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魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2698)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 26 October 2016. According to the aforesaid announcement, among others, the Company and the Parent Company entered into the Old Excess Electricity Supply Agreement on 26 October 2016, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2017 to 31 December 2019 (both days inclusive).

The Board announces that, on 21 October 2019, the Company entered into the Renewed Excess Electricity Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive), pursuant to which, the Group will continue to supply excess electricity to the Parent Group. The terms and conditions of the Renewed Excess Electricity Supply Agreement are basically the same as those of the Old Excess Electricity Supply Agreement.

LISTING RULES IMPLICATION

The Parent Company is the controlling shareholder of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Excess Electricity Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the Renewed Excess Electricity Supply Agreement are more than 5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An EGM will be convened to consider and, if thought fit, approve, among other things, the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

A circular containing, among others, (i) further details of the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps); (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM, will be dispatched to the Shareholders on or before 11 November 2019.

A. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The material terms of the Renewed Excess Electricity Supply Agreement are set out as follows:

1. Date

21 October 2019

2. Parties

(a) the Company; and

(b) the Parent Company

3. Connected person

the Parent Company

4. Transaction nature

The Company and the Parent Company entered into the Old Excess Electricity Supply Agreement on 26 October 2016, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2017 to 31 December 2019 (both days inclusive). On 21 October 2019, the Company entered into the Renewed Excess

Electricity Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive), pursuant to which, the Group will continue to supply excess electricity, which will be in excess of the Group's actual electricity consumption, to the Parent Group.

5. Pricing basis

The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is determined based on the price of raw coal procured by the Group in September 2016. Accordingly, the benchmark price of excess electricity to be supplied to the Parent Group by the Group shall be RMB0.37 per kWh (VAT inclusive).

Procurement cost of raw coal is a major cost for electricity generation and will account for approximately 80% of the total cost incurred for electricity generation of the Group. The price of raw coal may be materially affected by the governmental policies and market demand in the PRC.

The benchmark price of excess electricity, RMB0.37 per kWh (VAT inclusive) or approximately RMB0.33 (VAT exclusive), is determined on a cost-plus basis. The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins of supply of excess electricity for the nine years ended 31 December 2018. Such market-oriented pricing basis is applied to the Parent Group and the Independent Third Party Large Customers. Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, the prices offered by the Group to the Parent Group and the Independent Third Party Large Customers were and will be lower than those offered to the medium and small customers of the Group, both historically and in the future. Under such pricing basis, notwithstanding the fluctuation of the price of raw coal affecting the cost of electricity generation, the fixed gross profit to be gained by the Group from the sales of excess electricity to the Parent Group and the Independent Third Party Large Customers will basically remain the same. Such pricing basis can help minimize the adverse effect caused by the price fluctuation of raw coal and ensure a fixed gross profit for the Group.

Based on the above, the Board considers that as the price of raw coal is materially affected by the governmental policies and market demand in the PRC and is fluctuating largely in nature, the pricing basis adopted by the Company under the Renewed Excess Electricity Supply Agreement can reflect the fluctuated price of raw coal on a monthly basis and the Group will be able to gain a stable gross profit from the sales of excess electricity. Since such pricing basis (cost plus fixed gross profit) is also applied to the Independent Third Party Large Customers, the Board believes such pricing basis can ensure that the Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable and not prejudicial to the interests of the Company and the Shareholders as a whole.

If any applicable mandatory price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations in the future, the Group would adopt such price since it is mandatory with no choice. The Directors believe that with the deeper reform of the electricity industry and gradually open regulatory policies of sales of electricity, the sales price of electricity in the PRC will be more market-oriented. The Company and the Parent Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal.

6. Payment terms

The Parent Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual amount of electricity supplied. The Company will prepare an account book of the amount due on the last business day of each month and Parent Group shall make the payment before the first 10th days of the following month. The amount undue and in controversy shall not be included in such account book. To the best knowledge of the Directors, such payment terms are in line with the market practice in Shandong Province, the PRC.

7. Termination and renewal

Either party to the Renewed Excess Electricity Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty.

The Renewed Excess Electricity Supply Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules by the Company) unless any party decides not to renew it and give at least thirty (30) days prior written notice to the counterparty accordingly.

8. Historical transaction values and the Annual Caps

The historical transaction values, annual caps and sales volumes for the electricity supplied by the Group to the Parent Group under the Old Excess Electricity Supply Agreement for the two financial years ended 31 December 2018 and the financial year ending 31 December 2019 are as follows:

	For the financial year ended/ending 31 December		
	2017	2018	2019
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction values	2,312,810,000	2,431,327,000	2,434,113,000 ¹
Historical annual caps	3,022,223,000	3,022,223,000	3,022,223,000
Historical sales volumes (kWh)	6,230,644,000	6,602,856,000	6,789,197,000 ¹

Note 1: The sales volume and transaction value for the financial year ending 31 December 2019 were calculated based on the actual average monthly sales volume and transaction value for the nine months ended 30 September 2019 by multiplying 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the three months ending 31 December 2019 is expected to be stable in comparison with that for the nine months ended 30 September 2019.

Set out below are the Annual Caps which are estimated to be payable by the Parent Group to the Group and the estimated maximum sales volumes of electricity under the Renewed Excess Electricity Supply Agreement for each of the three financial years ending 31 December 2022:

	For the financial year ending 31 December		
	2020	2021	2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Annual Caps ¹	3,124,232,000 ¹	3,124,232,000 ¹	3,124,232,000 ¹
Estimated maximum sales volumes (kWh)	6,789,197,000	6,789,197,000	6,789,197,000

Note 1: The Annual Caps for each of the three financial years ending 31 December 2022 are determined with reference to the followings:

- (i) As the production capacity and electricity consumption of the Parent Group are expected to remain stable for the three financial years ending 31 December 2022, the sales volume of excess electricity to be supplied by the Group to the Parent Group for each of the three financial years ending 31

December 2022 is estimated to be the same as that for the financial year ending 31 December 2019, amounting to approximately 6,789,197,000 kWh; and

- (ii) the price of raw coal is materially affected by the governmental policies in the PRC and the prices of raw coal fluctuated significantly in the past eleven years. Given such circumstances and for the purpose of determining the Annual Caps, the Company decides to use the price of raw coal amounting to RMB800.00 per ton (VAT inclusive) for the calculation of unit production cost for electricity generation, which was determined with reference to the comparatively high prices of raw coal in the past eleven years. The Company expects that the price of raw coal will have an increasing trend for the three financial years ending 31 December 2022. As such price of raw coal for calculating the Annual Caps represents approximately 76% increase as compared with the benchmark price of raw coal and the gross profit to be gained by the Company basically remains the same, the estimated settlement price of excess electricity will be RMB0.15 per kWh higher than the benchmark price of excess electricity and amount to RMB0.52 per kWh (VAT inclusive) or approximately RMB0.46 per kWh (VAT exclusive) based on the pricing basis set out in the Renewed Excess Electricity Supply Agreement.

The formula for the calculation of the unit price of excess electricity is set out below:

Unit price of excess electricity = unit production cost (substantially composed of the procurement cost of raw coal) + fixed gross profit expected to be gained by the Group

The formula for the calculation of the Annual Caps is set out below:

Annual Caps = estimated maximum sales volume of excess electricity × unit price of excess electricity

B. REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED EXCESS ELECTRICITY SUPPLY AGREEMENT

The demand of the Parent Group for electricity is expected to remain large and stable and therefore, the excess electricity to be purchased by the Parent Group under the Renewed Excess Electricity Supply Agreement would (i) optimize the utilization of the power plant assets and thus improve operating efficiency and achieve economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional income stream and cash inflow and thus enhance the profits of the Group.

The Parent Group is the largest customer of the Group in respect of supply of excess electricity. The sales of excess electricity to the Parent Group accounted for approximately 41% of total sales of excess electricity by the Group for the two financial years ended 31 December 2018 and approximately 45% for the nine months ended 30 September 2019. It is expected that the proportion of sales of excess electricity by the Group to the Parent Group will remain stable for the three financial years ending 31 December 2022.

Based on the above, the Board believes that the Continuing Connected Transactions would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings and enhancement of the profitability of the Group.

Given that the sales price of excess electricity offered to the Parent Group will be basically the same as that offered to the Independent Third Party Large Customers, the Board represented by the only one non-executive Director, Ms. Zhao Suhua, (excluding Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei who had abstained from voting on the relevant resolution of the Board approving the Continuing Connected Transactions and the independent non-executive Directors whose views will be contained in the circular to be dispatched to the Shareholders after considering the advice from the Independent Financial Adviser) considers that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and the terms of the Renewed Excess Electricity Supply Agreement (including the Annual Caps) have been negotiated on an arm's length basis, and are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

C. LISTING RULES IMPLICATIONS

The Parent Company is the controlling shareholder of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Excess Electricity Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the Renewed Excess Electricity Supply Agreement are more than 5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei had abstained from voting on the relevant resolution of the Board approving the Continuing Connected Transactions as they concurrently have equity interests or hold relevant positions in the Parent Company.

D. INTERNAL CONTROL PROCEDURES

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

- (1) the finance department of the Company shall monitor all the pricing records as the reference price of the Continuing Connected Transactions to ensure the sales prices of the excess electricity offered by the Group to the Parent Group are no more favourable than the prices at which such excess electricity are supplied by the Group to the Independent Third Party Large Customers;
- (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 Renewed Excess Electricity Supply Agreement and the 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 Annual Caps in accordance with the requirements of the Listing Rules.

E. EGM

The Company will convene the EGM as soon as possible for the purpose of seeking the approval by the Independent Shareholders of (i) the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder and (ii) the Annual Caps for the three financial years ending on 31 December 2022.

As at the date of this announcement, the Parent Company held approximately 63.67% of the total issued Shares. According to the Listing Rules, the Parent Company will abstain from voting at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 9.73% (directly and indirectly) of the equity interest in the Parent Company. She and her family members (jointly holding approximately 1.92% of the equity interest in the Company) will also abstain from voting at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no other Shareholder has a material interest in the Continuing Connected Transactions, and no other Shareholder is required to abstain from voting to approve the Renewed Excess Electricity Supply Agreement or the Annual Caps at the EGM.

The votes to be taken at the EGM in relation to the above proposed resolution(s) will be taken by poll.

The Independent Board Committee will be established to advise the Independent Shareholders in relation to their voting on the resolution relating to the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

Sorrento Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

A circular containing, among others, (i) further details of the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps); (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM, will be dispatched to the Shareholders on or before 11 November 2019.

F. GENERAL INFORMATION

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim, and the electricity business.

The Parent Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn and print cloth, retail and distribution of cloth and supply of industrial water.

G. DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Renewed Excess Electricity Supply Agreement for the three financial years ending 31 December 2022
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited), a joint stock limited company incorporated in the PRC with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2698)

“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Excess Electricity Supply Agreement
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company proposed to be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising of all the independent non-executive Directors to advise the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)
“Independent Financial Adviser”	Sorrento Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)

“Independent Shareholders”	the Shareholders other than the Parent Company and Ms. Zhang Hongxia for the purpose of the Continuing Connected Transactions
“Independent Third Party Large Customers”	the large industrial enterprise customers (with the voltage of 220kV or above) for the sale of excess electricity by the Group
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Excess Electricity Supply Agreement”	the excess electricity supply agreement entered between the Company and the Parent Company on 26 October 2016 for the period from 1 January 2017 to 31 December 2019 (both days inclusive)
“Parent Company”	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, being the controlling shareholder of the Company
“Parent Group”	the Parent Company, its subsidiaries and associates (excluding the Group)
“PRC”	the People’s Republic of China
“Renewed Excess Electricity Supply Agreement”	the excess electricity supply agreement entered into between the Company and the Parent Company on 21 October 2019 for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	Value added tax at the rate of 17% from 1 July 2017 to 30 April 2018, at the rate of 16% from 1 May 2018 to 31 March 2019 and at the rate of 13% since 1 April 2019
“%”	per cent

By order of the Board
Weiqiao Textile Company Limited
Zhang Jinglei
Executive Director and Company Secretary

Shandong, the PRC
21 October 2019

As at the date of this announcement, the Board comprises eight Directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei as executive Directors, Ms. Zhao Suhua as non-executive Director and Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao as independent non-executive Directors.

** The Company is registered in Hong Kong as a non-Hong Kong company under the English name “Weiqiao Textile Company Limited” and the Chinese name of the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).*