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If you have sold or transferred all your shares in Weiqiao Textile Company Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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
AND
NOTICE OF THE EGM

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



Sorrento Capital Limited

A letter from the Board is set out in pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions is set out in page 13 of this circular. A letter from Sorrento Capital containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions is set out in pages 14 to 23 of this circular.

A notice dated 11 November 2019 convening the EGM to be convened and held on Friday, 27 December 2019 at 9:00 a. m. at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC is set out in pages 30 to 32 of this circular. Whether or not you are able to attend the above meetings, you are requested to complete and return the enclosed proxy form(s) in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or at any adjournment thereof. Completion and return of the proxy form(s) will not preclude you from attending and voting in person at the meeting(s) or at any adjourned meeting(s) should you so wish.

Reply slip for the EGM have also been enclosed. You are reminded to complete and sign the relevant reply slip and return it to the office of the secretary to the Board on or before Saturday, 7 December 2019 in accordance with the instructions printed thereon.

11 November 2019

* 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 Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Renewed Excess Electricity Supply Agreement for the three financial years ending 31 December 2022
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“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 Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2698)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Excess Electricity Supply Agreement
“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 RMB and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company to be convened and held on Friday, 27 December 2019 for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“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
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising of all the independent non-executive Directors to advise the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than the Parent Company and Ms. Zhang Hongxia for the purpose of the Continuing Connected Transactions
“Independent Third Party Large Customers”	the large industrial enterprise customers (with the voltage of 220kV or above) for the sale of excess electricity by the Group
“Latest Practicable Date”	7 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Excess Electricity Supply Agreement”	the excess electricity supply agreement entered between the Company and the Parent Company on 26 October 2016 for the period from 1 January 2017 to 31 December 2019 (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, being the controlling shareholder of the Company
“Parent Group”	the Parent Company, its subsidiaries and associates (excluding the Group)
“PRC”	the People’s Republic of China
“Renewed Excess Electricity Supply Agreement”	the excess electricity supply agreement entered into between the Company and the Parent Company on 21 October 2019 for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	Domestic Shares and H Shares

DEFINITIONS

“Sorrento Capital”	Sorrento Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	Value added tax at the rate of 17% from 1 July 2017 to 30 April 2018, at the rate of 16% from 1 May 2018 to 31 March 2019 and at the rate of 13% since 1 April 2019
“%”	per cent

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

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Zhang Hongxia (*Chairman*)
Ms. Zhang Yanhong
Ms. Zhao Suwen
Mr. Zhang Jinglei

Non-executive Directors:

Ms. Zhao Suhua

Independent Non-executive Directors:

Mr. George Chan Wing Yau
Mr. Chen Shuwen
Mr. Liu Yanzhao

Registered Office:

No. 34 Qidong Road
Weiqiao Town
Zouping City
Shandong Province
The PRC

Principal place of business in the PRC

No. 1 Wei Fang Road
Zouping Economic Development Zone
Zouping City
Shandong Province
The PRC

Principal Place of Business in Hong Kong:

Suite 5109
The Center, 99th Queen's Road Central
Central
Hong Kong

11 November 2019

To the Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF EXCESS ELECTRICITY
AND
NOTICE OF THE EGM**

A. INTRODUCTION

As disclosed in the announcement of the Company dated 21 October 2019, the Company and the Parent Company entered into the Renewed Excess Electricity Supply Agreement on 21 October 2019, pursuant to which, the Group will continue to supply excess electricity to the Parent Group for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive).

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further details of the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), (ii) the letter from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from Sorrento Capital to the Independent Board Committee and the Independent Shareholders, and (iv) the notice of the EGM.

B. THE RENEWED EXCESS ELECTRICITY SUPPLY AGREEMENT

The material terms of the Renewed Excess Electricity Supply Agreement are set out as follows:

1. Date

21 October 2019

2. Parties

(a) the Company; and

(b) the Parent Company

3. Connected person

the Parent Company

4. Transaction nature

The Company and the Parent Company entered into the Old Excess Electricity Supply Agreement on 26 October 2016, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2017 to 31 December 2019 (both days inclusive). On 21 October 2019, the Company entered into the Renewed Excess Electricity Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive), pursuant to which, the Group will continue to supply excess electricity, which will be in excess of the Group's actual electricity consumption, to the Parent Group.

5. Pricing basis

The benchmark price of excess electricity to be supplied to the Parent Group by the Group shall be RMB0.37 per kWh (VAT inclusive), which is the same as that used in the Old Excess Electricity Supply Agreement. Such benchmark price of excess electricity is determined on a cost-plus basis. Such cost-plus pricing basis was first adopted by the Company under the Old Excess Electricity Supply Agreement with effect from 1 January 2017 (the beginning of the term of the Old Excess Electricity Supply Agreement), and the Company will continue to use such pricing basis under the Renewed Excess Electricity Supply Agreement. For the purpose of continuity of the pricing basis, the Company will continue to use the benchmark price of raw coal (which was determined based on the price of raw coal procured by the Group in September 2016) and the benchmark price of excess electricity under the Old Excess Electricity Supply Agreement as the benchmark price of raw coal and

LETTER FROM THE BOARD

the benchmark price of excess electricity under the Renewed Excess Electricity Supply Agreement, respectively. The Company confirms that there is not any material difference between the price of excess electricity calculated using the adjustment mechanism of actual settlement price based on such benchmark price of raw coal and benchmark price of excess electricity and that calculated according to the cost-plus pricing basis in September 2019.

The cost for electricity generation of the Group mainly consists of the cost of raw coal, diesel and water, maintenance cost, human cost and depreciation cost. The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is the same as that used in the Old Excess Electricity Supply Agreement and is determined based on the price of raw coal procured by the Group in September 2016. The coal consumption volume to generate each unit of electricity of the Group as at the Latest Practicable Date remains basically the same as that in September 2016. Procurement cost of raw coal accounted for approximately 80% of the total cost incurred for electricity generation of the Group. Accordingly, the total cost incurred for electricity generation of the Group amounted to approximately RMB0.27 per kWh (VAT inclusive) in September 2016.

The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins of supply of excess electricity for the nine years ended 31 December 2018.

Such market-oriented cost-plus pricing basis is applied to the Parent Group and the Independent Third Party Large Customers. Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, the prices offered by the Group to the Parent Group and the Independent Third Party Large Customers were and will be lower than those offered to the medium and small customers of the Group, both historically and in the future. Under such pricing basis, notwithstanding the fluctuation of the price of raw coal affecting the cost of electricity generation, the fixed gross profit to be gained by the Group from the sales of excess electricity to the Parent Group and the Independent Third Party Large Customers will basically remain the same. Such pricing basis can help minimize the adverse effect caused by the price fluctuation of raw coal and ensure a fixed gross profit for the Group.

Based on the above, the Board considers that as the price of raw coal is materially affected by the governmental policies and market demand in the PRC and is fluctuating largely in nature, the pricing basis adopted by the Company under the Renewed Excess Electricity Supply Agreement can reflect the fluctuated price of raw coal on a monthly basis and the Group will be able to gain a stable gross profit from the sales of excess electricity. Since such pricing basis (cost plus fixed gross profit) is also applied to the Independent Third Party Large Customers, the Board believes such pricing basis can ensure that the Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable and not prejudicial to the interests of the Company and the Shareholders as a whole.

If any applicable mandatory price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations in the future, the Group would adopt such price since it is mandatory with no choice. The Directors believe that with the deeper reform of the electricity industry and gradually open regulatory policies of sales of electricity, the sales price of

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electricity in the PRC will be more market-oriented. The Company and the Parent Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh (VAT inclusive) on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal. Such adjustment mechanism of actual settlement price is determined based on the benchmark price of raw coal, which could reflect the increase in the unit cost for electricity generation of the Group resulted from the increase in the price of raw coal. Where there is a 5% increase in the price of raw coal from the benchmark price of raw coal (i.e. RMB454.35 per ton (VAT inclusive)), there should be an increase of approximately RMB0.01 per kWh (VAT inclusive) in the actual settlement price of excess electricity in order to maintain the required profit margin of RMB0.10 per kWh (VAT inclusive). Solely for illustration purpose, where there is a 5% increase in the price of raw coal from the benchmark price of raw coal (i.e. RMB454.35 per ton (VAT inclusive)), there will also be a 5% increase in the unit cost of raw coal for electricity generation of the Group, which amounts to approximately RMB0.01 per kWh (VAT inclusive).

6. Payment terms

The Parent Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual amount of electricity supplied. The Company will prepare an account book of the amount due on the last business day of each month and Parent Group shall make the payment before the first 10th days of the following month. The amount undue and in controversy shall not be included in such account book. To the best knowledge of the Directors, such payment terms are in line with the market practice in Shandong Province, the PRC.

7. Termination and renewal

Either party to the Renewed Excess Electricity Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty.

The Renewed Excess Electricity 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 any party decides not to renew it and give at least thirty (30) days prior written notice to the counterparty accordingly.

LETTER FROM THE BOARD

8. Historical transaction values and the Annual Caps

The historical transaction values, annual caps and sales volumes for the electricity supplied by the Group to the Parent Group under the Old Excess Electricity Supply Agreement for the two financial years ended 31 December 2018 and the financial year ending 31 December 2019 are as follows:

	For the financial year ended/ending 31 December		
	2017	2018	2019
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction values	2,312,810,000	2,431,327,000	2,434,113,000 ¹
Historical annual caps	3,022,223,000	3,022,223,000	3,022,223,000
Historical sales volumes (kWh)	6,230,644,000	6,602,856,000	6,789,197,000 ¹

Note 1: The sales volume and transaction value for the financial year ending 31 December 2019 were calculated based on the actual average monthly sales volume and transaction value for the nine months ended 30 September 2019 by multiplying 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the three months ending 31 December 2019 is expected to be stable in comparison with that for the nine months ended 30 September 2019.

Set out below are the Annual Caps which are estimated to be payable by the Parent Group to the Group and the estimated maximum sales volumes of electricity under the Renewed Excess Electricity Supply Agreement for each of the three financial years ending 31 December 2022:

	For the financial year ending 31 December		
	2020	2021	2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Annual Caps ¹	3,124,232,000 ¹	3,124,232,000 ¹	3,124,232,000 ¹
Estimated maximum sales volumes (kWh)	6,789,197,000	6,789,197,000	6,789,197,000

Note 1: The Annual Caps for each of the three financial years ending 31 December 2022 are determined with reference to the followings:

- (i) As the production capacity and electricity consumption of the Parent Group are expected to remain stable for the three financial years ending 31 December 2022, the sales volume of excess electricity to be supplied by the Group to the Parent Group for each of the three financial years ending 31 December 2022 is estimated to be the same as that for the financial year ending 31 December 2019, amounting to approximately 6,789,197,000 kWh; and
- (ii) the price of raw coal is materially affected by the governmental policies in the PRC and the prices of raw coal fluctuated significantly in the past eleven years. Given such circumstances and for the purpose of determining the Annual Caps, the Company decides to use the price of raw coal amounting to RMB800.00 per ton (VAT inclusive) for

LETTER FROM THE BOARD

the calculation of unit production cost for electricity generation, which was determined with reference to the comparatively high prices of raw coal in the past eleven years. The Company expects that the price of raw coal will have an increasing trend for the three financial years ending 31 December 2022. As such price of raw coal for calculating the Annual Caps represents approximately 76% increase as compared with the benchmark price of raw coal and the gross profit to be gained by the Company basically remains the same, the estimated settlement price of excess electricity will be RMB0.15 per kWh higher than the benchmark price of excess electricity and amount to RMB0.52 per kWh (VAT inclusive) or approximately RMB0.46 per kWh (VAT exclusive) based on the pricing basis set out in the Renewed Excess Electricity Supply Agreement.

The formula for the calculation of the unit price of excess electricity is set out below:

Unit price of excess electricity = unit production cost (substantially composed of the procurement cost of raw coal) + fixed gross profit expected to be gained by the Group

The formula for the calculation of the Annual Caps is set out below:

Annual Caps = estimated maximum sales volume of excess electricity × unit price of excess electricity

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED EXCESS ELECTRICITY SUPPLY AGREEMENT

The demand of the Parent Group for electricity is expected to remain large and stable and therefore, the excess electricity to be purchased by the Parent Group under the Renewed Excess Electricity Supply Agreement would (i) optimize the utilization of the power plant assets and thus improve operating efficiency and achieve economies of scale of the Group (by reducing the unit fixed costs of electricity generation); and (ii) allow the Group to receive an additional income stream and cash inflow and thus enhance the profits of the Group.

The Parent Group is one of the largest customers of the Group in respect of supply of excess electricity. The sales of excess electricity to the Parent Group accounted for approximately 41% of total sales of excess electricity by the Group for the two financial years ended 31 December 2018 and approximately 45% for the nine months ended 30 September 2019. Due to that the demand for electricity of the medium and small customers (such as the local supermarkets) in the coverage of the Company's power grid is limited, it is not commercially practicable for the Group to further increase the sales volume of excess electricity to such medium and small customers of the Group. Therefore, it is expected that the proportion of sales of excess electricity by the Group to the Parent Group will remain stable for the three financial years ending 31 December 2022.

Based on the above, the Board believes that the Continuing Connected Transactions would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings and enhancement of the profitability of the Group.

Given that the sales price of excess electricity offered to the Parent Group will be basically the same as that offered to the Independent Third Party Large Customers, the Board represented by the only one non-executive Director, Ms. Zhao Suhua, (excluding Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei who had abstained from voting on the relevant resolution of the Board approving the

LETTER FROM THE BOARD

Continuing Connected Transactions and the members of the Independent Board Committee, the opinion of which, after considering the advice from Sorrento Capital, is included in the section “Letter from the Independent Board Committee” in this circular) considers that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and the terms of the Renewed Excess Electricity 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. LISTING RULES IMPLICATIONS

The Parent Company is the controlling shareholder of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Excess Electricity Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the Renewed Excess Electricity Supply Agreement are more than 5%, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Each of Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei had abstained from voting on the relevant resolution of the Board approving the Continuing Connected Transactions as they concurrently have equity interests or hold relevant positions in the Parent Company.

E. 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 Renewed Excess Electricity Supply Agreement, and in compliance with the Listing Rules:

- (1) the finance department of the Company shall monitor all the pricing records as the reference price of the Continuing Connected Transactions to ensure the sales prices of the excess electricity offered by the Group to the Parent Group are no more favourable than the prices at which such excess electricity are supplied by the Group to the Independent Third Party Large Customers;
- (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 Renewed Excess Electricity Supply Agreement and the Annual Caps are not exceeded;
- (3) the Board will continue to periodically review the Company’s internal control systems and their effectiveness; and

LETTER FROM THE BOARD

- (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 Annual Caps in accordance with the requirements of the Listing Rules.

F. EGM

The Company proposes to seek the approvals of the Independent Shareholders at the EGM relating to the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

As at the Latest Practicable Date, the Parent Company held approximately 63.67% of the total issued Shares. According to the Listing Rules, the Parent Company will abstain from voting at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 9.73% (directly and indirectly) of the equity interest in the Parent Company. She and her family members (jointly holding approximately 1.92% of the equity interest in the Company) will also abstain from voting at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no other Shareholder has a material interest in the Continuing Connected Transactions, and no other Shareholder is required to abstain from voting to approve the Renewed Excess Electricity Supply Agreement or the Annual Caps at the EGM.

The votes to be taken at the EGM in relation to the resolution for approval by the Independent Shareholders of the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) will be taken by poll.

The Independent Board Committee will advise the Independent Shareholders in relation to their voting on the resolution relating to the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

Sorrento Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

The relevant forms of proxy and reply slips for attending the EGM are enclosed. Shareholders who intend to attend the EGM are required to complete and return the reply slips to the Company on or before Saturday, 7 December 2019.

The holders of H Shares of the Company should note that the register of members of the Company will be closed from Wednesday, 27 November 2019 to Friday, 27 December 2019 (both days inclusive), during which period no transfer of H Shares can be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong (in respect of H Shares), or the Company's principal place business in the PRC (in respect of Domestic Shares), no later than 4:30 p. m. on Tuesday, 26 November 2019.

LETTER FROM THE BOARD

G. RECOMMENDATION

The Board is of the opinion that the terms of the Renewed Excess Electricity Supply Agreement (including the Annual Caps) are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders vote in favour of the resolution set out in the notice of the EGM for the approval of the Renewed Excess Electricity Supply Agreement (including the Annual Caps). The Board is also of the view that the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group, and that the terms, as well as the Annual Caps applicable thereto, are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

H. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, has been formed to advise the Independent Shareholders in relation to their voting on the resolution in respect of the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

I. GENERAL INFORMATION

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

The Parent Company is a company incorporated in the PRC on 14 April 1998 with limited liability. 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.

J. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

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

* 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 Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

11 November 2019

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

We have been appointed as members of the Independent Board Committee to consider the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 11 November 2019 (the “**Circular**”), of which this letter forms part, and to advise you as to the fairness and reasonableness of the same. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Renewed Excess Electricity Supply Agreement (including the Annual Caps) and the advice and opinion of Sorrento Capital Limited in relation thereto as set out on pages 14 to 23 of the Circular, we are of the opinion that (i) the Renewed Excess Electricity Supply Agreement was entered into in the ordinary and usual course of business with normal commercial terms; and (ii) the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,

Independent Board Committee

George Chan Wing Yau

*Independent non-executive
Director*

Chen Shuwen

*Independent non-executive
Director*

Liu Yanzhao

*Independent non-executive
Director*

LETTER FROM SORRENTO CAPITAL

The following is the text of the letter of advice from Sorrento Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the renewal of continuing connected transactions for the supply of excess electricity which has been prepared for the purpose of inclusion in this circular.



11/F,
The Wellington,
198 Wellington Street,
Central,
Hong Kong

11 November 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the renewal of continuing connected transactions for the supply of excess electricity by the Group to the Parent Group (the “**Continuing Connected Transactions**”) and the proposed annual caps (the “**Proposed Annual Caps**”) under the Renewed Excess Electricity Supply Agreement for the three years ending 31 December 2022, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 11 November 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

According to the Letter from the Board, Shandong Weiqiao Chuangye Group Company Limited, the Parent Company, held approximately 63.67% of the total issued Shares as at the Latest Practicable Date. As the Parent Company is a controlling Shareholder and therefore a connected person of the Company, the transactions contemplated under the Renewed Excess Electricity Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio for the Proposed Annual Caps under the Renewed Excess Electricity Supply Agreement exceeds 5% on an annual basis, the transactions contemplated thereunder are therefore subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, all being the independent non-executive Directors, has been established by the Board to consider the terms of the Renewed Excess Electricity Supply Agreement and the Proposed Annual Caps and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited,

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have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Renewed Excess Electricity Supply Agreement and the Proposed Annual Caps are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Parent Company held approximately 63.67% of the total issued Shares. According to the Listing Rules, the Parent Company will abstain from voting at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 9.73% (directly and indirectly) of the equity interest in the Parent Company. She and her family members (jointly holding approximately 1.92% of the equity interest in the Company) will also abstain from voting at the EGM.

We are independent from and not connected with the Group, the Parent Group, their respective substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transactions.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

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PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the Renewed Excess Electricity Supply Agreement and the Proposed Annual Caps are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background of and reasons for entering into the Renewed Excess Electricity Supply Agreement

As set out in the Letter from the Board, the Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim as well as generation and sales of electricity and steam business. According to the annual report of the Company for the year ended 31 December 2018 (the “**Annual Report**”) and the interim report of the Company for the six months ended 30 June 2019 (the “**Interim Report**”), (i) the Company recorded a revenue of approximately RMB16.46 billion for the year ended 31 December 2018 representing an increase of approximately 0.5% as compared to that of approximately RMB16.37 billion for the previous year; and (ii) the Company recorded a revenue of approximately RMB7.78 billion for the six months ended 30 June 2019 representing a decrease of approximately 7.5% as compared to that of approximately RMB8.41 billion for the corresponding period in the previous year. Notwithstanding the changes above, generation and sales of electricity and steam remained as a significant business segment of the Company, and revenue from the sales of electricity and steam business represented approximately 34.4%, 36.1% and 35.5% of the total revenue for the year ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 respectively. In terms of gross profit, the sales of electricity and steam business represented around 80% of the total gross profit of the Company for each of the aforesaid years/period.

As set out in the Letter from the Board, the Parent Company is a company established in the PRC on 14 April 1998 with limited liability. The Parent Group 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. As disclosed in the circular of the Company dated 16 August 2005, the Group’s operations used to rely heavily on the supply of electricity and steam by the Parent Company. With a view to enhance the operating efficiency and competitiveness of the Group from integration of the thermal power assets, the Company acquired such thermal power assets with total installed capacity of 660MW from the Parent Company in 2005.

Since completion of the abovementioned acquisition in 2005, the Company has provided the excess electricity to the Parent Group and independent third parties in order to ensure the high operation efficiency of such thermal power assets. As disclosed in the circular of the Company dated 24 March 2016, with a view to further increase the Company’s revenue and profits from sales of electricity to its customers including stores, large shopping malls and industrial enterprises located in the coverage of the Company’s power grid, the Company has acquired further thermal power assets with installed capacity of 1,320MW from an independent third party in 2016. As mentioned in the Annual Report and the Interim Report, (i) as at 30 June 2019, the installed capacity of the Group’s thermal power assets reached 2,760 MW of which, as advised by the Company, 2,640 MW in Zouping City are relating to the supply of excess electricity to the Parent Group; and (ii) the Company (a) generated approximately 17,442 million kWh, 18,548 million kWh and 8,789 million kWh of electricity; and (b) sold 15,122 million kWh, 16,102 million kWh and 7,647 million kWh of electricity, during the year ended 31 December 2017, 31 December 2018 and the six months

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ended 30 June 2019 respectively. As advised by the Company, certain production/processing facilities of the Parent Group in respect of its products are located within the coverage of the Company's power grid in Zouping City, Shandong Province, the PRC.

As stated at the Letter from the Board, the Parent Company is one of the largest customers of the Group in respect of supply of excess electricity. The sales of excess electricity to the Parent Group accounted for approximately 41% of total sales of excess electricity by the Group for the two years ended 31 December 2018 and approximately 45% for the nine months ended 30 September 2019 respectively. Due to the limited demand for electricity of medium and small customers (such as the local supermarkets) in the coverage of the Company's power grid, the Company considers that it is not commercially practicable for the Group to further increase the sales volume of excess electricity to such medium and small customers of the Group. In view that the demand of the Parent Group for electricity is expected to remain large and stable, the excess electricity to be purchased by the Parent Group under the Renewed Excess Electricity Supply Agreement would (i) optimise the utilisation of the thermal power assets and thus improve operating efficiency and achieve economies of scale of the Group (by reducing the unit fixed costs of electricity generation); and (ii) allow the Group to receive an additional income stream and cash inflow and thus enhance the profits of the Group which would in turn result in unit cost savings and enhancement of the profitability of the Group. The Company intends to continue the existing arrangement for the supply of excess electricity to the Parent Group under the Old Excess Electricity Supply Agreement after its expiry on 31 December 2019 and extend the term for another three years from 1 January 2020 to 31 December 2022 (both dates inclusive) by entering into the Renewed Excess Electricity Supply Agreement on 21 October 2019.

Having considered that (i) the abovementioned historical sales of the power generated by the Group's existing thermal power assets to customers including both the independent third party customers and the Parent Group, and the fixed cost per unit power generated can be reduced if power generation volume is larger and optimal; (ii) the sales of electricity has been material to the profit of the Company in the past years; and (iii) the Parent Group has been a major and stable customer of the Group in respect of supply of excess power, we consider that there is commercial rationale for the Group to conduct the Continuing Connected Transactions by entering into the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Renewed Excess Electricity Supply Agreement

Pursuant to the Renewed Excess Electricity Supply Agreement, the Group will continue to supply excess electricity to the Parent Group from 1 January 2020 to 31 December 2022 with reference to a benchmark price of RMB0.37 per kWh (VAT inclusive) (the "**Electricity Benchmark Price**") which was determined on a cost-plus basis taking into account (i) a total cost for power generation of approximately RMB0.27 per kWh in September 2016, being the reference date for the Old Excess Electricity Supply Agreement; and (ii) an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive) (the "**Fixed Profit**"). As set out in the Letter from the Board, the Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus such Fixed Profit which was determined with reference to the gross profit margins of supply of excess electricity for the nine years ended 31 December 2018.

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Since the cost for power generation of the Group mainly consists of the cost of raw coal, diesel and water, maintenance cost, labour cost and depreciation cost, and procurement cost of raw coal accounted for approximately 80% of the total cost incurred for power generation of the Group, the Company and the Parent Company agreed to calculate the actual settlement price of excess electricity on the day before the last day of each month by adjusting the Electricity Benchmark Price by RMB0.01 per kWh for every 5% fluctuation of the weighted average price of raw coal (the “**5% Price Adjustment**”) in such month over the benchmark price of raw coal of RMB454.35 per ton (VAT inclusive) (the “**Coal Benchmark Price**”) which is same as the one used in the Old Excess Electricity Supply Agreement based on the price of raw coal procured by the Group in September 2016. If there is any applicable mandatory price for the supply of electricity prescribed by the PRC government under the relevant PRC laws and regulations in the future, the Group would adopt such price.

According to the Letter from the Board, such market-oriented cost-plus pricing basis is applied to both the Parent Group and the Independent Third Party Large Customers. Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, the prices offered by the Group to the Parent Group and the Independent Third Party Large Customers were and will be lower than those offered to the medium and small customers of the Group. Under such pricing basis, notwithstanding the fluctuation of the price of raw coal affecting the cost of electricity generation, the Fixed Profit to be gained by the Group from the sales of excess electricity to the Parent Group and the Independent Third Party Large Customers will basically remain the same. Such pricing basis can help to minimise the adverse effect caused by the price fluctuation of raw coal and ensure a fixed gross profit for the Group. Because such cost-plus pricing basis is also applied to the Independent Third Party Large Customers, the Board believes such pricing basis can ensure that the Continuing Connected Transactions will be conducted on normal commercial terms, fair and reasonable and not prejudicial to the interests of the Company and the Shareholders as a whole.

We have analysed the key terms of the Renewed Excess Electricity Supply Agreement in the ensuing sections, in relation to the aspects of the Proposed Annual Caps and the measures to safeguard interests of Independent Shareholders, and formed our view in the paragraph headed “**RECOMMENDATION**”.

3. Proposed Annual Caps and basis of determination

The below table sets out (i) the historical transaction amount (excluding VAT) and sales volume (in terms of kWh) for the sales of excess electricity by the Group to the Parent Group for each of the two years ended 31 December 2018 and the year ending 31 December 2019 (based on the annualised and unaudited amount for nine months ended 30 September 2019 (the “**Historical CCT Period**”)); (ii) the existing annual caps for each of the three years ending 31 December 2019; (iii) the expected sales volume (in terms of kWh)

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for each of the three years ending 31 December 2022; and (iv) the Proposed Annual Caps in respect of the sales of excess electricity by the Group to the Parent Group under the Renewed Excess Electricity Supply Agreement for the each of the three years ending 31 December 2022 (the “CCT Period”):

	Historical figures for the year			Expected figures for the year		
	ended/ending 31 December			ending 31 December		
	2017	2018	2019	2020	2021	2022
Annual caps excluding VAT (<i>RMB' million</i>)	3,022	3,022	3,022	3,124	3,124	3,124
Sales amount excluding VAT (<i>RMB' million</i>)	2,313	2,431	2,434 (<i>note</i>)	3,124	3,124	3,124
Sales volume (<i>million kWh</i>)	6,231	6,603	6,789 (<i>note</i>)	6,789	6,789	6,789
Average unit price of excess electricity excluding VAT (<i>RMB per kWh</i>)	0.37	0.37	0.36	0.46	0.46	0.46

Note: The sales amount and sales volume for the financial year ending 31 December 2019 were calculated based on the actual average monthly sales amount and sales volume for the nine months ended 30 September 2019 multiplying by 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the three months ending 31 December 2019 is expected to be stable in comparison with that for the nine months ended 30 September 2019.

As regards the Proposed Annual Caps to be sought for each of the three years ending 31 December 2022, we have obtained and reviewed the expected sales of excess electricity summing roughly up the Proposed Annual Caps. We understand from the Company that such estimates was prepared on the basis of multiplying the expected average unit price of excess electricity, being approximately RMB0.46 per kWh (VAT exclusive), by the expected sales volume of excess electricity of 6,789,197,000 kWh whilst the Company expects a stable sales volume of excess electricity and assumes the same average unit price of electricity throughout the CCT Period.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have reviewed the average unit price of excess electricity for the Historical CCT Period (being between RMB0.36 and RMB0.37 per kWh excluding VAT) and annualised sales volume of excess electricity of approximately 6,789,197,000 kWh for the year ending 31 December 2019 and obtained, on quarterly basis, the sample invoices of the sales of excess electricity to the Parent Group as well as the Independent Third Party Large Customer for the entire Historical CCT Period. We noted from these sample invoices that the unit prices of excess electricity sold to the Parent Group are comparable to those the Group sold to its Independent Third Party Large Customer.

We noted that cost-plus pricing mechanism depends on two parameters, being the Electricity Benchmark Price (including the underlying cost of power generation) and the Coal Benchmark Price which were determined with reference to the then pricing in September 2016. Nevertheless, we were advised by the Company that the 5% Price Adjustment basically represents the correlation between the fluctuation of raw coal price and the price adjustment to excess electricity such that pursuant to the Renewed Excess Electricity Supply Agreement, the Company will be able to achieve the similar results of charging the electricity price based on actual cost for generation of electricity by the Group plus the Fixed Profit. As such we have also reviewed the raw coal prices and unit prices of excess electricity in sample invoices from the Company to the Parent Group for each of the nine months ended 30 September 2019 and noted that (i) the unit prices stated in the aforesaid invoices are consistent with the monthly unit price of excess electricity calculated

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under the 5% Price Adjustment; and (ii) the gross profit in respect of sales of excess electricity to the Parent Group for the first nine months ended 30 September 2019 was generally around the level of Fixed Profit, i.e. RMB0.10 per kWh (VAT inclusive) with average of monthly gross profit margin of approximately 25.67%. According to the Letter from the Board, this cost-plus pricing mechanism are both applicable to the Parent Group and the Independent Third Party Large Customers, and we consider the cost-plus pricing mechanism to be fair and reasonable.

As set out in the Letter from the Board, the expected average unit price of excess electricity of RMB0.46 per kWh (VAT exclusive) for calculating the Proposed Annual Caps was determined based on the Electricity Benchmark Price of RMB0.37 per kWh and the 5% Price Adjustment of RMB0.15 per kWh (i.e. 15 times of RMB0.01 adjustment) which implies an expected unit raw coal price of RMB800.00 per ton (VAT inclusive) or equivalent to an increase of approximately 76.08% in the Coal Benchmark Price or approximately 50.18% in the average unit price of raw coal procured by the Company for power generation during the nine months ended 30 September 2019. As advised by the Company, such expected average unit price of raw coal of RMB800.00 per ton (VAT inclusive) was determined with reference to the comparatively high prices of raw coal in the past 11 years and the Company's anticipation to increasing trend of raw coal price in the CCT Period. As such, we have reviewed the historical unit price of raw coal procured by the Company for its power generation and noted that that (i) the average unit price of raw coal were approximately RMB601.85, RMB587.82 and RMB532.70 per ton (VAT inclusive); and (ii) the maximum unit price of raw coal were approximately RMB789.74, RMB769.60 and RMB642.76 per ton (VAT inclusive), for the year ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 respectively, and the unit price of raw coal could fluctuate up to a maximum of approximately RMB400 per ton during the aforesaid period. We have also conducted independent research on the production of raw coal in the PRC and we noted from National Bureau of Statistics of the PRC that the monthly production volume of raw coal has been stable in the past two years with slight fluctuations whilst the PRC's import of coal has generally grown since 2019 which indicates the continuous demand of coal. Furthermore, we noted from National Coal Mine Safety Administration of the PRC that they issued a safety alert for coal mining in the PRC on 26 October 2019 which requires further and immediate safety review on coal mines in accordance with the requirements recently discussed by National Coal Mine Safety Administration of the PRC. We believe such mandatory requirements may have short to medium term impact on the local supply of coal and thus the price of coal in the PRC. As advised by the Company, the recent unit price of raw coal in October 2019 has increased as compared with the average unit price for the nine months ended 30 September 2019.

On the other hand, as part of our due diligence, we have also reviewed a notice of Development and Reform Commission of Shandong Province dated 30 May 2019 which states the adjustments to the electricity tariff for national grid in Shandong Province pursuant to which the electricity tariff for industrial and commercial uses at voltage level of 220kV or above would be RMB0.5722 per kWh (VAT inclusive) in normal session with upward/downward differences for peak/low sessions with effect from 1 July 2019. Therefore, the expected average unit price of excess electricity of RMB0.52 per kWh (VAT inclusive) or RMB0.46 per kWh (VAT exclusive) is comparable to the aforesaid standard electricity tariff.

Having considered (i) the historical fluctuation of unit price of raw coal; (ii) the assumption of relatively high price of raw coal when calculating the Proposed Annual Caps would provide flexibility to the Company to adjust upward its price of excess electricity and maintain profit margin if there is any surge in price of raw coal; (iii) the expected average unit price of excess electricity is comparable to the

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abovementioned new standard electricity tariff; and (iv) the supply of electricity has been important to the Group, in terms of both revenue and gross profit, during the Historical CCT Period whereas the Parent Group has been a stable and one of the largest customers of the Group in respect of supply of excess electricity, we are of the view that the assumption of average unit price of excess electricity of RMB0.46 per kWh (VAT exclusive) for the CCT Period is reasonable.

As regards the expected sales volume under the Continuing Connected Transactions, we noted from the Company that it would be 6,789,197,000 kWh for each of the three years ending 31 December 2022 and equals to the annualised sales volume for the year ending 31 December 2019. As part of our due diligence, we have enquired the Company as to (i) whether there will be any change in the existing installed capacity of power generators in the CCT Period and was confirmed that the Company currently has no intention to alter its installed capacity as at the Latest Practicable Date; (ii) the recent development in the area covered by the Group's power grid and was advised by the Company that it is not aware of any development which may materially affect the consumption of excess electricity by the Company's customers in near future; and (iii) the expected production capacity and electricity consumption by the Parent Group and was advised by the Company that the Parent Company does not expect any material change in light of the stable economy of the PRC and continuous demand of its products. We have also obtained and reviewed the average utilisation hours of the Group's power generating units since 2017 and noted that the Group utilised approximately 6,319 hours, 6,720 hours and 3,184 hours for the year ended 31 December 2017 and 2018 and the six months ended 30 June 2019 respectively. As advised by the Company, such utilisation hours consistently represent an effective utilisation rate of around 70% of the maximum power generation capacity of the Group during the year/period and almost the optimal rate. Therefore, the Company expects no material change in such utilisation rate during the CCT Period and intends to supply the comparable volume of excess electricity to its customers. On the other hand, we have obtained and reviewed the consumption volume of raw coal for power generation and the total volume of power generated during (i) the period from September to December 2016; and (ii) the Historical CCT Period (up to October 2019), and we noted that the coal consumption volume to generate each unit of electricity remained stable.

In addition, we have also reviewed the gross domestic product of the PRC for the past few years as published by National Bureau of Statistics of the PRC and noted that it has grown at a rate over 6% per annum from 2016 to 2018 and at a rate of 6% for the third quarter of 2019 as compared with corresponding period in previous year. Besides, we also noted from General Administration of Customs of the PRC that the export of yarn and textile products has reached RMB609.37 million for the first three quarters of 2019, representing an increase of approximately 5.27% as compared to the corresponding period in previous year. Therefore, we concur with the Company that it is reasonable to assume a stable consumption of excess electricity by the Parent Group for the CCT Period.

On the above basis, we are of the view that the bases on which the Proposed Annual Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole and the Proposed Annual Caps are fair and reasonable, and we consider that the Continuing Connected Transactions are to be carried out on normal commercial terms and in the ordinary and usual course of business.

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4. Internal control measures within the Group

As advised by the Company, the Company has adopted certain measures to ensure that all connected transactions of the Company are properly controlled and monitored.

- a) each year the independent non-executive Directors shall, and the Company shall engage its external auditors to, review the Continuing Connected Transactions and the Proposed Annual Caps in accordance with the requirements of the Listing Rules, and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or better; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions: (i) have received the approval of the Board; (ii) have been entered into in accordance with the terms of the relevant agreement(s) governing the Continuing Connected Transactions; (iii) have been in accordance with the pricing policies of the Group; and (iv) have not exceeded the Proposed Annual Caps;
- c) the finance department of the Company shall monitor all the pricing records as the reference price of the Continuing Connected Transactions to ensure the sales prices of the excess electricity offered by the Group to the Parent Group are no more favourable than the prices at which such excess electricity are supplied by the Group to the Independent Third Party Large Customers;
- d) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the Renewed Excess Electricity Supply Agreement and the Proposed Annual Caps are not exceeded; and
- e) the Board will continue to periodically review the Company's internal control systems and their effectiveness.

Furthermore, the Company has recently engaged an independent compliance adviser, being a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, on an ongoing basis for consultation regarding compliance with the Listing Rules and such appointment has been approved by the Stock Exchange. Having considered the abovementioned, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Proposed Annual Caps; (ii) the abovementioned internal control measures adopted by the Company; and (iii) the ongoing review by the audit committee and the auditors of the Company of the terms of the Continuing Connected Transactions and the Proposed Annual Caps not being exceeded, we are of the view that the Company has established effective internal control procedures to ensure the Renewed Excess Electricity Supply Agreement will be conducted on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the Continuing Connected Transactions are in the ordinary and usual course of business of the Company, and terms of the Renewed Excess Electricity Supply Agreement (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution proposed at the EGM thereby approving the Renewed Excess Electricity Supply Agreement.

Yours faithfully,

For and on behalf of

Sorrento Capital Limited

Aaron Wong

Wesker Poon

Managing Director

Managing Director

Note: Mr. Aaron Wong is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than six years of experience in corporate finance and investment banking. Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than eight years of experience in corporate finance and investment banking. Both Mr. Aaron Wong and Mr. Wesker Poon have participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executive's Interests in the Company

As at the Latest Practicable Date, the interests of the Directors, supervisors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the Domestic Shares:

Name of shareholder	Type of interest	Number of Domestic Shares (Note 1)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)
Zhang Hongxia (Executive Director/ Chairman)	Beneficial interests	17,700,400	2.27	1.48

Note 1: Unlisted shares

Interests in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

Name of shareholders	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital (%)
Zhang Hongxia (Executive Director)	Parent Company	Beneficial interests and spouse interests (Note 1)	9.73 (Note 1)
Zhang Yanhong (Executive Director)	Parent Company	Beneficial interests	5.63
Zhao Suwen (Executive Director)	Parent Company	Beneficial interests	0.38
Zhao Suhua (Non-executive Director)	Parent Company	Spouse interests (Note 2)	4.93 (Note 2)

Note 1: Ms. Zhang Hongxia holds an aggregate of 9.73% equity interests of the Parent Company, of which 7.00% are directly held by Ms. Zhang Hongxia. The remaining 2.73% equity interests are held by her husband, Mr. Yang Congsen, while Ms. Zhang Hongxia is deemed to be interested in these equity interests under the SFO.

Note 2: Ms. Zhao Suhua is deemed to be interested in the 4.93% equity interests of the Parent Company held by her husband, Mr. Wei Yingzhao, under the SFO.

Each of Ms. Zhang Hongxia, the chairman of the Company, and Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei, who are executive Directors of the Company, also serves as a director of the Parent Company, respectively. The Parent Company has an interest in the shares and underlying shares of the Company which falls to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Please refer to the disclosure below on the interest of the Parent Company in the shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company nor their associates had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS AND ASSETS

- (i) None of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group, apart from their service contracts.
- (ii) As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to any Directors, supervisors or the chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Interests in the Domestic Shares:

Name of shareholders	Number of Domestic Shares <i>(Note 1)</i>	Approximate percentage of total issued domestic share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
the Parent Company	757,869,600 (Long position)	97.07	63.45
Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment")	757,869,600 (Long position) <i>(Note 2)</i>	97.07	63.45

Interests in the H Shares:

Name of shareholders	Type of interest	Number of H Shares (Note 3)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued share capital (%)
Brandes Investment Partners, L. P.	Investment manager	53,541,602 (Long position) (Note 4)	12.94	4.48
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 5)	9.93	3.44

Note 1: Unlisted shares.

Note 2: Weiqiao Investment holds 39% equity interests in the Parent Company.

Note 3: Shares listed on the Main Board of the Stock Exchange.

Note 4: According to the disclosure of interest published on the website of the Stock Exchange by Brandes Investment Partners, L. P., these 53,541,602 H Shares were held by Brandes Investment Partners, L. P. in its capacity as investment manager.

Note 5: According to the disclosure of interest published on the website of the Stock Exchange by Mellon Financial Corporation, these 41,073,100 H Shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Save as disclosed above, so far as known to the Directors, supervisors and the chief executive of the Company, as at the Latest Practicable Date, there was no other person (not being a Director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation, other than statutory compensation.

6. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and his/her respective associate(s) was interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualifications
Sorrento Capital	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

Sorrento Capital has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, (i) Sorrento Capital had no interest, either direct or indirect, in any assets which have been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) Sorrento Capital had no shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate any persons to subscribe for securities of any members of the Group.

10. MISCELLANEOUS

- (i) The registered office of the Company is at No. 34 Qidong Road, Weiqiao Town, Zouping City, Shandong Province, the PRC.
- (ii) The principal place of business of the Company in the PRC is No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.

- (iii) The principal place of business of the Company in Hong Kong is Suite 5109, The Center, 99th Queen's Road Central, Central, Hong Kong.
- (iv) The Company's H share registrar and transfer office in Hong Kong is at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (v) The secretary of the Company is Mr. Zhang Jinglei, who was accepted by Stock Exchange as an individual who meets the requirements of a secretary under Rule 8.17 of the Listing Rules.
- (vi) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 5109, The Center, 99th Queen's Road Central, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date of the circular:

- (a) the articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (c) the letter of advice from Sorrento Capital, the text of which is set out on pages 14 to 23 of the circular;
- (d) the written consent from Sorrento Capital;
- (e) the Renewed Excess Electricity Supply Agreement; and
- (f) this circular.

NOTICE OF THE EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Weiqiao Textile Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be convened and held at 9:00 a. m. on Friday, 27 December 2019 at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the People's Republic of China (the “**PRC**”), to consider and, if thought fit, approve the following:

AS ORDINARY RESOLUTION

“**THAT:**

- (a) the renewed excess electricity supply agreement (the “**Renewed Excess Electricity Supply Agreement**”) entered into between the Company and Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the “**Parent Company**”, collectively with its subsidiaries (excluding the Group), the “**Parent Group**”) on 21 October 2019 be and is hereby approved and confirmed;
- (b) the estimated annual maximum transaction values of the supply of excess electricity by the Group to the Parent Group (as set out in the announcement of the Company dated 21 October 2019 and the circular of the Company dated 11 November 2019) for each of the three financial years ending 31 December 2022 (the “**Annual Caps**”) be and are hereby approved and confirmed; and
- (c) any director of the Company be and is hereby authorised to do further acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the Renewed Excess Electricity Supply Agreement and the transactions thereunder, and the Annual Caps.”

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

11 November 2019
Shandong, the PRC

NOTICE OF THE EGM

As at the date of this notice, the board of directors of the Company comprises eight directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, 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.

Notes:

- (A) A circular containing, among others, (i) further details of the Renewed Excess Electricity Supply Agreement and the Annual Caps; (ii) the letter from the independent board committee to the independent shareholder; and (iii) the letter of advice from the independent financial adviser to the independent board committee and the independent shareholders has been despatched to the shareholders on 11 November 2019.
- (B) The H share register of the Company will be closed from Wednesday, 27 November 2019 to Friday, 27 December 2019 (both days inclusive), during which no transfer of H shares will be effected. Any holders of H shares of the Company, whose names appear on the Company's register of members at 4:30 p. m. on Tuesday, 26 November 2019, are entitled to attend and vote at the EGM after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the EGM, share transfer documents should be lodged with the Company's H share registrar not later than 4:30 p. m. on Tuesday, 26 November 2019.

The address of the share registrar for the Company's H shares is as follows:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

- (C) Holders of H shares and domestic shares of the Company, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the office of the secretary to the board of directors of the Company not later than 20 days before the date of the EGM, i.e. on or before Saturday, 7 December 2019.

Details of the office of the secretary to the board of directors of the Company are as follows:

Room 412, Fourth Floor
Company Office Building
No. 1 Wei Fang Road
Zouping Economic Development Zone
Zouping City
Shandong Province
The PRC

Postal Code: 256200
Tel: 86 (543) 416 2222
Fax: 86 (543) 416 2000

- (D) The resolution proposed at the EGM will be voted by way of poll.
- (E) Each holder of H shares of the Company who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the EGM. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

NOTICE OF THE EGM

- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.
- (G) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited, on Shops 1712-1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (H) Each holder of domestic shares of the Company is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Notes (E) to (F) also apply to holders of domestic shares of the Company, except that the proxy form or other documents of authority must be delivered to the office of the secretary to the board of directors of the Company, the address of which is set out in Note (C) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.
- (I) If a proxy attends the EGM on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the EGM, such legal representative should produce his/her ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
- (J) The EGM, is expected to last not more than half a day. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.
- * *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 Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).*