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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 21 October 2019. According to the aforesaid announcement, among others, the Company and the Parent Company entered into the Old Excess Electricity Supply Agreement on 21 October 2019, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2020 to 31 December 2022 (both days inclusive).

The Board announces that, on 30 September 2022, the Company entered into the Renewed Excess Electricity Supply Agreement with the Parent Company for a term of three years from 1 January 2023 to 31 December 2025 (both dates inclusive), pursuant to which, the Group will continue to supply excess electricity to the Parent Group. Save for the pricing basis, 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 despatched to the Shareholders on or before 24 October 2022.

A. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

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

1. Date

30 September 2022

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 21 October 2019, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2020 to 31 December 2022 (both days inclusive). On 30 September 2022, the Company entered into the Renewed

Excess Electricity Supply Agreement with the Parent Company for a term of three years from 1 January 2023 to 31 December 2025 (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

During the term of the Renewed Excess Electricity Supply Agreement, the benchmark price of supplying excess electricity to the Parent Group for each month shall be the Monthly Local State Grid Selling Price.

Having considered that: (i) the Parent Group is a long-term large and stable customer of the Company, and (ii) the Company sells excess electricity to the Parent Group by way of direct supply, with the benefit of short distribution distance and low energy loss, the Group will offer a 10% discount to the Parent Group. If any applicable mandatory benchmark price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations, the benchmark price shall be adjusted accordingly.

During the term of the Renewed Excess Electricity Supply Agreement, if the Monthly Local State Grid Selling Price of any month is adjusted from that of the previous month, the settlement price for that month shall be calculated based on the then effective Monthly Local State Grid Selling Price, with a 10% discount.

Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, such benchmark price and the 10% discount above are applied to all of them.

Since the Monthly Local State Grid Selling Price is generally recognised in the market, the Board believes that, by adopting the pricing basis above, the Company is able to ensure that its pricing is in line with the market and maintain a stable business relationship with the Parent Group and Independent Third Party Large Customers. Since such pricing basis 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.

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 the Parent Group shall make the payment before the 10th day of the following month. 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

The Company may terminate the Renewed Excess Electricity Supply Agreement by serving at least thirty (30) days' prior written notice to the the Parent Company.

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 2021 and the financial year ending 31 December 2022 are as follows:

	For the financial year ended/ending 31 December		
	2020	2021	2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction values	1,702,005,000	1,863,594,000	2,249,022,000 ^{Note}
Historical annual caps	3,124,232,000	3,124,232,000	3,124,232,000
Historical sales volumes (kWh)	4,707,132,000	3,724,079,000	4,212,924,000 ^{Note}

Note: The sales volume and transaction value for the financial year ending 31 December 2022 were calculated based on the actual average monthly sales volume and transaction value for the eight months ended 31 August 2022 multiplied by 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the four months ending 31 December 2022 is expected to be stable in comparison with that for the eight months ended 31 August 2022.

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 2025:

	For the financial year ending 31 December		
	2023	2024	2025
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Annual Caps	2,831,000,000 ^{Note}	2,831,000,000 ^{Note}	2,831,000,000 ^{Note}
Estimated maximum sales volumes (kWh)	4,634,000,000 ^{Note}	4,634,000,000 ^{Note}	4,634,000,000 ^{Note}

Note: The Annual Caps for each of the three financial years ending 31 December 2025 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 2025, 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 2025 is estimated based on the estimated sales volume for the financial year ending 31 December 2022, plus a buffer of 10% to provide flexibility in the event there is a higher demand than the expected sales volume, amounting to approximately 4,634,000,000 kWh; and
- (ii) the unit price of excess electricity is calculated based on the median of the Monthly Local State Grid Selling Prices in the eight months ended 31 August 2022, amounting to approximately RMB 0.611 per kWh (VAT exclusive).

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) optimise the utilisation of the power plant assets and thus improve operating efficiency and achieve economies of scale of the Group (by reducing the fixed costs per unit 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 one of the largest customers of the Group in respect of its sales of excess electricity. The sales of excess electricity to the Parent Group accounted for approximately 41.3%, 38.7% and 38.4% of total sales of excess electricity by the Group for the financial years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022, respectively. 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 2025.

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 only one non-executive Director, Ms. Zhao Suhua (excluding Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei who had abstained from voting on the relevant resolution of the Board approving the Continuing Connected Transactions as they and/or their associates concurrently have material interests in and/or that they serve as the directors of the Parent Company, and also excluding the independent non-executive Directors whose views will be contained in the circular to be despatched 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, Mr. Wei Jiakun, 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 and/or their associates concurrently have material interests in and/or that they serve as the directors of 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 shall not be more favourable than the prices at which such excess electricity is 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 shall be conducted in accordance with the terms of the Renewed Excess Electricity Supply Agreement and the Annual Caps shall not be 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 from 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 31 December 2025.

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, which controls the voting right in respect of its shares in the 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 7.78% of the equity interest (including beneficial interest and spouse interest) in the Parent Company. She (holding approximately 1.48% 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 and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) at the EGM.

The votes to be taken at the EGM in relation to the above proposed resolution 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 despatched to the Shareholders on or before 24 October 2022.

F. GENERAL INFORMATION

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

The Parent Company is principally engaged in the processing and sales 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 proposed annual caps for the Continuing Connected Transactions contemplated under the Renewed Excess Electricity Supply Agreement for the three financial years ending 31 December 2025
“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 H 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”	the 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 terms of the Renewed Excess Electricity Supply Agreement and 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 whose annual purchase amount reaches RMB500 million or above
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Monthly Local State Grid Selling Price”	the electricity price calculated based on the list of Shandong Province power grid selling price (industrial and commercial use) (山東省電網銷售電價表(工商業用電)) as issued by the Development and Reform Commission of Shandong Province (山東省發展和改革委員會), or the list of electricity price of agent purchase (代理購電電價表(工商業用電)) as issued by State Grid Shandong Electric Power Company (國網山東省電力公司), as effective in the relevant month with the two-part tariff and the price for “220kWh or above” applied and on the assumption of 24-hour continuous equalising consumption
“Old Excess Electricity Supply Agreement”	the excess electricity supply agreement entered into between the Company and the Parent Company on 21 October 2019 for the period from 1 January 2020 to 31 December 2022 (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 30 September 2022 for a term of three years from 1 January 2023 to 31 December 2025 (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 of the PRC
“%”	per cent

By Order of the Board
Weiqiao Textile Company Limited*
Mr. Zhang Jinglei
Executive Director and Company Secretary

Shandong, the PRC
30 September 2022

As at the date of this announcement, the Board comprises nine Directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Wei Jiakun, 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.

* *For identification purposes only. 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).*