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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)

**CONTINUING CONNECTED TRANSACTIONS –
STEAM SUPPLY AGREEMENT AND
CONNECTED TRANSACTION –
LAND USE RIGHT TRANSFER AGREEMENT**

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 21 October 2019. According to the aforesaid announcement, among others, (i) Hongli Thermal Power and Ming Hong Textile, a wholly-owned subsidiary of the Company, entered into the Old Weiqiao Steam Supply Agreement in relation to the supply of steam by Hongli Thermal Power to Ming Hong Textile for the production needs in the Weiqiao Production Base for the period from 1 January 2020 to 31 December 2022 (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 production needs in the Binzhou Production Base for the period from 1 January 2020 to 31 December 2022 (both days inclusive).

The Board would like to announce that, on 28 December 2022, Shandong Hongqiao and the Company entered into the Steam Supply Agreement in relation to the supply of steam by Shandong Hongqiao (including its group members) to the Company (including its subsidiaries) for the production needs in the Weiqiao Production Base and Binzhou Production Base for a term of three years from 1 January 2023 to 31 December 2025 (both days inclusive).

CONNECTED TRANSACTION

The Board would like to announce that, on 28 December 2022, the Company and Weiqiao Lightweight entered into the Land Use Right Transfer Agreement in relation to the transfer of the Land Use Right by the Company to Weiqiao Lightweight at a consideration of RMB18,955,800.

LISTING RULES IMPLICATIONS

Shandong Hongqiao is an indirect non-wholly owned subsidiary of China Hongqiao. Given that China Hongqiao is deemed as an associate of Ms. Zhang Hongxia and Ms. Zhang Yanhong (both being executive Directors and, together with their other family members, having equity interests in China Hongqiao), Shandong Hongqiao is a connected person of the Company under the Listing Rules. The transactions contemplated under the Steam Supply Agreement 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 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.

Weiqiao Lightweight is an indirectly non-wholly owned subsidiary of China Hongqiao. Given that China Hongqiao is an associate of Ms. Zhang Hongxia and Ms. Zhang Yanhong (both being executive Directors and, together with their other family members, having equity interests in China Hongqiao), Weiqiao Lightweight is a connected person of the Company under the Listing Rules. The transaction contemplated under the Land Use Right Transfer Agreement thus constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the transaction contemplated under the Land Use Right Transfer Agreement is more than 0.1% but less than 5%, the Land Use Right Transfer Agreement and the transaction contemplated thereunder are subject to the announcement and reporting requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

I. STEAM SUPPLY AGREEMENT

A. Material Terms

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

1. **Date:** 28 December 2022
2. **Parties:** (1) Shandong Hongqiao (including its group members); and
(2) the Company (including its subsidiaries)
3. **Connected person:** Shandong Hongqiao

4. Transaction nature:

Hongli Thermal Power and Ming Hong Textile entered into the Old Weiqiao Steam Supply Agreement on 21 October 2019, pursuant to which, Hongli Thermal Power agreed to supply steam to Ming Hong Textile for the period from 1 January 2020 to 31 December 2022 (both days inclusive) for its production use. Binzhou City Hongnuo and Binzhou Industrial Park entered into the Old Binzhou Steam Supply Agreement on 21 October 2019, pursuant to which, Binzhou City Hongnuo agreed to supply steam to Binzhou Industrial Park for the period from 1 January 2020 to 31 December 2022 (both days inclusive) for its production use. Both Hongli Thermal Power and Binzhou City Hongnuo are wholly-owned subsidiaries of Shandong Hongqiao, and both Ming Hong Textile and Binzhou Industrial Park are subsidiaries of the Company. In order to streamline the arrangements among the above entities and reduce administrative costs, on 28 December 2022, Shandong Hongqiao and the Company entered into the Steam Supply Agreement, pursuant to which, Shandong Hongqiao (including its group members) agreed to supply steam to the Company (including its subsidiaries) for a term of three years from 1 January 2023 to 31 December 2025 (both days inclusive).

5. Pricing basis and payment terms:

The price of steam to be supplied by Shandong Hongqiao to the Company shall be RMB246 per ton (VAT inclusive), which is determined by reference to the prices at which the same or comparable types of steam used for production are supplied by Shandong Hongqiao to any independent third parties on normal commercial terms in its ordinary and usual course of business. Shandong Hongqiao shall provide the evidence of such market prices to the Company upon its request. In the event there is a significant change in the market price of coal during the term of the Steam Supply Agreement, Shandong Hongqiao is entitled to adjust the price of steam based on the change in the cost of supplying steam, and the transaction amount shall be settled based on the adjusted price accordingly. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted for the purpose of the Steam Supply Agreement.

The Directors confirmed that the pricing basis agreed between Shandong Hongqiao and the Company for the supply of steam is fair and reasonable, negotiated on an arm's length basis and constitutes a normal commercial term.

Shandong Hongqiao may, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by the Company up to that day. The Company 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 Steam Supply Agreement may terminate it by providing at least thirty (30) days' prior written notice to the counterparty. The 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 gives at least thirty (30) days' prior written notice to the counterparty accordingly.

7. Maximum annual transaction values:

Since both Hongli Thermal Power and Binzhou City Hongnuo are wholly-owned subsidiaries of Shandong Hongqiao, and both Ming Hong Textile and Binzhou Industrial Park are subsidiaries of the Company during the relevant period, the Company refers to the historical transaction values, annual caps and purchase volumes for the steam supplied by Hongli Thermal Power to Ming Hong Textile under the Old Weiqiao Steam Supply Agreement and by Binzhou City Hongnuo to Binzhou Industrial Park under the Old Binzhou Steam Supply Agreement for the period from 1 January 2020 to 31 December 2022, which are set out as follows:

	For the financial year ended 31 December 2020 (RMB million) (excluding VAT)	For the financial year ended 31 December 2021 (RMB million) (excluding VAT)	For the financial year ending 31 December 2022 (RMB million) (excluding VAT)
Old Weiqiao Steam Supply Agreement			
Historical transaction values	3.61	3.12	3.66 <i>(Note i)</i>
Historical annual caps	4.53	4.53	4.53
Historical purchase volumes (ton)	26,238	21,004	16,900 <i>(Note i)</i>
Old Binzhou Steam Supply Agreement			
Historical transaction values	10.35	12.02	10.40 <i>(Note ii)</i>
Historical annual caps	27.02	27.02	27.02
Historical purchase volumes (ton)	66,390	77,070	66,700 <i>(Note ii)</i>

Notes:

- (i) For the eleven months ended 30 November 2022, the purchase volume under the Old Weiqiao Steam Supply Agreement amounted to 15,507 tons and the transaction values for supply of the steam by Hongli Thermal Power to Ming Hong Textile amounted to approximately RMB3.35 million (excluding VAT). The Directors currently estimate that, for the financial year ending 31 December 2022, the purchase volume will be approximately 16,900 tons and the transaction values for supply of the steam by Hongli Thermal Power to Ming Hong

Textile will be approximately RMB3.66 million (excluding VAT), which was calculated by annualising the actual purchase volume and transaction values for the eleven months ended 30 November 2022.

- (ii) For the eleven months ended 30 November 2022, the purchase volume under the Old Binzhou Steam Supply Agreement amounted to 61,135 tons and the transaction values for supply of the steam by Binzhou City Hongnuo to Binzhou Industrial Park amounted to approximately RMB9.53 million (excluding VAT). The Directors currently estimate that, for the financial year ending 31 December 2022, the purchase volume will be approximately 66,700 tons and the transaction values for supply of the steam by Binzhou City Hongnuo to Binzhou Industrial Park will be approximately RMB10.40 million (excluding VAT), which was calculated by annualising the actual purchase volume and transaction value for the eleven months ended 30 November 2022.

Set out below are the estimated maximum transaction values for steam (excluding VAT) which are estimated to be payable by the Company to Shandong Hongqiao and the estimated maximum purchase volumes of steam under the Steam Supply Agreement for each of the three financial years ending 31 December 2025:

	For the financial year ending 31 December		
	2023	2024	2025
	(RMB million)	(RMB million)	(RMB million)
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Estimated maximum transaction values	24.03	24.03	24.03
Estimated maximum purchase volumes (ton)	106,500	106,500	106,500

The estimated maximum transaction values of the steam to be purchased by the Company from Shandong Hongqiao for the three financial years ending 31 December 2025 are determined with reference to (i) the estimated use of steam at the maximum rate of the capacity utilisation of the textile production equipment at the Weiqiao Production Base and Binzhou Production Base, i.e. 100% and the rate of the capacity utilisation of the textile production equipment at the Weiqiao Production Base and Binzhou Production Base for the eleven months ended 30 November 2022, i.e. approximately 83.4% and

77.4%, respectively; (ii) the historical purchase volumes of the steam under the Old Weiqiao Steam Supply Agreement and the Old Binzhou Steam Supply Agreement for the eleven months ended 30 November 2022, i.e. 15,507 tons and 61,135 tons, respectively; and (iii) the price of the steam to be supplied by Shandong Hongqiao to the Company under the Steam Supply Agreement, i.e. RMB246 per ton.

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

$$[15,507 \text{ tons} \times (12/11) \times (100\%/83.4\%) + 61,135 \text{ tons} \times (12/11) \times (100\%/77.4\%)] \times \text{RMB}246/\text{ton} = \text{RMB}26.19 \text{ million (VAT inclusive)}$$
$$\text{RMB}26.19 \text{ million}/(1 + 9\%) = \text{RMB}24.03 \text{ million (VAT exclusive)}$$

B. Reasons for and Benefits of Entering into the Steam Supply Agreement and the Continuing Connected Transactions

Taking into account the production needs of the Group in respect of steam and considering the fact that Shandong Hongqiao (including its group members) are the nearest suppliers of steam to the Weiqiao Production Base and the Binzhou Production Base, entering into the Steam Supply Agreement between Shandong Hongqiao and the Company would allow the Company to secure a long-term stable supply of steam.

The terms of the 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 terms of the Steam Supply Agreement (including the annual caps) are fair and reasonable, the transactions contemplated under the Steam Supply Agreement are conducted in the ordinary and usual course of business of the Company and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

C. Internal Control Procedures

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 Agreement:

- (1) the finance department of the Company shall obtain and monitor all the quotations and/or pricing records as reference prices of the Continuing Connected Transactions to ensure the purchase prices of the steam offered by Shandong Hongqiao are no less favourable to the Group than the prices at which such steam is supplied 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 Agreement and that 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.

II. LAND USE RIGHT TRANSFER AGREEMENT

A. Material Terms

The material terms of the Land Use Right Transfer Agreement are set out as follows:

- 1. Date:** 28 December 2022
- 2. Parties:**
 - (1) The Company (as transferor); and
 - (2) Weiqiao Lightweight (as transferee)
- 3. Connected person:** Weiqiao Lightweight
- 4. Subject matter:** The Land Use Right which was granted to the Company in relation to the Underlying Land, which is located at Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC, with a site area of approximately 53,267.5 sq.m. The Land Use Right is for industrial use.

The Land Use Right was originally obtained by government assignment (出讓). The term of the Land Use Right is from 19 September 2003 to 18 September 2053.

The Land Use Right is not subject to any mortgage, pledge and/or any other rights of third parties, nor does it involve any material dispute, litigation or arbitration, sealing, distraint, freezing or other circumstances that impede the transfer of ownership.

5. Consideration, pricing basis and payment terms:

RMB18,955,800 (excluding tax), which shall be fully paid by Weiqiao Lightweight in one lump sum within thirty (30) days from the date of the Land Use Right Transfer Agreement.

The consideration was determined based on the valuation of the Land Use Right of RMB18,955,800 as at the valuation benchmark date of 31 October 2022 as set out in the valuation report issued by a qualified valuer agreed by the parties.

The net financial gain after taxes to be derived from the transfer is expected to amount to approximately RMB14,921,000. The proceeds from the transfer will be used for supplementing general working capital of the Group.

6. Completion:

The completion date shall be the date on which the consideration is fully paid by Weiqiao Lightweight.

On the completion date, the Company shall assist Weiqiao Lightweight to complete the handover of the Underlying Land, provide all information related to the Land Use Right, and cooperate with Weiqiao Lightweight to attend to the alteration registration procedures regarding the Land Use Right after the completion.

All rights, obligations and liabilities corresponding to the Land Use Right shall be transferred to Weiqiao Lightweight, and the Company shall not enjoy any right or bear any obligation, liability or risk in respect of the Land Use Right (including but not limited to risks of tax penalty and potential dispute) from the date of completion.

B. Financial Impact

The Company is expected to benefit from the transaction by way of a net financial gain of approximately RMB18,956,000 before taxes and a net financial gain of approximately RMB14,921,000 after taxes. Hence, after the transaction is completed, the net profit for the year ending 31 December 2022 of the Company is expected to increase by approximately RMB14,921,000. The final information on the effect of the transaction on the financial position and operating results of the Company is subject to the annual audited financial report of the Company.

C. Reasons for and Benefits of Entering into the Land Use Right Transfer Agreement

There is currently no construction plan over the Underlying Land and, as a result of which the transfer is expected not to have any material adverse effect on the production and operations of the Group. The transfer will generate income to the Company and reduce management costs.

The Directors (including the independent non-executive Directors) consider that the terms of the Land Use Right Transfer Agreement are fair and reasonable, the transaction contemplated under the Land Use Right Transfer Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

III. IMPLICATIONS UNDER THE LISTING RULES

Shandong Hongqiao is an indirect non-wholly owned subsidiary of China Hongqiao. Given that China Hongqiao is deemed as an associate of Ms. Zhang Hongxia and Ms. Zhang Yanhong (both being executive Directors and, together with their other family members, having equity interests in China Hongqiao), Shandong Hongqiao is a connected person of the Company under the Listing Rules. The transactions contemplated under the Steam Supply Agreement 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 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.

Weiqiao Lightweight is an indirectly non-wholly owned subsidiary of China Hongqiao. Given that China Hongqiao is deemed as an associate of Ms. Zhang Hongxia and Ms. Zhang Yanhong (both being executive Directors and, together with their other family members, having equity interests in China Hongqiao), Weiqiao Lightweight is a connected person of the Company under the Listing Rules. The transaction contemplated under the Land Use Right Transfer Agreement thus constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the transaction contemplated under the Land Use Right Transfer Agreement is more than 0.1% but less than 5%, the Land Use Right Transfer Agreement and the transaction contemplated thereunder are subject to the announcement and reporting 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 Jinglei had abstained from voting on the relevant resolutions of the Board approving the Continuing Connected Transactions and the Land Use Right Transfer Agreement and the transaction contemplated thereunder as they concurrently have equity interests or hold relevant positions in China Hongqiao.

IV. GENERAL INFORMATION

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

Shandong Hongqiao is principally engaged in ore dressing, common non-ferrous metal smelting, non-ferrous metals calendaring processing, metal material sales, coal and coal product sales and goods import and export business.

Weiqiao Lightweight is principally engaged in the metal products industry. Its business scope includes: lightweight design, testing, analysis, evaluation and technical consulting services for automobiles, rail transit vehicles, ships and aircraft; structural design and manufacturing of lightweight products; production and sales of aluminium alloy plate, precision castings and forgings, strips, foil, pipes, bars, profiles and wires; and the import and export of goods and technique within such scope.

China Hongqiao is 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), and is principally engaged in the manufacture and sale of aluminium products.

V. DEFINITIONS

“Binzhou City Hongnuo”	濱州市宏諾新材料有限公司 (Binzhou City Hongnuo New Materials Co., Ltd.), previously known as 濱州市濱北新材料有限公司 (Binzhou City Binbei New Materials Co., Ltd.), a limited liability company established in the PRC on 2 November 2011 and an indirect wholly-owned subsidiary of Shandong Hongqiao
“Binzhou Industrial Park”	濱州魏橋科技工業園有限公司 (Binzhou Weiqiao Technology Industrial Park Co., Ltd.), a limited liability company established in the PRC on 26 November 2001, being directly held as to 98.50% by the Company and 1.50% by the Parent Company, respectively
“Binzhou Production Base”	two production areas of Binzhou Industrial Park located in Binzhou City, Shandong Province, the PRC
“Board”	the board of Directors of the Company
“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)
“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)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Steam Supply Agreement
“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 a direct wholly-owned subsidiary of Shandong Hongqiao
“Land Use Right”	the land use right granted to the Company in relation to the Underlying Land and to be transferred from the Company to Weiqiao Lightweight under the Land Use Right Transfer Agreement
“Land Use Right Transfer Agreement”	the land use right transfer agreement dated 28 December 2022 entered into between the Company and Weiqiao Lightweight in relation to the transfer of the Land Use Right
“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 direct wholly-owned subsidiary of the Company
“Old Binzhou Steam Supply Agreement”	the steam supply agreement dated 21 October 2019 entered into between Binzhou City Hongnuo and Binzhou Industrial Park for the period from 1 January 2020 to 31 December 2022 (both days inclusive)
“Old Weiqiao Steam Supply Agreement”	the steam supply agreement dated 21 October 2019 entered into between Hongli Thermal Power and Ming Hong Textile 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 and the controlling shareholder of the Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

“Shandong Hongqiao”	山東宏橋新型材料有限公司 (Shandong Hongqiao New Material Co., Ltd.), a limited liability company established in the PRC on 27 July 1994 and an indirect non-wholly owned subsidiary of China Hongqiao
“Shareholder(s)”	registered holder(s) of the shares of the Company
“sq.m.”	square metres
“Steam Supply Agreement”	the steam supply agreement dated 28 December 2022 entered into between Shandong Hongqiao (including its group members) and the Company (including its subsidiaries) in relation to the supply of steam by Shandong Hongqiao to the Company for the production needs in the Binzhou Production Base and Weiqiao Production Base for a term of three years from 1 January 2023 to 31 December 2025 (both days inclusive)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underlying Land”	the land in relation to which the Land Use Right is granted, situated at Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC
“VAT”	value added tax of the PRC
“Weiqiao Lightweight”	山東魏橋輕量化材料有限公司 (Shandong Weiqiao Lightweight Materials Co., Ltd.), a limited liability company established in the PRC on 5 August 2019 and an indirect non-wholly owned subsidiary of China Hongqiao
“Weiqiao Production Base”	the production area of the Group located in Weiqiao Town, Zouping City, Shandong Province, the PRC
“%”	per cent

For ease of reference, the names of the PRC-incorporated companies and entities have been included in this announcement in both the Chinese and English languages. In the event of any inconsistency, the Chinese name prevails.

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

Shandong, the PRC
28 December 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).*