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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**

Reference is made to the prospectus of the Company dated 15 September 2003 which states that the Company and Holding Company entered into the Supply of Electricity and Steam Agreement on 25 August 2003. Under the Supply of Electricity and Steam Agreement, Holding Company has agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date thereof.

The announcement made by the Company on 13 May 2005 states that the Company and Holding Company entered into Supplemental Agreement to the Supply of Electricity and Steam Agreement to adjust the pricing bases and renewed the Annual Cap for each of the three financial year ended 31 December 2007.

Reference is also made to the announcement and circular of the Company related to the Acquisition dated 15 January 2008 and 31 January 2008, respectively.

On 14 January 2008, the Company entered into the Asset Transfer Agreement with Holding Company which is subject to the approval of the Independent Shareholders at the EGM to be convened on 18 March 2008. If the Company obtains the approval of Independent Shareholders at the EGM for the Asset Transfer Agreement which includes transfer of the Weihai Power Plant, the Annual Cap of the Continuing Connected Transactions relating to Weihai Power Plant for the two financial years of 2009 and 2010 will not be applicable.

Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company. As certain applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) with respect to the Continuing Connected Transactions are higher than 0.1% but less than 2.5% annually, the Continuing Connected Transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

#### **A. CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the prospectus of the Company dated 15 September 2003 which states that the Company and Holding Company entered into the Supply of Electricity and Steam Agreement on 25 August 2003. Under the Supply of Electricity and Steam Agreement, Holding Company has agreed to supply electricity and steam to the Group for a term of ten years commencing from the date thereof.

The announcement made by the Company on 13 May 2005 states that the Company and Holding Company entered into Supplemental Agreement to the Supply of Electricity and Steam Agreement to adjust the pricing bases and renewed the maximum aggregate annual value (the “**Annual Cap**”) for each of the three financial years ended 31 December 2007. The waiver has expired on 31 December 2007 and the Board has conducted a review of the Annual Cap for the Continuing Connected Transactions for the period from 1 January 2008 and ending on 31 December 2010. The aggregate transaction value which is settled on a monthly basis, under the Continuing Connected Transactions relating to Weihai Power Plant constitutes de minimus transactions under the Rule 14A.31 (2) of the Listing Rules as at the date of the announcement.

Weihai Power Plant is the only power plant owned by Holding Company which is currently still supplying power and steam to the Group’s relevant production bases in Weihai. The Supply of Electricity and Steam Agreement dated 25 August 2003 and the Supplemental Agreement dated 13 May 2005 between the Company and Holding Company are still effective for the three years from 2008 to 2010 and no new agreement has been signed for the Continuing Connected Transactions relating to Weihai Power Plant. The payment terms and basis to determine the electricity and steam fee under the Supplemental Agreement will continue to apply to the Continuing Connected Transactions relating to Weihai Power Plant. For further details of the payment terms and other information, please refer to the prospectus of the Company dated 15 September 2003 and the announcement made by the Company dated 13 May 2005.

According to the Supply of Electricity and Steam Agreement, the Company shall pay for the electricity and steam supplied in arrears on a monthly basis based on the actual amount of electricity and steam supplied by the Holding Company. The Holding Company will provide the amount due on the last business day of each month and Company shall make the payment within the first five business days of the following month.

The revised pricing terms under the Supplemental Agreement dated 13 May 2005 are set out below:

### *Purchase of electricity*

Pursuant to the Supplemental Agreement, it has been agreed that the price at which electricity is to be provided to the Group by Holding Company shall be charged as follows:

- (i) if the aggregate amount of electricity to be purchased by the Group from Holding Company in any financial year of the Company is equal to or less than that similarly purchased for the financial year ended 31 December 2004 (i.e. 1,519,000,000 kWh) (the “**Planned Electricity Purchase**”), the price at which electricity is to be provided to the Group by Holding Company shall be the lower of either RMB0.35 per kWh (including VAT at the rate of 17%) or the then prevailing market price; and
- (ii) if the aggregate amount of electricity to be purchased by the Group from Holding Company in any financial year of the Company exceeds the Planned Electricity Purchase, the price for the Planned Electricity Purchase shall be the same as (i) above. The price for any excess purchase shall be adjusted, but must not be higher than the then prevailing market price.

### *Purchase of steam*

It has been further agreed that the price at which steam is to be provided to the Group by Holding Company shall be charged as follows:

- (i) if the aggregate amount of steam to be purchased by the Group from Holding Company in any financial year of the Company is equal to or less than that similarly purchased for the financial year ended 31 December 2004 (i.e. 1,880,000 tons) (the “**Planned Steam Purchase**”), the price at which steam is to be provided to the Group by Holding Company shall be the lower of either RMB60 per ton (including VAT at the rate of 13%) or the then prevailing market price; and

- (ii) if the aggregate amount of steam purchased by the Group from Holding Company in any financial year of the Company exceeds the Planned Steam Purchase, the price for the Planned Steam Purchase shall be the same as (i) above. The price for any excess purchase shall be adjusted, but must not be higher than the then prevailing market price.

If any applicable mandatory price for the supply of electricity and/or steam is prescribed by the PRC government, such mandatory price would be adopted instead.

Reference is also made to the announcement and circular of the Company related to the Acquisition dated 15 January 2008 and 31 January 2008, respectively. On 14 January 2008, the Company entered into the Asset Transfer Agreement with Holding Company which is subject to, inter alia, the approval of the Independent Shareholders at the EGM to be convened on 18 March 2008. During the period from 1 January 2008 to the EGM, the Group will continue to purchase electricity and steam from Weihai Power Plant of Holding Company to satisfy the Group's production needs for Weihai Weiqiao and Weihai Industrial Park, as the Group does not own any power plants at the production base in Weihai. If the Company obtains the approval of Independent Shareholders at the EGM for the Asset Transfer Agreement which includes transfer of the Weihai Power Plant, the Annual Cap of the Continuing Connected Transactions in relation to Weihai Power Plant for the two financial years of 2009 and 2010 will not be applicable.

## **B. HISTORICAL FIGURES**

The following is a summary of the aggregate annual values of the Continuing Connected Transactions (excluding VAT) in relation to Weihai Power Plant for each of the three financial years ended 31 December 2007:

<b>Financial year ending</b> 31 December 2005 <i>(RMB million)</i>	<b>Financial year ending</b> 31 December 2006 <i>(RMB million)</i>	<b>Financial year ending</b> 31 December 2007 <i>(RMB million)</i>
54.14	75.05	82.89

### C. MAXIMUM AGGREGATE ANNUAL VALUE

Set out below is the Annual Cap of the Continuing Connected Transactions (excluding VAT) in relation to Weihai Power Plant which is estimated to be payable by the Group to Holding Company for each of the three financial years ending 31 December 2010:

<b>Financial year ending</b> 31 December 2008 <i>(RMB million)</i>	<b>Financial year ending</b> 31 December 2009 <i>(RMB million)</i>	<b>Financial year ending</b> 31 December 2010 <i>(RMB million)</i>
108.75	141.34	183.79

The Annual Cap for each of the three financial year ending 31 December 2010 has been determined based on the projected rate of increase of electricity and steam consumption of the Group by approximately 30% per annum for 2008 to 2010. Such rate of increase is determined with reference to the approximate average growth rates of 25% for the three years ended 31 December 2007 and the expected future production expansion.

### D. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

During the period from 1 January 2008 to the EGM to be held on 18 March 2008, the Group will continue to purchase electricity and steam from Weihai Power Plant of the Holding Company to satisfy the Group's production needs for Weihai Weiqiao and Weihai Industrial Park, as the Group does not own any power plants at the production base in Weihai. If the Company obtains the approval of Independent Shareholders at the EGM for the Asset Transfer Agreement which includes transfer of Weihai Power Plant, the Annual Cap of the Continuing Connected Transactions in relation to Weihai Power Plant for the two financial years of 2009 and 2010 will not be applicable. The Directors consider that as a stable electricity and steam supply from Holding Company by Weihai Power Plant is significant to the daily operation of the Group in Weihai, the Continuing Connected Transactions are beneficial to the Group in the long run because the Group can continue to benefit from the stable supply of electricity and steam at a favorable capped rates that would either be lower than or at market rates from Holding Company.

Based on the above, the Board believes that the terms of the Continuing Connected Transactions in relation to Weihai Power Plant are fair and reasonable and beneficial to the Group and are in the interests of the Shareholders.

## **E. COMPLIANCE WITH THE LISTING RULES**

Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company. As certain applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) with respect to the Continuing Connected Transactions are higher than 0.1% but less than 2.5% annually, the Continuing Connected Transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the Continuing Connected Transactions contemplated in this announcement have been negotiated on arms' length basis and are on normal commercial terms; (ii) such transactions will be conducted in the ordinary and usual course of business of the Company; (iii) the Annual Caps for the year 2008, 2009 and 2010 are reasonable; and (iv) terms of the same transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **F. GENERAL**

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.

## **G. DEFINITIONS**

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

“Acquisition”	the transaction as contemplated under the Asset Transfer Agreement
“Asset Transfer Agreement”	the agreement dated 14 January 2008 and entered into between the Company and Holding Company relating to the acquisition of the Thermal Power Assets by the Company
“Board”	the board of directors of the Company
“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 Supply of Electricity and Steam Agreement and Supplemental Agreement
“Directors”	the directors 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 18 March 2008 for the Independent Shareholders to consider and, if thought fit, approve the Acquisition
“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 HK\$ 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, including its subsidiaries where appropriate
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Directors”	the independent non-executive directors of the Company, who are invited to advise the Independent Shareholders in connection with the Acquisition
“Independent Shareholders”	the shareholders of the Company other than Holding Company and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“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
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 13 May 2005 and entered into between the Company and Holding Company for the purpose of specifying the pricing bases under the Supply of Electricity and Steam Agreement for the three years ending 31 December 2007
“Supply of Electricity and Steam Agreement”	the agreement dated 25 August 2003 and entered into between the Company and Holding Company pursuant to which Holding Company has agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the Supply of Electricity and Steam Agreement
“VAT”	value added tax at the rate of 17%
“Weihai Weiqiao”	威海魏橋紡織有限公司 (Weihai Weiqiao Textile Company Limited), a limited liability company established on July 25, 2001 in the PRC with a registered capital of RMB 148,000,000 and owned as to 87.2% by the Company and 12.8% by 威海民航實業有限公司 (Weihai Civil Aviation Industrial Compnay Limited).
“Weihai Industrial Park”	威海魏橋科技工業園有限公司 (Weihai Weiqiao Industrial Park Limited)



“Weihai Power Plant” 威海西郊熱電有限公司 (Weihai Xijiao Thermal Power Company Limited)

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

3 March 2008  
Shandong  
The People’s Republic of China

*Notes:*

1. As at the date of this announcement, the board of Directors of the Company comprises 9 Directors, namely Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen and Ms. Zhang Yanhong as executive Directors, Mr. Zhang Shiping and Mr. Wang Zhaoting as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.
  2. The conversion of RMB into HK\$ is based on the exchange rate of RMB0.93=HK\$1.
  3. 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 an oversea company under the English name “Weiqiao Textile Company Limited”.*