

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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)**

**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, among others, (i) Holding Company and the Company entered into Holding Company Steam Supply Agreement in relation to the supply of steam by Holding Company to the Weiqiao Production Base of the Company for the period from 3 July 2015 to 31 December 2017 (both days inclusive); and (ii) Binzhou City Hongnuo and Binzhou Industrial Park, a non-wholly owned subsidiary of the Company 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 and Ming Hong Textile, a wholly-owned subsidiary of the Company entered into 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 and Binzhou Industrial Park, a non-wholly owned subsidiary of the Company 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 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 China Hongqiao. Mr. Zhang Shiping, a non-executive Director, is an executive director indirectly holding 81.12% of the issued share capital of China Hongqiao. Accordingly, each of Hongli Thermal Power and Binzhou City Hongnuo 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**

As the Holding Company Steam Supply Agreement was terminated by a written notice from the Holding Company with effect from 20 October 2017 in accordance with the termination clause set out therein, Hongli Thermal Power and Ming Hong Textile entered into the Weiqiao Steam Supply Agreement for the production needs in Weiqiao Production Base.

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; and
  - (2) Ming Hong Textile, a wholly-owned subsidiary of the Company
- 3. Connected person:** Hongli Thermal Power
- 4. Transaction nature:** Hongli Thermal Power and Ming Hong Textile, a wholly-owned subsidiary of the Company 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 purchase volume of steam under 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			For the year ending 31 December	
	(RMB million) (excluding VAT)	2018 (RMB million) (excluding VAT)	2019 (RMB million) (excluding VAT)	2018 (RMB million) (excluding VAT)	2019 (RMB million) (excluding VAT)
Estimated transaction value	8.58	8.58	8.58		
Estimated purchase volume (ton)	64,000	64,000	64,000		

The estimated maximum transaction values of the steam to be purchased by Ming Hong Textile from Hongli Thermal Power 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 the Weiqiao Production Base, i.e. 100% and the rate of the capacity utilization of the textile production equipment at the Weiqiao Production Base for the six months ended 30 June 2017, i.e. 70%; (ii) the historical procurement amounts under the Holding Company 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 Holding Company Steam Supply Agreement and the Weiqiao Steam Supply Agreement is both for the purpose of the production needs in Weiqiao Production Base, the historical procurement amounts under the Holding Company Steam Supply Agreement is referred.

For illustration purpose only, the historical consideration paid and annual caps and the historical purchase volume for the steam supplied by Holding Company to the Company 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 purchase volume ( <i>ton</i> )	32,737	61,969	33,313

The formula for calculating the estimated maximum transaction value under the Weiqiao Steam Supply Agreement is set out below:

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

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

## **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; and
  - (2) Binzhou Industrial Park, a non-wholly owned subsidiary of the Company
- 3. Connected person:** Binzhou City Hongnuo

**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 charged by Binzhou City Hongnuo at which comparable types of the steam used for production are supplied by Binzhou City Hongnuo to any independent third parties or normal commercial terms in the ordinary course of its 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 purchase volume of steam under Binzhou Steam Supply Agreement for each of the two financial years ending 31 December 2019:

	For the year ending 31 December	
	2018	2019
	(RMB million)	(RMB million)
	(excluding VAT)	(excluding VAT)
Estimated transaction value	35.49	35.49
Estimated purchase volume (ton)	232,000	232,000

The estimated maximum transaction values of the steam to be purchased by Binzhou Industrial Park from Binzhou City Hongnuo 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 the Binzhou Industrial Park i.e. 100% and the rate of the capacity utilization of the textile production equipment at the Binzhou Production Base of the Binzhou Industrial Park for the six months ended 30 June 2017, i.e. 66%; (ii) the historical procurement amounts 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 the 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 purchase 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:

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

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

Taking into account of the production needs of the Group in respect of steam and considering the fact that Hongli Thermal Power and Binzhou City Hongnuo are the nearest suppliers of steam to Weiqiao Production Base and Binzhou Production Base, respectively, entering into the Steam Supply Agreements between Hongli Thermal Power and Ming Hong Textile and between Binzhou City Hongnuo and Binzhou Industrial Park, would allow Ming Hong Textile and Binzhou Industrial Park to secure a long-term stable supply of steam.



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 Group's demand and business needs 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 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 obtain and monitor all the quotations and/or pricing records as reference price of the Continuing Connected Transactions to ensure the purchase prices of the relevant products are no less favourable to the Group than the prices at which such products are offered by independent third parties to 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 China Hongqiao. Mr. Zhang Shiping, a non-executive Director, is an executive director indirectly holding 81.12% of the issued share capital of China Hongqiao. Accordingly, each of Hongli Thermal Power and Binzhou City Hongnuo 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 Ms. Zhang Hongxia, Ms. Zhang Yanhong and Mr. Zhang Shiping 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 production, sale and distribution of cotton yarn, grey fabric and denim, and the electricity business.

Hongli Thermal Power is principally engaged in the production and sale of heating power and thermal power.

Binzhou City Hongnuo is principally engaged in the manufacture and sale of aluminium products.

## **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 the Company and 1.50% by Holding Company, 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 China Hongqiao
“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 Binzhou Production Base for the period from 1 January 2018 to 31 December 2019 (both days inclusive)
“China Hongqiao”	China Hongqiao Group Limited (中國宏橋集團有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 1378.HK)
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company 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
“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 on 14 April 1998 and the controlling shareholder of the Company
“Holding Company Steam Supply Agreement”	the steam supply agreement dated 3 July 2015 and entered into between Holding Company and the Company for a term that will end on 31 December 2017, which would be terminated with effect from 20 October 2017
“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 China Hongqiao
“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 the Company

“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”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Steam Supply Agreements”	Binzhou Steam Supply Agreement and Weiqiao Steam Supply Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax at the rate of 11%
“Weiqiao Production Base”	two production areas of the Group 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)
“%”	per cent.

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

Shandong, the PRC  
20 October 2017

*As at the date of this announcement, the Board comprises nine Directors, namely Ms. Zhang Hongxia, Ms. Zhao Suwen, Ms. Zhang Yanhong and Mr. Zhang Jinglei as executive Directors, Mr. Zhang Shiping and Ms. Zhao Suhua as non-executive Directors and Mr. Wang Naixin, Mr. Chen Shuwen and Mr. George Chan Wing Yau 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).*