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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**

Reference is made to the announcements of the Company dated 14 January 2008 and 20 October 2008, respectively. The Old Supply of Excess Electricity Agreement will expire on 31 December 2010. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the term of the transaction and on 4 November 2010, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2011 to 31 December 2013 pursuant to which the Group will supply excess electricity to Parent Group.

Holding Company currently holds 738,895,100 Domestic Shares, representing about 61.86% of the entire issued share capital of the Company. As Holding Company is the substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Excess Electricity Supply Transaction is on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, the same transaction is subject to the reporting, annual review, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Company proposes to seek the approval of the Independent Shareholders at the EGM relating to the Excess Electricity Supply Transaction (including the Annual Caps).

Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors and Mr. Zhang Bo, the son of Mr. Zhang Shiping and the brother of Ms. Zhang Hongxia, who hold approximately 33.7% (directly and indirectly), 3% and 3% of the equity interests in Holding Company respectively, are considered to be parties acting in concert with Holding Company and will also abstain from voting at the EGM.

\* For identification purpose only

A circular containing, among others, further details of the Excess Electricity Supply Transaction, the letter from the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and the notice of EGM will be despatched to the Shareholders on or before 10 November 2010.

## **A. BACKGROUND**

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Holding Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth.

Reference is made to the announcements of the Company dated 14 January 2008 and 20 October 2008, respectively. The Old Supply of Excess Electricity Agreement will expire on 31 December 2010. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the term of the transaction and on 4 November 2010, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2011 to 31 December 2013 pursuant to which the Group will supply excess electricity to Parent Group. Terms and conditions under the Supply of Excess Electricity Agreement are basically the same with the conditions under the Old Supply of Excess Electricity Agreement.

## **B. THE SUPPLY OF EXCESS ELECTRICITY AGREEMENT**

### **1. Date**

4 November 2010

### **2. Parties**

(a) Company

(b) Holding Company

### **3. Transaction nature**

Supply of electricity by the Group, which are in excess of the Group's actual electricity consumed, to Parent Group for a term commencing from 1 January 2011 and ending on 31 December 2013 (both dates inclusive).

#### 4. Pricing basis

The price at which excess electricity is supplied to Parent Group by the Group shall be RMB0.50 per kWh (inclusive of VAT at the rate of 17%) or the price from time to time at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, whichever is higher. If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, it would be adopted instead.

The Company, according to the price of coal, may increase the price at which excess electricity is supplied to Parent Group by the Company up to the price at which the relevant power grid in Shandong province would sell electricity to companies upon a 10 days' prior written notice to Holding Company.

The above price of RMB0.50 per kWh has been determined after arm's length negotiation between Holding Company and the Company, taking into account that RMB0.50 per kWh is a price which (i) is higher than the current price at which a power plant in Shandong Province sells its electricity produced to the relevant power grid; and (ii) is lower than the current electricity purchase price charged by power grids in Shandong Province.

#### 5. Payment term

Holding Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual amount of electricity supplied. The Company will provide the amount due on the last business day of each month and Holding Company shall make the payment within the first 5 business days of the following month.

#### 6. Maximum aggregate annual value

Set out below is the maximum aggregate annual value for electricity (excluding VAT at the rate of 17%) for the excess electricity supplied under the Supply of Excess Electricity Agreement which is estimated to be payable by Holding Company to the Company for each of the three financial years ending 31 December 2013:

<b>Financial year ending 31 December 2011 (RMB)</b>	<b>Financial year ending 31 December 2012 (RMB)</b>	<b>Financial year ending 31 December 2013 (RMB)</b>
1,453,030,000	1,888,940,000	2,415,250,000 <sup>1</sup>

*Note 1:* The maximum transaction value for the excess electricity to be supplied by the Group to Parent Group was determined with reference to the average transaction value for the three years ending 31 December 2010, which was approximately RMB1,117,720,000, with an expected growth rate of approximately 30% for each year ending 31 December 2013. The growth rate was determined with reference to the expected production growth of Parent Group in the downstream textile industry, including printing and dyeing and home textile products.

The historical figures for the electricity purchased by Parent Group from the Company are as follows:

<b>Financial year ending 31 December 2008 (RMB)</b>	<b>Financial year ending 31 December 2009 (RMB)</b>	<b>Financial year ending 31 December 2010 (RMB)</b>
1,186,930,000	1,175,520,000	990,710,000 <sup>2</sup>

*Note 2:* the transaction value for 2010 was calculated based on the actual average monthly transaction value for the nine months ended 30 September 2010 by multiplying 12. The annualized transaction value for 2010 is lower than the actual transaction value for 2008 and 2009, mainly due to that a higher consumption of electricity by the Group in 2010 and therefore the electricity sold to other third parties by the Group was accordingly reduced.

The Company will make a further announcement and seek Independent Shareholders' approval (where appropriate) in the event that any of the Annual Caps for the three financial years ending 31 December 2013 set out above is exceeded.

#### **C. REASONS FOR AND BENEFITS OF THE EXCESS ELECTRICITY SUPPLY TRANSACTION**

The excess electricity to be purchased by Parent Group under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets and thus improving operation efficiency and achieving economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional stream of income and thus enhancing the profits of the Group.

Based on the above, the Board believes that the Excess Electricity Supply Transaction would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings and enhancement of its profitability of the Group.

The terms and conditions of the Excess Electricity Supply Transaction have been negotiated on an arm's length basis. The Board (excluding Mr. Zhang Shiping who abstained from Voting on the Board resolution of the Company in respect of the Excess Electricity Supply Transaction due to his equity interests in Holding Company and the members of the Independent Board Committee, the opinion of which, after taking into account of the advice from the Independent Financial Adviser, will be included in the circular to be despatched to the shareholders of the Company) is of the view that the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms, and that the terms, as well as the Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **D. LISTING RULES IMPLICATIONS**

Holding Company currently holds 738,895,100 Domestic Shares, representing about 61.86% of the entire issued share capital of the Company. As Holding Company is a substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Excess Electricity Supply Transaction is on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, the same transaction is subject to the reporting, annual review, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

## **E. EGM**

The Company proposes to seek the approvals of the Independent Shareholders at the EGM relating to the Excess Electricity Supply Transaction (including the Annual Caps).

According to the Listing Rules, Holding Company will abstain from voting in respect of the resolutions relating to the Excess Electricity Supply Transaction (including the Annual Caps) at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors and Mr. Zhang Bo, the son of Mr. Zhang Shiping and the brother of Ms. Zhang Hongxia, are considered to be parties acting in concert with Holding Company and hold approximately 33.7% (directly and indirectly), 3% and 3% of the equity interests in Holding Company respectively, will also abstain from voting in respect of the same resolutions at the EGM.

As at the date of this announcement, Holding Company holds 61.86% of the total issued Shares, and Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia hold 0.44%, 1.08% and 1.48%, respectively, of the total issued Shares. To the best of the knowledge and belief of the Directors, none of Holding Company, Mr. Zhang Shiping, Mr. Zhang Bo, Ms. Zhang Hongxia has any associate (other than amongst themselves) who is a Shareholder.

The votes to be taken at the EGM in relation to the resolutions for approval by the Independent Shareholders of the Excess Electricity Supply Transaction (including the Annual Caps) will be taken by poll.

## **F. GENERAL**

The Independent Board Committee will be established to advise the Independent Shareholders in relation to the Excess Electricity Supply Transaction (including the Annual Caps). Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan WingYau have been appointed by the Board to serve as members of the Independent Board Committee. Mitsubishi UFJ Securities (HK) Capital, Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the Excess Electricity Supply Transaction (including the Annual Caps).

A circular containing, among others (i) further details of the Excess Electricity Supply Transaction; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders and (iv) the notice of the EGM will be despatched to the Shareholders on or before 10 November 2010.

## G. DEFINITIONS

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

“Annual Caps”	the maximum transaction value under the Supply of Excess Electricity Agreement for the three years ending 31 December 2013 which is set out in page 3 of this announcement
“Associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	any day other than the public holidays stipulated under PRC laws, Saturdays and Sundays
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited)
“connected person”	was the meaning ascribed to it in the Listing Rules
“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 Renminbi and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company proposed to be convened and held on 23 December 2010 for the Independent Shareholders to consider and, if thought fit, approve the Excess Electricity Supply Transaction (including the Annual Caps)
“Excess Electricity Supply Transaction”	the continuing connected transaction contemplated under the Supply of Excess Electricity Agreement

“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
“Holding 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, being a promoter and the controlling shareholder of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the Independent Directors
“Independent Directors”	the independent non-executive directors of the Company, who are invited to advise the Independent Shareholders on the Excess Electricity Supply Transaction (including the Annual Caps)
“Independent Financial Adviser”	Mitsubishi UFJ Securities (HK) Capital, Limited, a registered institution to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO, an independent financial adviser appointed to make the relevant recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Excess Electricity Supply Transaction (including the Annual Caps)
“Independent Shareholders”	the shareholders of the Company other than Holding Company, Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Old Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 18 March 2008 with a term of three years ending on 31 December 2010
“Parent Group”	Holding Company, its subsidiaries and associates (excluding the Group)
“PRC”	People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 4 November 2010 for the supply of electricity which are in excess of the actual electricity consumed by the Group to Parent Group for a term commencing from 1 January 2011 and ending on 31 December 2013 (both dates inclusive)
“VAT”	value added tax

By Order of the Board  
**Weiqiao Textile Company Limited**  
**Zhang Hongxia**  
*Executive Director and Chairman*

Shandong, The People’s Republic of China

4 November 2010



*Notes:*

1. As at the date of this announcement, the board of Directors of the Company comprises 11 Directors, namely Ms. Zhang Hongxia, Ms. Zhao Suwen, Ms. Zhang Yanhong and Mr. Zhang Jinglei as executive Directors, Mr. Zhang Shiping, Mr. Wang Zhaoting, Ms. Zhao Suhua and Ms. Wang Xiaoyun as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.
  2. Save as specified in this announcement, the unit price of electricity is presented on a VAT inclusive basis.
- \* *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 Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).*