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China Hongqiao Group Limited
中國宏橋集團有限公司

(Incorporated under the laws of Cayman Islands with limited liability)
(Stock Code: 1378)

CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO WEIQIAO STEAM SUPPLY AGREEMENT AND
RENEWAL OF BINZHOU STEAM SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 3 July 2015. According to the aforesaid announcement, Binzhou City Hongnuo, an indirectly wholly-owned subsidiary of the Company, and Binzhou Industrial Park entered into the Old Binzhou Steam Supply Agreement in relation to the supply of steam by Binzhou City Hongnuo to Binzhou Industrial Park for the period from 3 July 2015 to 31 December 2017 (both days inclusive).

The Board would like to announce that, on 20 October 2017, (i) Hongli Thermal Power, an indirectly wholly-owned subsidiary of the Company, and Ming Hong Textile entered into the Weiqiao Steam Supply Agreement in relation to the supply of steam by Hongli Thermal Power to Ming Hong Textile for the production needs in Weiqiao Production Base for the period from 20 October 2017 to 31 December 2019 (both days inclusive); and (ii) Binzhou City Hongnuo, an indirectly wholly-owned subsidiary of the Company, and Binzhou Industrial Park entered into the Binzhou Steam Supply Agreement in relation to the supply of steam by Binzhou City Hongnuo to Binzhou Industrial Park for the production need in the Binzhou Production Base for the period from 1 January 2018 to 31 December 2019 (both days inclusive).

Each of Hongli Thermal Power and Binzhou City Hongnuo is an indirectly wholly-owned subsidiary of the Company. Ming Hong Textile is a wholly-owned subsidiary of Weiqiao Textile, and Binzhou Industrial Park is a non-wholly owned subsidiary of Weiqiao Textile, which is owned as to 63.45% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and the controlling shareholder of the Company. Accordingly, each of Ming Hong Textile and Binzhou Industrial Park is a connected person of the Company under the Listing Rules. The entering into of the Steam Supply Agreements and the Continuing Connected Transactions thus constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Continuing Connected Transactions, on aggregation basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. WEIQIAO STEAM SUPPLY AGREEMENT

The material terms of the Weiqiao Steam Supply Agreement are set out as follows:

1. **Date:** 20 October 2017
2. **Parties:**
 - (1) Hongli Thermal Power, an indirectly wholly-owned subsidiary of the Company; and
 - (2) Ming Hong Textile
3. **Connected person:** Ming Hong Textile
4. **Transaction nature:** Hongli Thermal Power and Ming Hong Textile entered into the Weiqiao Steam Supply Agreement on 20 October 2017, pursuant to which, Hongli Thermal Power agreed to supply steam to Ming Hong Textile for the production needs in Weiqiao Production Base for the period from 20 October 2017 to 31 December 2019 (both days inclusive).
5. **Pricing basis and Payment Term:** The price of steam shall be RMB150 per ton (VAT inclusive). The price of steam supplied by Hongli Thermal Power to Ming Hong Textile is determined by reference to the market prices of the comparable types of the steam used for production supplied by other suppliers to any independent third parties in Weiqiao Town, Binzhou City, Shandong Province, the PRC. Hongli Thermal Power shall provide the evidence of such market prices to Ming Hong Textile upon the request of Ming Hong Textile. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Weiqiao Steam Supply Agreement.

The Directors confirmed that the pricing basis agreed between Hongli Thermal Power and Ming Hong Textile for the supply of steam is fair and reasonable, negotiated on an arm's length basis and constitutes a normal commercial term.

Hongli Thermal Power would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by Ming Hong Textile for that month. The expenses undue shall not be included in such account book. Ming Hong Textile shall, within the first twenty (20) business days of the following month, pay the amount due in full.

6. Termination and renewal:

Either party to the Weiqiao Steam Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Weiqiao Steam Supply Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules) unless either party decides not to renew it and give a thirty (30) days prior written notice to the counterparty accordingly.

7. Maximum aggregate annual value:

Set out below are the estimated maximum transaction value for steam (excluding VAT) which is estimated to be payable by Ming Hong Textile to Hongli Thermal Power and the estimated maximum sales volume of steam to be supplied under the Weiqiao Steam Supply Agreement, for the period from 20 October 2017 to 31 December 2017 and each of the two financial years ending 31 December 2019:

	For the period from 20 October 2017 to 31 December 2017 <i>(RMB million)</i> <i>(excluding VAT)</i>	For the year ending 31 December 2018 2019 <i>(RMB million)</i> <i>(RMB million)</i> <i>(excluding VAT)</i> <i>(excluding VAT)</i>	
Estimated transaction value	8.58	8.58	8.58
Estimated sales volume (ton)	64,000	64,000	64,000

The estimated maximum transaction values of the steam to be supplied by Hongli Thermal Power to Ming Hong Textile for the period from 20 October 2017 to 31 December 2017 and the two financial years ending 31 December 2019, are determined with reference to (i) the estimated use of steam at the maximum rate of the capacity utilization of the textile production equipment at Weiqiao Production Base, i.e. 100% and the rate of the capacity utilization of the textile production equipment at Weiqiao Production Base for the six months ended 30 June 2017, i.e. 70%; (ii) the historical sales amounts of steam supplied by Weiqiao Chuangye Group to Ming Hong Textile under the Weiqiao Chuangye Steam Supply Agreement for the nine months ended 30 September 2017, i.e. 33,313 ton; and (iii) the price of steam supplied by Hongli Thermal Power to Ming Hong Textile under the Weiqiao Steam Supply Agreement, i.e. RMB150 per ton.

As the supply of steam under the Weiqiao Chuangye Steam Supply Agreement and the Weiqiao Steam Supply Agreement is both for the purpose of the production needs in Weiqiao Production Base, the historical sales volume under the Weiqiao Chuangye Steam Supply Agreement is referred.

For illustration purpose only, the historical consideration paid and annual caps and the historical sales volume for the steam supplied by Weiqiao Chuangye Group to Ming Hong Textile for the period from 3 July 2015 to 31 December 2015, the financial year ended 31 December 2016 and the nine months ended 30 September 2017 are as follows:

	For the period from 3 July 2015 to 31 December 2015 <i>(RMB million)</i> <i>(excluding VAT)</i>	For the year ended 31 December 2016 <i>(RMB million)</i> <i>(excluding VAT)</i>	For the nine months ended 30 September 2017 <i>(RMB million)</i> <i>(excluding VAT)</i>
Historical consideration paid	4.35	8.23	4.44
Historical annual caps	13.62	13.62	13.62
Historical sales volume (ton)	32,737	61,969	33,313

The formula for calculating the above estimated maximum transaction value is set out below:

$33,313 \text{ ton} \times (12/9) \times (100\%/70\%) \times \text{RMB}150/\text{ton} = \text{RMB}9.518$ million (VAT inclusive)

$\text{RMB}9.518 \text{ million} / (1 + 11\%) = \text{RMB}8.575 \text{ million}$ (VAT exclusive)

B. RENEWAL OF BINZHOU STEAM SUPPLY AGREEMENT

The material terms of the renewed Binzhou Steam Supply Agreement are set out as follows:

- 1. Date:** 20 October 2017
- 2. Parties:**
 - (1) Binzhou City Hongnuo, an indirectly wholly-owned subsidiary of the Company; and
 - (2) Binzhou Industrial Park
- 3. Connected person:** Binzhou Industrial Park
- 4. Transaction nature:** Binzhou City Hongnuo and Binzhou Industrial Park entered into the Old Binzhou Steam Supply Agreement on 3 July 2015, pursuant to which, Binzhou City Hongnuo agreed to supply steam to Binzhou Industrial Park for a period from 3 July 2015 to 31 December 2017 (both days inclusive) for its production use. On 20 October 2017, Binzhou City Hongnuo and Binzhou Industrial Park entered into the renewed Binzhou Steam Supply Agreement, for a period from 1 January 2018 to 31 December 2019 (both days inclusive), pursuant to which, Binzhou City Hongnuo agreed to continue to supply steam to Binzhou Industrial Park.

5. Pricing basis and Payment Term:

The price of steam shall be RMB170 per ton (VAT inclusive). The price of steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park is determined by reference to the prices at which comparable types of the steam used for production are supplied by Binzhou City Hongnuo to other independent third parties on normal commercial terms in its ordinary and usual course of business in Binzhou City, Shandong Province, the PRC. Binzhou City Hongnuo shall provide the evidence of such market prices to Binzhou Industrial Park upon the request of Binzhou Industrial Park. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Binzhou Steam Supply Agreement.

The Directors confirmed that the pricing basis agreed between Binzhou City Hongnuo and Binzhou Industrial Park for the supply of steam is fair and reasonable, negotiated on an arm's length basis and constitutes a normal commercial term.

Binzhou City Hongnuo would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by Binzhou Industrial Park for that month. The expenses undue shall not be included in such account book. Binzhou Industrial Park shall, within the first twenty (20) business days of the following month, pay the amount due in full.

6. Termination and renewal:

Either party to the Binzhou Steam Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Binzhou Steam Supply Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules) unless either party decides not to renew it and give a thirty (30) days prior written notice to the counterparty accordingly.

7. **Maximum aggregate annual value:**

Set out below are the estimated maximum transaction value for steam (excluding VAT) which is estimated to be payable by Binzhou Industrial Park to Binzhou City Hongnuo and the estimated maximum sales volume of steam under the Binzhou Steam Supply Agreement, for each of the two financial years ending 31 December 2019:

	For the year ending 31 December	
	2018	2019
	<i>(RMB million)</i>	<i>(RMB million)</i>
	<i>(excluding VAT)</i>	<i>(excluding VAT)</i>
Estimated transaction value	35.49	35.49
Estimated sales volume (ton)	232,000	232,000

The estimated maximum transaction values of the steam to be supplied by Binzhou City Hongnuo to Binzhou Industrial Park for the two financial years ending 31 December 2019, are determined with reference to (i) the estimated use of steam at the maximum rate of the capacity utilization of the textile production equipment at the Binzhou Production Base of Binzhou Industrial Park, i.e. 100% and the rate of the capacity utilization of the textile production equipment at the Binzhou Production Base of Binzhou Industrial Park for the six months ended 30 June 2017, i.e. 66%; (ii) the historical sales amounts of steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park under the Old Binzhou Steam Supply Agreement for the nine months ended 30 September 2017, i.e. 114,693 ton; and (iii) the price of steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park under the renewed Binzhou Steam Supply Agreement, i.e. RMB170 per ton.

The formula for calculating the above estimated maximum transaction value is set out below:

$$114,693 \text{ ton} \times (12/9) \times (100\%/66\%) \times \text{RMB}170/\text{ton} = \text{RMB}39.390 \text{ million (VAT inclusive)}$$

$$\text{RMB}39.390 \text{ million}/(1 + 11\%) = \text{RMB}35.486 \text{ million (VAT exclusive)}$$

The historical consideration paid and annual caps and the historical sales volume for the steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park for the period from 3 July 2015 to 31 December 2015, the financial year ended 31 December 2016 and the nine months ended 30 September 2017 are as follows:

	For the period from 3 July 2015 to 31 December 2015 (RMB million) (excluding VAT)	For the year ended 31 December 2016 (RMB million) (excluding VAT)	For the nine months ended 30 September 2017 (RMB million) (excluding VAT)
Historical consideration paid	13.59	26.71	17.32
Historical annual caps	44.13	44.13	44.13
Historical sales volume (ton)	90,344	177,539	114,693

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE STEAM SUPPLY AGREEMENTS AND THE CONTINUING CONNECTED TRANSACTIONS

Entering into the Steam Supply Agreements would allow Hongli Thermal Power and Binzhou City Hongnuo to generate additional revenue from the sales of steam and better utilize the steam produced during the power generation process.

The terms of the Weiqiao Steam Supply Agreement (including the annual caps) and the Binzhou Steam Supply Agreement (including the annual caps) were arrived at after arm's length negotiations between the parties with reference to, among others, the demand and business needs of Ming Hong Textile and Binzhou Industrial Park in respect of steam.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Weiqiao Steam Supply Agreement and the Binzhou Steam Supply Agreement are in the ordinary and usual course of business of the Company and the terms of the Steam Supply Agreements are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. INTERNAL CONTROL PROCEDURES TO BE CONDUCTED FOR THE IMPLEMENTATION OF THE STEAM SUPPLY AGREEMENTS

The Company has adopted the following internal control measures to ensure the compliance with the Listing Rules and that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the Steam Supply Agreements:

- (1) the finance department of the Company shall monitor the relevant pricing records of sales prices and market prices as reference price of the Continuing Connected Transactions to ensure the sales prices of the relevant products offered to Ming Hong Textile and Binzhou Industrial Park are no more favourable than the prices at which such products are offered to independent third parties by the Group;
- (2) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the Steam Supply Agreements and the relevant annual caps are not exceeded;
- (3) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (4) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the relevant annual caps in accordance with the requirements of the Listing Rules.

E. IMPLICATIONS UNDER THE LISTING RULES

Each of Hongli Thermal Power and Binzhou City Hongnuo is an indirectly wholly-owned subsidiary of the Company. Ming Hong Textile is a wholly-owned subsidiary, and Binzhou Industrial Park is a non-wholly owned subsidiary of Weiqiao Textile, which is owned as to 63.45% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and the controlling shareholder of the Company. Accordingly, each of Ming Hong Textile and Binzhou Industrial Park is a connected person of the Company under the Listing Rules. The entering into of the Steam Supply Agreements and the Continuing Connected Transactions thus constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Continuing Connected Transactions, on aggregation basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo and Mr. Yang Congsen is interested in the Continuing Connected Transactions and had abstained from voting on the relevant resolution of the Board approving the same.

F. GENERAL INFORMATION

The Group is principally engaged in the manufacture and sale of aluminum products.

Ming Hong Textile is principally engaged in the production and sale of cotton yarn, knitwear and cloth.

Binzhou Industrial Park is principally engaged in the manufacture, processing and sale of cotton yarn, weaving knitwear and cloth.

G. DEFINITIONS

“Board”	the board of Directors
“Binzhou Industrial Park”	濱州魏橋科技工業園有限公司 (Binzhou Weiqiao Technology Industrial Park Limited), a limited liability company established in the PRC on 26 November 2001, being held as to 98.50% by Weiqiao Textile and 1.50% by Weiqiao Chuangye Group, respectively
“Binzhou City Hongnuo”	濱州市宏諾新材料有限公司 (Binzhou City Hongnuo New Materials Co., Limited), previously known as 濱州市濱北新材料有限公司 (Binzhou City Binbei New Materials Co., Limited), a limited liability company established in the PRC on 2 November 2011 and an indirectly wholly-owned subsidiary of the Company
“Binzhou Production Base”	two production areas of Binzhou Industrial Park located in Binzhou City, Shandong Province, the PRC
“Binzhou Steam Supply Agreement”	the steam supply agreement dated 20 October 2017 and entered into between Binzhou City Hongnuo and Binzhou Industrial Park in relation to the supply of steam by Binzhou City Hongnuo to Binzhou Industrial Park for the production needs in the Binzhou Production Base for the period from 1 January 2018 to 31 December 2019 (both days inclusive)
“Company”	中國宏橋集團有限公司 (China Hongqiao Group Limited)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Steam Supply Agreements
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries

“Hongli Thermal Power”	鄒平縣宏利熱電有限公司 (Zouping County Hongli Thermal Power Co., Ltd.), a limited liability company established in the PRC on 22 April 2016 and an indirectly wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ming Hong Textile”	山東銘宏紡織科技有限公司 (Shandong Ming Hong Textile Technology Co., Ltd.), a limited liability company established in the PRC on 27 January 2016 and a directly wholly-owned subsidiary of Weiqiao Textile
“Old Binzhou Steam Supply Agreement”	the steam supply agreement dated 3 July 2015 and entered into between Binzhou City Hongnuo and Binzhou Industrial Park for a term that will end on 31 December 2017
“PRC”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Steam Supply Agreements”	the Binzhou Steam Supply Agreement and the Weiqiao Steam Supply Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax at the rate of 11%
“Weiqiao Chuangye Group”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC on 14 April 1998 which is held as to 31.59% by Mr. Zhang Shiping, an executive Director and the controlling shareholder of the Company
“Weiqiao Chuangye Steam Supply Agreement”	the steam supply agreement dated 3 July 2015 and entered into between Weiqiao Chuangye Group and Weiqiao Textile for a term that will end on 31 December 2017, which would be terminated with effect from 20 October 2017
“Weiqiao Production Base”	two production areas of Weiqiao Textile located in Weiqiao Town, Zouping County, Binzhou City, Shandong Province, the PRC

“Weiqiao Steam Supply Agreement”	the steam supply agreement dated 20 October 2017 and entered into between Ming Hong Textile and Hongli Thermal Power in relation to the supply of steam by Hongli Thermal Power to Ming Hong Textile for the production needs in Weiqiao Production Base for the period from 20 October 2017 to 31 December 2019 (both days inclusive)
“Weiqiao Textile”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited*) a limited liability company established in the PRC on 6 December 1999 which is held as to 63.45% by Weiqiao Chuangye Group, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 2698.HK)
“%”	per cent

By Order of the Board
China Hongqiao Group Limited
Zhang Shiping
Chairman

Shandong, the PRC
20 October 2017

As at the date of this announcement, the Board comprises eight Directors, namely Mr. Zhang Shiping, Ms. Zheng Shuliang and Mr. Zhang Bo as executive Directors, Mr. Yang Congsen and Mr. Zhang Jinglei as non-executive Directors, and Mr. Chen Yinghai, Mr. Xing Jian and Mr. Han Benwen as independent non-executive Directors.