normal commercial terms or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions. As such, we are of the view that the terms of the Framework Supply Agreement and the Baoyuan Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps.

Yours faithfully,

**Independent Board Committee**

**Zhang Baixiang**

**Xu Yiliang**

**Ng Wing Ka**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The following is the full text of the letter received from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this Circular.*



**Giraffe Capital Limited**

18 August 2017

*To the Independent Board Committee and the Independent Shareholders of  
China Weaving Materials Holdings Limited*

Dear Sir/Madam,

### **CONTINUING CONNECTED TRANSACTION FRAMEWORK SUPPLY AGREEMENT WITH BAOYUAN**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Supply Agreement and the Proposed Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 18 August 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 7 July 2017, Xinyuan, an indirect subsidiary of the Company, entered into the Framework Supply Agreement with Baoyuan in relation to the supply of PSF by Xinyuan to Baoyuan for a term commencing from the Effective Date to 30 June 2020.

As at the Latest Practicable Date, Ms. Lin Xiaochun owns 80% of the equity interests in Baoyuan. Ms. Lin Xiaochun is the mother of Mr. Zheng Yongxiang, an executive Director of the Company, and Mr. Zheng Hong, an executive Director and the controlling shareholder of the Company. Baoyuan is therefore an associate of Mr. Zheng Yongxiang and Mr. Zheng Hong and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Baoyuan Continuing Connected Transactions constitute continuing connected transactions of the Company and as one or more of the applicable Percentage Ratios in respect of the largest Proposed Annual Caps exceed 5%, the Baoyuan Continuing Connected Transactions are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Zhang Baixiang, Mr. Xu Yiliang and Mr. Ng Wing Ka, JP, has been established to advise the Independent Shareholders as to (i) whether the terms of Framework Supply Agreement and the Proposed Annual Caps are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) how to vote in respect of the resolutions to approve the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps at the EGM. We, Giraffe Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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We consider that we have been provided with sufficient information to reach an informed opinion and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Xinyuan, Baoyuan, and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the Framework Supply Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Framework Supply Agreement and the Proposed Annual Caps, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Framework Supply Agreement and the Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group, Xinyuan and Baoyuan

##### *The Group and Xinyuan*

As disclosed in the Letter from the Board, the Group is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. The yarns products of the Group includes polyester yarns, polyester-cotton and viscose-cotton blended yarns, cotton yarns, viscose and stretchable core viscose yarns and grey and deep grey mélange yarns.

Xinyuan is an indirect non-wholly owned subsidiary of the Company and is engaged in the manufacturing and trading of PSF. As disclosed in the Letter from the Board, Xinyuan currently has installed one production line for PSF with a designed maximum annual production capacity of 30,000 tonnes.

##### *Baoyuan*

Baoyuan was established in the PRC in January 2008 and is principally engaged in the business of manufacturing and trading of yarns products and related raw materials.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 2. Reasons for and benefits of entering into the Framework Supply Agreement

As disclosed in the Letter from the Board, PSF are a type of chemical fibre made of synthetic polymers and are one of the most common raw materials for the manufacturing of polyester yarns. They are also one of the most commonly used chemical fibres in the textile industry.

As advised by the management of the Company, the production volume of Xinyuan has yet to reach the optimal level and product quality has been difficult to maintain. Also, the sales of Xinyuan have not been satisfactory as PSF with the same specification have little differentiation and the market is very competitive. Xinyuan is a new market participant and its products have yet to establish brand recognition in the market. Currently, sales to other members of the Group account for over 90% of the sales of Xinyuan. Due to unsatisfactory sales performance, Xinyuan has been accumulating inventory.

According to the annual report of the Company for the year ended 31 December 2016, the establishment of Xinyuan was the Group's first step into upward vertical integration and it has commenced trial production of PSF in November 2016. While for the year ended 31 December 2016, the Company recorded a loss of RMB 4,291,000 in relation to the manufacturing and trading of PSF.

According to the "Guidance Opinion on the Development of Chemical Fibre Industry under 13th Five-year Plan" issued by the Ministry of Industry and Information Technology and the National Development and Reform Commission of the PRC, the chemical fibre industry in China currently faces challenges such as excess capacity, decreased profitability, low self-innovation capacity and low differentiation in products. According to the National Bureau of Statistics of China, as of June 2017, there were over 1,800 enterprises above designated size, which refers to industrial enterprises with revenue from principal business over RMB20 million, engaged in manufacturing of chemical fibres. We have reviewed a market research on the development of PSF market in China issued by the China Chemical Fibre website, the PSF market in China also faced challenges of stagnant demand and excess capacity. According to this market research, the average annual growth rate of PSF actual production volume in China from 2007 to 2016 was around 2.5%, which was lower than the average annual growth rate of 4.9% in PSF production capacity in China for the same period. The average annual growth rate of PSF actual production volume in China was only around 1% for the recent five years.

As advised by the management of the Company, although the Group and Baoyuan are engaged in the business of manufacturing and trading of yarns products and related raw materials, Baoyuan only uses PSF in its production of yarns products and is not engaged in manufacturing and trading of PSF. We have reviewed the official website of Baoyuan and we noted that there was no PSF product in its product catalogue. We concur with the view of the Directors that there is no competition between the Group and Baoyuan with respect to the manufacturing and trading of PSF and the Baoyuan Continuing Connected Transactions.

In light of (i) the intense competition of the PSF market; (ii) Xinyuan is a new market participant and it will take time to establish brand recognition in the market and enhance product quality; (iii) sales to Baoyuan can help improve the unsatisfactory sales performance of Xinyuan; (iv) sales to Baoyuan can immediately reduce the accumulated inventory level of PSF; and (v) the Framework Supply Agreement does not restrict Xinyuan to supply PSF to other third parties and Xinyuan will only supply PSF to Baoyuan on terms no less favorable than those which the Group would have obtained from independent

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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third party, we concur with the view of the Directors that entering into the Framework Supply Agreement can allow Xinyuan to (i) immediately increase sales and reduce inventory level of PSF; (ii) increase its client base; (iii) increase market awareness of its brand; (iv) increase production volume closer to the optimal level and thereby reduce the per unit production cost. We further concur with the view of the Directors that the Baoyuan Continuing Connected Transactions are in the ordinary and usual course of business and the entering into of the Framework Supply Agreement is in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Framework Supply Agreement**

#### *Items supplied*

Pursuant to the Framework Supply Agreement, Xinyuan shall supply PSF which meet Baoyuan's quality and specification requirements, with a monthly cap of 900 tonnes (which is subject to adjustment by mutual agreement between the parties from time to time) with reference to the pricing method and procedures as explained below.

#### *Pricing method and the procedures*

Pursuant to the Framework Supply Agreement, the unit price and payment terms for each sale and purchase transaction shall be determined and agreed between Xinyuan and Baoyuan by reference to the average quoted price of PSF (i.e. reasonable market prices of PSF) and other payment terms at which Xinyuan could sell the same type of PSF in similar quantities to independent third parties (whether local or overseas) at the time. For the purpose of obtaining the reasonable market prices of PSF, Xinyuan will seek quotations from at least two independent parties seeking to purchase or supply the same type of PSF in similar quantities. Xinyuan will only supply PSF to Baoyuan on terms no less favorable than those which the Group would have obtained from independent third party. The Group will not confirm any price quotation from Baoyuan which does not meet such criteria. We are advised by the management of the Company that quotations from independent third parties are available for comparison purposes because (i) Xinyuan has established business relationship with a number of PSF customers which are independent third parties, and (ii) the other members of the Group have established business relationship with a number of PSF suppliers which are independent third parties. The prices of PSF offered by PSF suppliers and asked by PSF customers are both good indicators of market prices of PSF. We have reviewed the list of existing PSF customers of Xinyuan and the list of existing PSF suppliers of the Group and we noted that there are a number of independent PSF customers and PSF suppliers which the Group can contact for quotation of PSF prices. Therefore, we believe that it would be practicable for Company to seek quotations from at least two independent third parties and we concur with the view of the Directors that quotations from independent third parties are available for comparison purposes. As advised by the management of the Company, the Group has implemented internal control measures to monitor the operation of Baoyuan Continuing Connected Transactions. We have reviewed the internal control policy on pricing for Baoyuan Continuing Connected Transactions provided by the Company and reviewed sample transactions entered into between Xinyuan and Baoyuan. We noted that (i) quotations from two independent third parties were obtained by the Group's sales department for each transaction entered into between Xinyuan and Baoyuan (the "Quotations Process"); (ii) such quotations were compared with the transaction

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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to be entered into between Xinyuan and Baoyuan by the Group's finance department (the "Comparison Process"), and (iii) the transaction was then reviewed by Group's chief financial officer (the "Review Process"). As (i) the Quotations Process will ensure independent quotations will be obtained for comparison for each transaction to be entered into between Xinyuan and Baoyuan; (ii) the Comparison Process will ensure the Baoyuan Continuing Connected Transactions will be transacted only at terms no less favourable than those obtained from independent third party; (iii) the Review Process will ensure that the pricing policy and internal control measures will be carried out properly; and (iv) there is a segregation of duties in the Quotations Process, Comparison Process and Review Process, we considered that the pricing approach for Baoyuan Continuity Connected Transaction is a viable and practicable measure to determine pricing and appropriate internal control measures are in place by the Group to ensure the Baoyuan Continuing Connected Transactions are transacted at pricing basis stipulated in the internal control policy.

As disclosed in the Letter from the Board, Xinyuan had since June 2017 supplied PSF to Baoyuan. The historical transaction amount between Xinyuan and Baoyuan for June 2017 was approximately RMB772,264 representing approximately 133.76 tonnes at an average price of approximately RMB5,774 per tonne. We have reviewed and compared several sample transactions entered into between Xinyuan and Baoyuan and those entered into between the Group and other independent third parties during the same period of time respectively. We noted that the average unit prices of the same type of PSF charged by Xinyuan to Baoyuan were no less favorable than those charged by the Group to the independent third parties during the same period of time and the transactions between Xinyuan and Baoyuan were conducted on normal commercial terms.

### *Duration*

The Framework Supply Agreement is effective on the date on which approval of the Framework Supply Agreement and the Baoyuan Continuing Connected Transactions by the Independent Shareholders at the EGM, as required under the Listing Rules, has been obtained (the "Effective Date").

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 4. The Proposed Annual Caps

As stated in the Letter from the Board, the Proposed Annual Caps for the Baoyuan Continuing Connected Transactions for the following periods are based on the following estimated volumes and average prices per tonne:

	<b>For the year ending 31 December 2017 (Note 1)</b>	<b>From 1 January 2018 to 31 December 2018</b>	<b>From 1 January 2019 to 31 December 2019</b>	<b>From 1 January 2020 to 30 June 2020</b>
Proposed Caps	RMB40,000,000	RMB85,000,000	RMB95,000,000	RMB50,000,000
Forecasted Volume	6,300 tonnes (Note 2)	10,800 tonnes	10,800 tonnes	5,400 tonnes
Forecasted average price per tonne	RMB6,350	RMB7,900	RMB8,800	RMB9,300

*Note 1:* The Proposed Annual Cap for the year ending 31 December 2017 stands as a four-month annual cap as the Framework Supply Agreement becomes effective on the Effective Date which is expected to be 8 September 2017.

*Note 2:* This forecasted volume is based on a monthly volume of 900 tonnes from the production from September to December 2017 plus sale of existing inventory of 2,700 tonnes.

As advised by the management of the Company, the Proposed Annual Caps have been determined with reference to:

- (i) the historical transaction amounts between the Group and its suppliers in relation to PSF;
- (ii) average market prices of PSF; and
- (iii) expected movement in market prices of PSF during the term of the Framework Supply Agreement.

According to the Letter from the Board, the designed maximum annual production capacity of the current production line for PSF of Xinyuan is 30,000 tonnes and the current production volume is around 1,500 tonnes per month. According to the Framework Supply Agreement, Xinyuan will supply PSF to Baoyuan with a monthly cap of 900 tonnes, representing an annual cap of 10,800 tonnes. As the Proposed Annual Caps of 10,800 tonnes only accounted for approximately 36% of the maximum annual production capacity of Xinyuan, we concur with the view of the Directors that Xinyuan is able to supply the estimated volume of PSF under the Framework Supply Agreement.

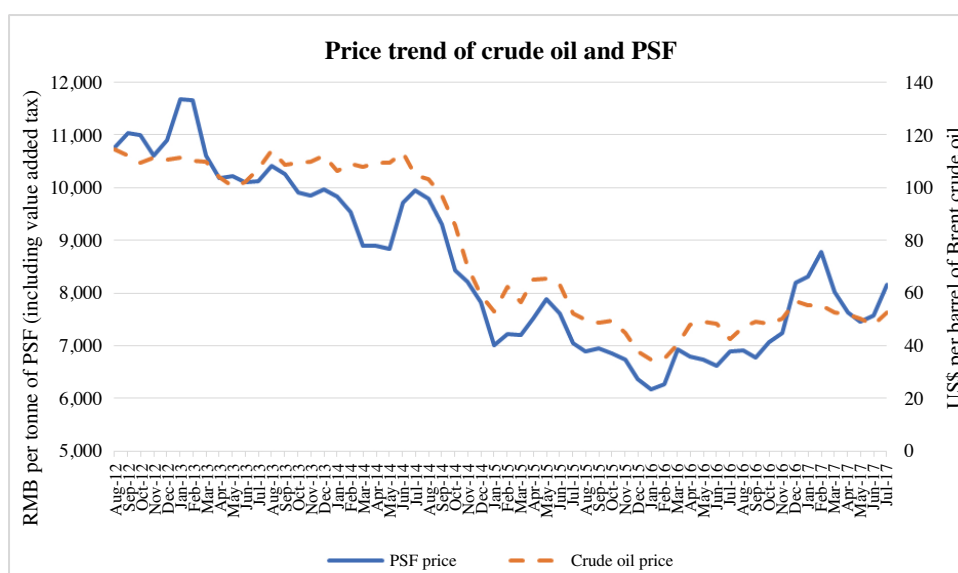
As disclosed in the Letter from the Board, there are many different specifications for PSF, which could be manufactured with PTA or recycled plastic chips. The prices of PSF manufactured with recycled plastic chips are generally lower than that of PSF manufactured with PTA. Xinyuan has been involved in the production of PSF manufactured with recycled plastic chips. Its production facilities could be converted into the production of PSF using PTA if market opportunities arise. We have reviewed the market prices of PSF manufactured with PTA and PSF manufactured with recycled plastic chips respectively and noted that the market prices of PSF manufactured with PTA are generally higher than those of PSF manufactured with recycled plastic chips.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In order to assess the fairness and reasonableness of the forecasted average price of PSF per tonne, we have discussed the basis and assumptions with the management of the Company and noted that the average price of PSF per tonne for respective periods of the Proposed Annual Caps are determined with reference to the Company's view that (i) the price of crude oil is expected to increase during the same periods of the Proposed Annual Caps and the price of PSF normally have a positive correlation with that of crude oil; (ii) the product quality of PSF manufactured by Xinyuan is expected to enhance as workers get more familiar with the production process and become skilled, which allows the Company to charge higher prices; and (iii) a buffer of 10% for price increase in order to allow for the flexibility to the production of PSF to adapt to a different specification.

We have reviewed the crude oil price forecast made by the World Bank, which anticipated that the crude oil price is expected to increase from 2017 to 2020. We have conducted an analysis on the historical price of crude oil on Bloomberg in the past five years and compared such with the market price of PSF manufactured with PTA during the same period. We noted that the trend of the price of crude oil and the price of PSF show a positive correlation.

The chart below sets forth the price trend of crude oil and PSF manufactured with PTA from August 2012 to July 2017:



Source: Bloomberg; The China Chemical Fibre website 中國化纖信息網 ([www.ccf.com.cn](http://www.ccf.com.cn))

The China Chemical Fibre website is an online platform for information on the chemical fibres industry. It provides weekly updates on major price indices for the industry. It also publishes industry reports on a regular basis.

We have discussed with the management of the Company and reviewed the production process of PSF by the Group and noted that some production procedures involve manual operations such as filtering impurities from recycled plastic chips, handling the feeding of plastic chips into machineries, resetting of machineries during production and monitoring of overall production environment including temperature and cleanliness, which will in turn affect the uniformity and quality of PSF produced. We have reviewed

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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the market prices of PSF and noted that the prices of PSF vary from different categories, namely, large chemical fibre (大化纖), imitation of large chemical fibre (仿大化纖), medium chemical fibre (中化纖) and small chemical fibre (小化纖). While the PSF under the large chemical fibre category is generally characterised by the highest purity and quality, the PSF under the small chemical fibre category contains more impurities and lower quality. We noted from the market prices of PSF publicly quoted on the internet that, for the same linear mass density and length, the price of PSF under the large chemical fibre or imitation of large chemical fibre categories were higher than the price of PSF under medium chemical fibre or small chemical fibre categories. Therefore, we concur with the view of the Directors that the skills of workers will have impact on the product quality of PSF and therefore the price of PSF.

We also believe that it is reasonable to include a buffer in the forecasted average price of PSF to accommodate any unforeseeable circumstances such as unexpected increase in the cost of production or demand for PSF.

Taking into consideration of the above, we concur with the view of the Directors that the assumptions made and the factors used to determine the Proposed Annual Caps are fair and Reasonable.

### OPINION AND RECOMMENDATION

Taking into consideration the factors and reasons as stated above, we are of the opinion that:

- (i) the terms of the Framework Supply Agreement and the Proposed Annual Caps are fair and reasonable;
- (ii) the Baoyuan Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; and
- (iii) the entering into of the Framework Supply Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to approve the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**Giraffe Capital Limited**  
**Johnson Chen**  
*Managing Director*

*Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 9 years of experience in the field of corporate finance advisory.*



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of providing information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of SFO) which (i) were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of SFO); or (ii) were recorded in the register required to be kept by the Company under Section 352 of SFO; or (iii) were required by the code for securities transactions by Directors adopted by the Company ("Securities Dealing Code for Directors"), which is on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Zheng Hong <sup>(1)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
Mr. Sze Irons, <i>BBS, JP</i> <sup>(2)</sup>	Interest of a controlled corporation	Long position	135,135,000 Shares	10.79%
Mr. Zheng Yongxiang	Beneficial owner	Long position	23,509,200 Shares	1.88%

*Notes:*

- (1) These Shares are held by Popular Trend Holdings Limited ("**Popular Trend**"), the entire issued share capital of which is owned by Mr. Zheng Hong.
- (2) These Shares are held by Flourish Talent Group Limited ("**Flourish Talent**"), the entire issued share capital of which is owned by Mr. Sze Irons, *BBS, JP*.



Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company: (a) was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register of members of the Company; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange. For this purpose, the relevant provisions of the SFO will be interpreted as if applied to the Supervisors.

### Substantial Shareholders' Interests and Short Positions

To the best knowledge of the Directors or chief executive of the Company, as at Latest Practicable Date, the interests or short positions of substantial Shareholders (other than Directors or the chief executive of the Company) in the Shares or underlying Shares which (i) have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or (ii) were recorded in the register required to be kept by the Company under Section 336 of SFO were as follows:

Name of Shareholder	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Popular Trend <sup>(1)</sup>	Beneficial owner	Long position	514,305,000 Shares	41.07%
Flourish Talent <sup>(2)</sup>	Beneficial owner	Long position	135,135,000 Shares	10.79%
Da Yu Investments <sup>(3)</sup>	Beneficial owner	Long position	67,567,500 Shares	5.40%
Ms. Xie Meijing <sup>(3)</sup>	Interest of a controlled corporation	Long position	67,567,500 Shares	5.40%
CCB International Overseas Limited <sup>(4)</sup>	Security interest	Long position	514,305,000 Shares	41.07%
CCB International (Holdings) Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB Financial Holdings Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%

Name of Shareholder	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
CCB International Group Holdings Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
China Construction Bank Corporation <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
Central Huijin Investment Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB International Overseas Limited <sup>(5)</sup>	Beneficial owner	Long position	227,000,000 Shares	18.13%
CCB International (Holdings) Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB Financial Holdings Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB International Group Holdings Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
China Construction Bank Corporation <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
Central Huijin Investment Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%

*Notes:*

1. Popular Trend is wholly-owned by Mr. Zheng Hong.
2. Flourish Talent is wholly-owned by Mr. Sze Irons *BBS, JP*.
3. Da Yu Investments Limited (“**Da Yu Investments**”) is wholly-owned by Ms. Xie Meijing (“**Ms. Xie**”). For the purpose of Part XV of the SFO, Ms. Xie is deemed to be interested in the Shares held by Da Yu Investments.
4. For the purpose of Part XV of the SFO, Central Huijin Investment Limited (中央匯金投資有限責任公司) is deemed to be interested in the underlying Shares in respect of the security interest in the Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:
  - 4.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment Limited.
  - 4.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.

- 4.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.
  - 4.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.
  - 4.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.
  - 4.6 Popular Trend, a controlling shareholder of the Company, mortgaged 514,305,000 Shares to CCB International Overseas Limited on 9 August 2016 as security for the HK\$50,000,000 redeemable fixed coupon notes and HK\$110,000,000 redeemable fixed coupon convertible bond issued by the Company on 9 August 2016.
- 5 For the purpose of Part XV of the SFO, Central Huijin Investment Limited (中央匯金投資有限責任公司) is deemed to be interested in the underlying Shares in respect of the right to acquire Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:
- 5.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment Limited.
  - 5.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.
  - 5.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.
  - 5.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.
  - 5.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.
  - 5.6 The Company issued the HK\$110,000,000 redeemable fixed coupon convertible bond to CCB International Overseas Limited which carries conversion rights to convert up to 227,000,000 conversion shares at the conversion price (being the initial price of HK\$0.45 per conversion share which is subject to adjustment) on 9 August 2016.

Save as disclosed above, as at Latest Practicable Date, none of the substantial Shareholders (other than Directors or chief executives of the Company) had informed the Company that they had any interests or short positions which (i) shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or (ii) shall be recorded in the register required to be kept by the Company under Section 336 of SFO.

### 3. FURTHER INFORMATION CONCERNING DIRECTORS

#### (a) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation other than statutory compensation.

**(b) Directors' interest in competing business**

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or any of their respective close associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**(c) Directors' interest in assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2016, the date to which the latest audited financial statements of the Company were made up.

**(d) Directors' interest in contracts**

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up.

**5. EXPERT'S QUALIFICATION AND CONSENT**

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Giraffe Capital Limited	a licensed corporation permitted to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its respective letter, which has been prepared for the purpose of incorporation into this circular, or references to its name in the form and context in which it appears. As at Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at Latest Practicable Date, the above expert had no direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2016 (the date to which the latest published audited combined financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to any member of the Group.

**6. GENERAL**

- (a) The registered office of the Company is at Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is Unit 806, 8/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (c) The Company's share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Cheung Chi Fai Frank who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text for the purpose of interpretation.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the Company's principal place of business in Hong Kong at Room 806, 8/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Framework Supply Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 12 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 13 to 21 of this circular;
- (d) the written consent of the expert as referred to in the section headed "Expert's Qualification and Consent" in this appendix; and
- (e) this circular.

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## NOTICE OF THE EGM

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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: 3778)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of China Weaving Materials Holdings Limited (the “**Company**”) will be held at the Conference Room, 2nd Floor, the Office Building, Jinyuan Textile Company Limited, Jiangxi, Fengtian Development Zone, Fengxin County, Jiangxi Province, the PRC, at 10:30 a.m. on Friday, 8 September 2017 for the purpose of considering and, if thought fit, passing the following resolution:

### ORDINARY RESOLUTION

**“THAT:**

- (a) the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps as set out in the circular to the shareholders of the Company dated 18 August 2017 be approved; and
- (b) any one director of the Company be and is hereby authorised on behalf of the Company to execute all such documents, in such final form or with such amendments as that director may deem appropriate, and to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the Framework Supply Agreement and the transactions contemplated therein.”

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

Hong Kong, 18 August 2017

*Notes:*

1. Any member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or, if he is the holder of two or more Shares, one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the commencement of the Extraordinary General Meeting or any adjournment thereof.

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## NOTICE OF THE EGM

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3. For the purpose of determining the Shareholders entitled to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Tuesday, 5 September 2017 to Friday, 8 September 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Extraordinary General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 September 2017.
4. In the case of joint holders of a Share, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr. Zheng Yongxiang, Mr. Zheng Hong and their respective associates (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolution.
7. The ordinary resolution as set out above will be determined by way of a poll.