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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 PRODUCTION WATER SUPPLY AGREEMENT

BACKGROUND

Reference is made to the announcement dated 23 January 2019 of the Company in relation to the Previous Production Water Supply Agreement entered into between Huineng Thermal Power and the Parent Company. The Previous Production Water Supply Agreement will expire on 31 December 2021. The Company intends to continue the transactions contemplated under the Previous Production Water Supply Agreement for a term commencing from 1 January 2022 and ending on 31 December 2024.

ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

The Board would like to announce that, on 23 December 2021, Huineng Thermal Power and the Parent Company entered into the Production Water Supply Agreement for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which the Parent Company will supply water to Huineng Thermal Power for production use.

LISTING RULES IMPLICATION

Huineng Thermal Power is a wholly-owned subsidiary of the Company. The Parent Company is the controlling shareholder (as defined under the Listing Rules) of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Production Water Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions, on an annual 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. THE PRODUCTION WATER SUPPLY AGREEMENT

Reference is made to the announcement dated 23 January 2019 of the Company in relation to the Previous Production Water Supply Agreement entered into between Huineng Thermal Power and the Parent Company.

The Previous Production Water Supply Agreement will expire on 31 December 2021. The Directors expect that Huineng Thermal Power will continue to need the water supply provided by the Parent Company in order to enhance the Group's operating efficiency and meet the demand of production water of the Group. In this connection, on 23 December 2021, Huineng Thermal Power and the Parent Company entered into the Production Water Supply Agreement.

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

1. Date

23 December 2021

2. Parties

- (i) Huineng Thermal Power (a wholly-owned subsidiary of the Company, including its subsidiaries and related companies, if applicable); and
- (ii) the Parent Company (including its subsidiaries or related companies, excluding the Company and its subsidiaries)

3. Connected person

The Parent Company is the controlling shareholder of the Company, holding approximately 63.67% of the total issued shares of the Company, and it therefore constitutes a connected person of the Company under the Listing Rules.

4. Transaction nature

Huineng Thermal Power and the Parent Company entered into the Production Water Supply Agreement on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which the Parent Company will supply water to Huineng Thermal Power for production use.

5. Pricing basis and payment terms

The price of production water supplied by the Parent Company to Huineng Thermal Power shall be approximately RMB1.99 per ton (VAT exclusive) for the period from 1 January 2022 to 31 December 2022, which is determined with reference to the market price of production water supplied by other independent third parties in Zouping City. According to the relevant water resource policy promulgated by the Binzhou local government in 2021, progressive charging system was implemented to the excess volume of water consumed by non-residents, and in consideration of the condition of local water supply, the Parent Company will also include a proportion of other non-local water resources, leading to an increase in water supply costs as compared with those of the previous years. The Parent Company shall provide the evidence of such market price to Huineng Thermal Power upon the request of Huineng Thermal Power. The price of production water supplied by the Parent Company to Huineng Thermal Power for the financial year ending 31 December 2023 and the financial year ending 31 December 2024 shall be re-determined by the two parties within one month prior to the end of the previous year through negotiation with reference to the then market price of production water supplied by other independent third parties in Zouping City. The Parent Company shall obtain the prices of such production water from at least three other independent third parties in Zouping City and provide the evidence to Huineng Thermal Power. The Parent Company has agreed that, in principle, the price of production water provided by the Parent Company to Huineng Thermal Power shall not be higher than the then market price of production water supplied by other independent third parties in Zouping City. The Company will also designate relevant personnel of the financial department of the Company to conduct market researches and obtain prices or quotations for such production water from other independent third parties in Zouping City to ensure the price of such production water provided by the Parent Company are fair to the Group. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Production Water Supply Agreement.

The Directors confirmed that the pricing basis agreed between the Parent Company and Huineng Thermal Power for supply of production water is fair and reasonable and negotiated on an arm's length basis and constitutes a normal commercial term.

The Parent Company would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by Huineng Thermal Power for that month. The expenses undue shall not be included in such account book. Huineng Thermal Power 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 Production Water Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Production Water 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 either party decides not to renew it and gives at least thirty (30) days prior written notice to the counterparty accordingly. For the avoidance of doubt, the Production Water Supply Agreement shall not be renewed without approval from the Board and/or the independent Shareholders.

7. Historical transaction values and the Annual Caps

The Parent Company has been supplying water to Huineng Thermal Power for production use since January 2019. The historical transactions for the products provided by the Parent Company to Huineng Thermal Power for the period from 23 January 2019 to 30 November 2021 are as follows:

	For the period from 23 January 2019 to 31 December 2019	For the financial year ended 31 December 2020	For the period from 1 January 2021 to 30 November 2021
Historical purchase volumes (<i>ton</i>)	13,757,000	8,570,000	4,492,000
Transaction values (<i>RMB</i>) (<i>VAT exclusive</i>)	21,370,000 <i>(equivalent to approximately HK\$26,168,000)</i>	13,312,000 <i>(equivalent to approximately HK\$16,301,000)</i>	6,978,000 <i>(equivalent to approximately HK\$8,545,000)</i>

Set out below are the estimated maximum purchase volumes of production water and the Annual Caps which are estimated to be payable by Huineng Thermal Power to the Parent Company under the Production Water Supply Agreement for the period from 1 January 2022 to 31 December 2024:

	For the financial year ending 31 December 2022	For the financial year ending 31 December 2023	For the financial year ending 31 December 2024
Estimated maximum purchase volumes (<i>ton</i>)	9,000,000	9,000,000	9,000,000
Annual Caps (<i>RMB</i>) (<i>VAT exclusive</i>)	17,913,000	17,913,000	17,913,000

The Annual Caps for the period from 1 January 2022 to 31 December 2024 are determined with reference to (i) the estimated volumes of water to be used by Huineng Thermal Power in the production process for the three financial years ending 31 December 2024; (ii) the price of production water supplied by the Parent Company to Huineng Thermal Power under the Production Water Supply Agreement for the period from 1 January 2022 to 31 December 2022, i.e. approximately RMB1.99 per ton (VAT exclusive); and (iii) the historical volumes of water used by Huineng Thermal Power in the production process for the period from 23 January 2019 to 30 November 2021.

B. REASONS FOR AND BENEFITS OF ENTERING INTO THE PRODUCTION WATER SUPPLY AGREEMENT

In order to enhance the Group's operating efficiency and meet the growing demand of production water of the Group, Huineng Thermal Power and the Parent Company entered into the Production Water Supply Agreement after considering, among others, the following reasons:

- (i) the close location of the Parent Company to Huineng Thermal Power makes it convenient and efficient for water supply; and
- (ii) the Parent Company is able to provide stable water supply with flexible adjustment for the production needs of Huineng Thermal Power, which is favorable to the stable operations of the Group's business.

C. LISTING RULES IMPLICATION

Huineng Thermal Power is a wholly-owned subsidiary of the Company. The Parent Company is the controlling shareholder of the Company, holding approximately 63.67% of the total issued shares of the Company, and it therefore constitutes a connected person of the Company under

the Listing Rules. Accordingly, the transactions contemplated under the Production Water Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions, on an annual 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, Ms. Zhao Suwen, Mr. Wei Jiakun and Mr. Zhang Jinglei had either not participated in voting or abstained from voting on the relevant resolution of the Board approving the same as they have a material interest in the relevant resolution of the Board and/or concurrently hold relevant positions in the Parent Company.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and the terms of the Production Water 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.

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 Production Water Supply Agreement, and in compliance with the Listing Rules:

- (i) 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 prices of production water supplied by the Parent Company to Huineng Thermal Power are no less favourable to the Group than the prices at which such water is supplied by other independent third parties to the Group;
- (ii) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the Production Water Supply Agreement and the Annual Caps are not exceeded;
- (iii) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (iv) 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. GENERAL INFORMATION

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

Huineng Thermal Power is principally engaged in the production and sales of heat and electricity.

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.

F. DEFINITIONS

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

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Production Water Supply Agreement for the period from 1 January 2022 to 31 December 2024
“Board”	the board of Directors
“Company”	Weiqiao Textile Company Limited (魏橋紡織股份有限公司), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Production Water Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Huineng Thermal Power”	Zouping County Huineng Thermal Power Co., Ltd. (鄒平縣匯能熱電有限公司), a limited liability company established in the PRC on 22 April 2016 and a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Parent Company”	Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司), a limited liability company established in the PRC on 14 April 1998, being the controlling shareholder of the Company
“PRC”	the People’s Republic of China
“Previous Production Water Supply Agreement”	the production water supply agreement entered into between Huineng Thermal Power and the Parent Company on 23 January 2019 for a term commencing on 23 January 2019 and ending on 31 December 2021
“Production Water Supply Agreement”	the production water supply agreement entered into between Huineng Thermal Power and the Parent Company on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“VAT”	value added tax at the rate of 3% which is subject to adjustment from time to time according to the tax laws and regulations in the PRC
“%”	per cent

On behalf of the Board
Weiqiao Textile Company Limited*
Zhang Jinglei
Executive Director and Company Secretary

Shandong, the PRC
23 December 2021

For the purpose of this announcement, the exchange rate of HK\$1.00 = RMB0.81664 has been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.

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