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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**

The Board announces that 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.

As at the date of this announcement, Baoyuan is owned as to 79.8% by Ms. Lin Xiaochun. 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 under Chapter 14A of the Listing Rules.

A circular containing, among other information, (a) further details of the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps; (b) a letter from the IFA to the Independent Board Committee and the Independent Shareholders containing its advice on the same; (c) recommendation of the Independent Board Committee to the Independent Shareholders on the same; and (d) a notice to convene the EGM to approve, among other things, the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps, is currently expected to be despatched to the Shareholders on or before 28 July 2017.

#### **I. INTRODUCTION**

The Board announces that 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. Baoyuan is an associate of Mr. Zheng Yongxiang and Mr. Zheng Hong, both executive Directors, and thus a connected person of the Company under Chapter 14A of the Listing Rules.

## 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

**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. 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 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.

## 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, (ii) average market prices of PSF and (iii) anticipated growth of the production volume of PSF of Xinyuan.

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. The Company undertakes that prior to the approval of the Framework Supply Agreement by the Independent Shareholders at the EGM, it will not sell to Baoyuan to the extent that any of the Percentage Ratios in respect of the transaction amounts would exceed 5% or the transaction amounts be more than HK\$3,000,000.

#### **IV. 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 bear a high resemblance to cotton, and are commonly used in the production of apparel. Synthetic polymers are downstream chemical products of oil. Therefore, fluctuations in the price of crude oil affect the price of PSF. Also, PSF have little differentiation and PSF with same specifications are generally sold at similar prices.

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 as PSF 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. 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, iv) increases production volume closer to the optimal level and thereby reduces the per unit production cost.

The Directors (other than the independent non-executive Directors, whose views and opinions will be included in the circular to be despatched to the Shareholders), 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, 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.

#### **V. INFORMATION ON THE PARTIES**

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. The manufacturing facilities of the Group are based in Fengxin County, Jiangxi Province, the PRC. As at the end of 2016, 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 the production and sales of PSF. As at the date of this announcement, the Company indirectly owns 51.0% of the equity interests in Xinyuan.

Baoyuan was established in the PRC in January 2008 and is principally engaged in in the business of manufacturing and trading of yarns products and related raw materials. As at the date of this announcement, Ms. Lin Xiaochun owns 79.8% of the equity interests in Baoyuan.

## **VI. IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, Ms. Lin Xiaochun owns 79.8% 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.

## **VII. EGM AND CIRCULAR**

The EGM will be convened and held for the Independent Shareholders to consider, and if thought fit, approve the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps. Mr. Zheng Yongxiang, Mr. Zheng Hong and their associates shall abstain from voting on the resolutions.

A circular containing, among other information, (a) further details of the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps; (b) a letter from the IFA to the Independent Board Committee and the Independent Shareholders containing its advice on the same; (c) recommendation of the Independent Board Committee to the Independent Shareholders on the same; and (d) a notice to convene the EGM to approve, among other things, the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps, is currently expected to be despatched to the Shareholders on or before 28 July 2017.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps. Each of the members of the Independent Board Committee has confirmed that he or she has no material interest in the Baoyuan Continuing Connected Transactions.

The Company will appoint an IFA to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps.

## VIII. DEFINITIONS

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

“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 79.8% owned by Ms. Lin Xiaochun as at the date of this announcement
“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)
“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)”	directors of the Company
“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
“IFA”	independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Supply Agreement, the Baoyuan Continuing Connected Transactions and the Proposed Annual Caps

“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 associates, who are not required to abstain from voting at the EGM
“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 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
“Shareholder(s)”	shareholder(s) 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 51.0% indirectly owned by the Company as at the date of this announcement

*\*English names of the PRC entities are literal translation of their Chinese names and are included for identification purpose only.*

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

Hong Kong, 7 July 2017

*As at the date of this announcement, the Board comprises Mr. Zheng Hong, Mr. Zheng Yongxiang as the executive Directors; Mr. Sze Irons, BBS, JP, as the non-executive Director; and Ms. Zhang Baixiang, Mr. Xu Yiliang and Mr. Ng Wing Ka, JP as the independent non-executive Directors.*