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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, or as to the action to be taken, you should consult our stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**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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**This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation.**

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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**

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A letter from the Board is set out on 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 on 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 on pages 14 to 21 of this circular.

A notice dated 24 October 2022 convening the EGM to be convened and held on Friday, 9 December 2022 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 on pages 28 to 30 of this circular. Whether or not you are able to attend the above meeting, you are requested to complete and return the enclosed proxy form 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 will not preclude you from attending and voting in person at the meeting or at any adjourned meeting(s) should you so wish.

A reply slip for the EGM has 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, 19 November 2022 in accordance with the instructions printed thereon.

24 October 2022

\* For identification purposes only. The Company is registered in Hong Kong as a non-Hong Kong company under the English name "Weiqiao Textile Company Limited" and the Chinese name of the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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## DEFINITIONS

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

“Annual Caps”	the proposed annual caps for the Continuing Connected Transactions contemplated under the Renewed Excess Electricity Supply Agreement for the three financial years ending 31 December 2025
“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 H 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, 9 December 2022 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”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“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 terms of the Renewed Excess Electricity Supply Agreement and 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 whose annual purchase amount reaches RMB500 million or above
“Latest Practicable Date”	20 October 2022, 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
“Monthly Local State Grid Selling Price”	the electricity price calculated based on the list of Shandong Province power grid selling price (industrial and commercial use) (山東省電網銷售電價表(工商業用電)) as issued by the Development and Reform Commission of Shandong Province (山東省發展和改革委員會), or the list of electricity price of agent purchase (代理購電電價表(工商業用電)) as issued by State Grid Shandong Electric Power Company (國網山東省電力公司), as effective in the relevant month with the two-part tariff and the price for “220kWh or above” applied and on the assumption of 24-hour continuous equalising consumption
“Old Excess Electricity Supply Agreement”	the excess electricity supply agreement entered into between the Company and the Parent Company on 21 October 2019 for the period from 1 January 2020 to 31 December 2022 (both days inclusive)
“Parent Company”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC on 14 April 1998, 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

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## DEFINITIONS

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“Renewed Excess Electricity Supply Agreement”	the excess electricity supply agreement entered into between the Company and the Parent Company on 30 September 2022 for a term of three years from 1 January 2023 to 31 December 2025 (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
“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 of the PRC
“%”	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.*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Ms. Zhang Hongxia (*Chairman*)  
Ms. Zhang Yanhong (*Vice Chairman*)  
Mr. Wei Jiakun (*General Manager*)  
Ms. Zhao Suwen  
(*Chief Financial Officer, Authorised Representative*)  
Mr. Zhang Jinglei  
(*Company Secretary, Authorised Representative*)

*Non-executive Director:*

Ms. Zhao Suhua

*Independent Non-executive Directors:*

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

*Registered Office:*

No. 1 Wei Fang Road  
Zouping Economic Development Zone  
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

*Place of Business in Hong Kong:*

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

24 October 2022

*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 30 September 2022, the Company and the Parent Company entered into the Renewed Excess Electricity Supply Agreement on 30 September 2022,

\* 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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## LETTER FROM THE BOARD

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pursuant to which, the Group will continue to supply excess electricity to the Parent Group for a term of three years from 1 January 2023 to 31 December 2025 (both dates inclusive).

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**

30 September 2022

**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 21 October 2019, pursuant to which, the Group agreed to supply excess electricity to the Parent Group for the period from 1 January 2020 to 31 December 2022 (both days inclusive). On 30 September 2022, the Company entered into the Renewed Excess Electricity Supply Agreement with the Parent Company for a term of three years from 1 January 2023 to 31 December 2025 (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**

During the term of the Renewed Excess Electricity Supply Agreement, the benchmark price of supplying excess electricity to the Parent Group for each month shall be the Monthly Local State Grid Selling Price.

Having considered that: (i) the Parent Group is a long-term large and stable customer of the Company, and (ii) the Company sells excess electricity to the Parent Group by way of direct supply, with the benefit of short distribution distance and low energy loss, the Group will offer a 10%

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## LETTER FROM THE BOARD

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discount to the Parent Group. If any applicable mandatory benchmark price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations, the benchmark price shall be adjusted accordingly.

During the term of the Renewed Excess Electricity Supply Agreement, if the Monthly Local State Grid Selling Price of any month is adjusted from that of the previous month, the settlement price for that month shall be calculated based on the then effective Monthly Local State Grid Selling Price, with a 10% discount.

Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, such benchmark price and the 10% discount above are applied to all of them.

Since the Monthly Local State Grid Selling Price is generally recognised in the market, the Board believes that, by adopting the pricing basis above, the Company is able to ensure that its pricing is in line with the market and maintain a stable business relationship with the Parent Group and Independent Third Party Large Customers. Since such 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.

### **6. Payment terms**

The Parent Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual volume of electricity supplied. The Company will prepare an account book of the amount due on the last business day of each month and the Parent Group shall make the payment before the 10th day of the following month. To the best knowledge of the Directors after making reasonable enquiries, 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.



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## LETTER FROM THE BOARD

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### 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 2021 and the financial year ending 31 December 2022 are as follows:

	<b>For the financial year ended/ending 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(RMB)</i> (excluding VAT)	<i>(RMB)</i> (excluding VAT)	<i>(RMB)</i> (excluding VAT)
Historical transaction values	1,702,005,000	1,863,594,000	2,249,022,000 <sup>Note</sup>
Historical annual caps	3,124,232,000	3,124,232,000	3,124,232,000
Historical sales volumes (kWh)	4,707,132,000	3,724,079,000	4,212,924,000 <sup>Note</sup>

*Note:* The sales volume and transaction value for the financial year ending 31 December 2022 were calculated based on the actual average monthly sales volume and transaction value for the eight months ended 31 August 2022 multiplied by 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the four months ending 31 December 2022 are expected to be stable in comparison with that for the eight months ended 31 August 2022.

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 2025:

	<b>For the financial year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>(RMB)</i> (excluding VAT)	<i>(RMB)</i> (excluding VAT)	<i>(RMB)</i> (excluding VAT)
Annual Caps	2,831,000,000 <sup>Note</sup>	2,831,000,000 <sup>Note</sup>	2,831,000,000 <sup>Note</sup>
Estimated maximum sales volumes (kWh)	4,634,000,000 <sup>Note</sup>	4,634,000,000 <sup>Note</sup>	4,634,000,000 <sup>Note</sup>

*Note:* The Annual Caps for each of the three financial years ending 31 December 2025 are determined with reference to the following:

- (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 2025, 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 2025 is estimated based on the estimated sales volume for the financial year ending 31 December 2022, plus a buffer of 10% to provide flexibility in the event there is a higher demand than the expected sales volume, amounting to approximately 4,634,000,000 kWh; and
- (ii) the unit price of excess electricity is calculated based on the median of the Monthly Local State Grid Selling Prices in the eight months ended 31 August 2022, amounting to approximately RMB0.611 per kWh (VAT exclusive).

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## LETTER FROM THE BOARD

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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 for the next three years and therefore, the excess electricity to be purchased by the Parent Group under the Renewed Excess Electricity Supply Agreement would (i) optimise the utilisation of the power plant assets and thus improve operating efficiency and achieve economies of scale of the Group (by reducing the fixed costs per unit 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 its sales of excess electricity. The sales of excess electricity to the Parent Group accounted for approximately 41.3%, 38.7% and 38.4% of total sales of excess electricity by the Group for the financial years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022, respectively. 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 2025.

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 only one non-executive Director, Ms. Zhao Suhua (excluding Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei who had abstained from voting on the relevant resolution of the Board approving the Continuing Connected Transactions as they and/or their associates concurrently have material interests in and/or that they serve as the directors of the Parent Company, and also excluding the independent non-executive Directors whose views are included in the section headed “Letter from the Independent Board Committee” of this circular after considering the advice from Sorrento Capital) 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.

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## LETTER FROM THE BOARD

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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, Mr. Wei Jiakun, 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 and/or their associates concurrently have material interests in and/or that they serve as the directors of 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 shall not be more favourable than the prices at which such excess electricity is supplied by the Group to the Independent Third Party Large Customers. Meanwhile, the finance department of the Company shall designate specific personnel to check the Monthly Local State Grid Selling Price on a monthly basis and report to the chief financial officer of the Company in writing. The chief financial officer of the Company shall review and confirm the adoption of such price;
- (2) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions shall be conducted in accordance with the terms of the Renewed Excess Electricity Supply Agreement and the Annual Caps shall not be exceeded;
- (3) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (4) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the Annual Caps in accordance with the requirements of the Listing Rules.

### **F. EGM**

The Company proposes to seek the approval of the Independent Shareholders at the EGM relating to (i) the Renewed Excess Electricity Supply Agreement and the Continuing Connected Transactions contemplated thereunder and (ii) the Annual Caps for the three financial years ending 31 December 2025.

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, which controls the voting right in respect of its shares in the Company, will abstain from voting at the EGM. Ms. Zhang Hongxia, being a Director, serves

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## LETTER FROM THE BOARD

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as a director of the Parent Company and holds approximately 7.78% of the equity interest (including beneficial interest and spouse interest) in the Parent Company. She (holding approximately 1.48% 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 and the Continuing Connected Transactions contemplated thereunder (including 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 form of proxy and reply slip 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, 19 November 2022.

The register of members of the Company will be closed from Wednesday, 9 November 2022 to Friday, 9 December 2022 (both days inclusive), during which no transfer of Shares can be registered. In order to qualify for attending and voting 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 of business in the PRC (in respect of Domestic Shares), no later than 4:30 p.m. on Tuesday, 8 November 2022.

### **G. RECOMMENDATION**

The Directors (including members of the Independent Board Committee whose recommendations are contained in the section headed "Letter from the Independent Board Committee" of this circular), save for Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei, consider 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

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## LETTER FROM THE BOARD

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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, taking into account the recommendation of Sorrento Capital, 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, sales and distribution of cotton yarn, grey fabric and denim, and the electricity business.

The Parent Company is a company established in the PRC on 14 April 1998 with limited liability. The Parent Company is principally engaged in the processing and sales of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn and print cloth, retail and distribution of cloth and supply of industrial water. As at the date of this circular, the Parent Company is held as to approximately 31.2% by 山東魏橋投資控股有限公司 (Shandong Weiqiao Investment Holdings Company Limited) (“**Weiqiao Investment**”), which is the single largest shareholder of the Parent Company. The registered shareholders of Weiqiao Investment are 25 individuals, and adopt “one person, one vote”. Among these shareholders, the late Mr. Zhang Shiping holds approximately 25.86% equity interest (of which approximately 5.17% is held on behalf of others), Mr. Yang Guangchang holds approximately 5.17% equity interest (of which approximately 1.72% is held on behalf of others), and the remaining equity interest is held by the other 23 individual shareholders, of which their shareholding ranges from 1.38% to 3.45%. Approximately 48.65% equity interest of the Parent Company is held by 12 senior management members of the Parent Group (approximately 18.81% by the late Mr. Zhang Shiping, 5.60% by Mr. Zhang Bo, 5.60% by Ms. Zhang Hongxia, 4.50% by Ms. Zhang Yanhong, 2.18% by Mr. Yang Congsen, 3.21% by Mr. Zhang Shixue, 3.95% by Mr. Wei Yingzhao, 1.13% by Mr. Qi Xingli, 1.73% by Mr. Zhang Shijun, 0.30% by Ms. Zhao Suwen, 1.13% by Mr. Liu Fenghai, and 0.52% by Mr. Wei Jiakun), and 20% equity interest of the Parent Company is held by 濱州瀚創科技發展合夥企業(有限合夥) (Binzhou Hanchuang Technological Development Partnership (Limited Partnership)), which is held as to 99.975% by 山東魏橋創業集團有限公司工會委員會 (Shandong Weiqiao Chuangye Group Company Limited Union Committee) (the “**Union**”). The Union serves as an incentive and shareholding platform for a certain number of core employees, holding such interests on behalf of those employees. None of such employees holds more than 1% equity interest in the Parent Company.

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## LETTER FROM THE BOARD

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### 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\***  
**Ms. Zhang Hongxia**  
*Chairman and Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

24 October 2022

*To the Independent Shareholders*

Dear Sir/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 24 October 2022 (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 21 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*

\* 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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## LETTER FROM SORRENTO CAPITAL

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*The following is the text of the letter of advice from Sorrento Capital Limited, 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

24 October 2022

*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 2025, 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 24 October 2022 (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 will 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, have been appointed as the independent financial adviser to advise the Independent Board Committee and



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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 7.78% of the equity interest (including beneficial interest and spouse interest) in the Parent Company. She (holding approximately 1.48% 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, supervisors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, except being the independent financial adviser to the Company in connection with another continuing connected transactions (details of which are set out in circular of the Company dated 9 November 2020), 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.

### **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:

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### 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. According to the annual reports of the Company for each of the two years ended 31 December 2021 (the “**Annual Reports**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**Interim Report**”), (i) the Company recorded a revenue of approximately RMB16.26 billion for the year ended 31 December 2021 representing an increase of approximately 27.63% as compared to that of approximately RMB12.74 billion for the previous year; and (ii) the Company recorded a revenue of approximately RMB8.29 billion for the six months ended 30 June 2022 representing an increase of approximately 10.53% as compared to that of approximately RMB7.50 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 32.16%, 29.59% and 34.39% of the total revenue for the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022 respectively. In terms of gross profit, the sales of electricity and steam business represented approximately 34.28% of the gross profit of the Company for the year ended 31 December 2021 and the only significant contributor to gross profit of the Group for the six months ended 30 June 2022 (as compared to gross loss for business of cotton yarn and grey fabric and gross profit of around RMB0.55 million for denim business).

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 and held by a single largest shareholder, namely 山東魏橋投資控股有限公司 (transliterated as Shandong Weiqiao Investment Holdings Company Limited for identification purposes), as to approximately 31.2%; 12 senior management members of the Parent Group as to approximately 48.65% ; and a limited partnership as to 20% respectively as at the Latest Practicable Date. Such limited partnership is held as to 99.975% by 山東魏橋創業集團有限公司工會委員會 (transliterated as Shandong Weiqiao Chuangye Group Company Limited Union Committee for identification purposes) as an incentive and shareholding platform for a certain number of core employees. 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 enhancing 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 increasing 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 acquired further thermal power assets with expected capacity of 1,320MW from an independent third party in 2016. As mentioned in the Annual Reports and the Interim Report, (i) as at 30 June 2022, 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 13,448 million kWh, 12,221 million kWh and 6,526 million kWh of electricity; and (b) sold 11,225 million kWh, 9,784 million kWh and 4,983

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million kWh of electricity, during the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022 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 41.3% and 38.7% of total sales of excess electricity by the Group for each of the two years ended 31 December 2021 and approximately 38.4% for the eight months ended 31 August 2022 respectively. As advised by the Company, due to the limited demand for electricity of medium and small customers 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 for the next three years, 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 fixed costs per unit 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 2022 and extend the term for another three years from 1 January 2023 to 31 December 2025 (both dates inclusive) under new pricing basis by entering into the Renewed Excess Electricity Supply Agreement on 30 September 2022.

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 of power generated can be reduced if power generation volume is larger and optimal; (ii) the sales of electricity have 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 2023 to 31 December 2025 with reference to the Monthly Local State Grid Selling Price on monthly basis. Since the Monthly Local State Grid Selling Price is generally recognised in the market, the Board believes that, by adopting the pricing basis above, the Company is able to ensure that its pricing is in line with the market and maintain a stable business relationship with the Parent Group and Independent Third Party Large Customers.

Having considered that: (i) the Parent Group is a long-term large and stable customer of the Company, and (ii) the Company sells excess electricity to the Parent Group by way of direct supply, with the benefit of short distribution distance and low energy loss, the Group will offer a 10% discount to the

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Parent Group and such discount is also applicable to the Independent Third Party Large Customers. During the term of the Renewed Excess Electricity Supply Agreement, if the Monthly Local State Grid Selling Price of any month is adjusted from that of the previous month, the settlement price for that month shall be calculated based on the then effective Monthly Local State Grid Selling Price, with a 10% discount. If any applicable mandatory benchmark price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations, the benchmark price shall be adjusted accordingly.

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 2021 and the year ending 31 December 2022 (based on the annualised and unaudited amount for eight months ended 31 August 2022) (collectively the “**Historical CCT Period**”); (ii) the existing annual caps for each of the three years ending 31 December 2022; (iii) the expected sales volume (in terms of kWh) for each of the three years ending 31 December 2025; 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 2025 (the “**CCT Period**”):

	<b>Historical figures for the</b>			<b>Expected figures for the</b>		
	<b>year ended/ending</b>			<b>year ending</b>		
	<b>31 December</b>			<b>31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Annual caps excluding VAT <i>(RMB' million)</i>	3,124	3,124	3,124	2,831	2,831	2,831
Sales amount excluding VAT <i>(RMB' million)</i>	1,702	1,864	2,249 <i>(note)</i>	2,831	2,831	2,831
Sales volume <i>(million kWh)</i>	4,707	3,724	4,213 <i>(note)</i>	4,634	4,634	4,634
Average unit price of excess electricity excluding VAT <i>(RMB per kWh)</i>	0.362	0.501	0.534	0.611	0.611	0.611

*Note:* The sales amount and sales volume for the financial year ending 31 December 2022 were calculated based on the actual average monthly sales amount and sales volume for the eight months ended 31 August 2022 multiplying by 12, respectively. The sales of the excess electricity to the Parent Group by the Group for the four months ending 31 December 2022 are expected to be stable in comparison with that for the eight months ended 31 August 2022.

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As regards the Proposed Annual Caps to be sought for each of the three years ending 31 December 2025, 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 RMB0.611 per kWh (VAT exclusive), by the expected sales volume of excess electricity of 4,634 million 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 prices of excess electricity for the Historical CCT Period, being between RMB0.362, RMB0.501 and RMB0.534 per kWh (excluding VAT) for the year ended 31 December 2020, the year ended 31 December 2021 and the eight months ended 31 August 2022 and noted that they are on increasing trend. We have also reviewed the Monthly Local State Grid Selling Prices (including VAT) for the first eight months in 2022 and noted that they ranged from approximately RMB0.658 per kWh (or approximately RMB0.582 per kWh excluding VAT) to approximately RMB0.723 per kWh (or approximately RMB0.640 per kWh excluding VAT) subject to upward/downward adjustments for peak and trough period. Given the average unit prices of excess electricity supplied by the Group to the Parent Group have been generally increasing and the Company estimates the average selling price of excess electricity based on the median of the Monthly Local State Grid Selling Price issued by State Grid Shandong Electric Power Company for the first eight months in 2022, we consider such estimate of average selling price fair and reasonable.

As regards the expected sales volume of excess electricity by the Group to the Parent Group of 4,634 million kWh for each of the three years ending 31 December 2025, we note that it was determined based on the annualised sales volume of excess electricity to the Parent Group for the year ending 31 December 2022 of 4,213 million kWh plus a 10% buffer. We also noted that the annualised sales volume of excess electricity by the Group to the Parent Group for the year ending 31 December 2022 already represents an increase of approximately 13.13% as compared with the actual sales volume for the year ended 31 December 2021. Furthermore, we were advised by the Company that due to the sluggish general economic environment, businesses of the Group's customers were affected and their consumption of electricity may also decrease, resulting in more excess electricity not sold to third parties. We have reviewed the growth rate of gross domestic products of the PRC and noted that it dropped from approximately 12.7% for the first half in 2021 to approximately 2.5% for the first half in 2022. As part of our due diligence, we have enquired the Company and was confirmed that the Company currently has no intention to alter its installed capacity as at the Latest Practicable Date and thus the estimated production volume of electricity of the Group would not materially change. Having considered the abovementioned and the expected sales volume for each of the three years ending 31 December 2025 is comparable to the sales volume historically made in 2020 with the Parent Group, we consider that such estimate of sales volume is fair and reasonable.

On the other hand, as part of our due diligence, we have obtained and reviewed, on half-yearly basis (for second half in 2022, only up to August 2022), the sample invoices of the sales of excess electricity to the Parent Group and its third party customers (including 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 third party customers (including the Independent Third Party Large Customer). For the 10% discount to be offered to the Parent Group and the Independent Third Party Large Customers, we have been advised by the Company that due to large scale of these customers, the Group directly transmits its electricity supply to them instead of using the

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state grid for transmission and distribution, and thus the Group could save the relevant electricity transmission and distribution charge of RMB0.1169 per kWh (including VAT) or RMB0.1035 (excluding VAT) based on the charges announced by State Grid Shandong Electric Power Company for the first nine months in 2022, representing approximately 16.9% of the expected average unit price of excess electricity of RMB0.611. As this 10% discount is applied to both the Parent Group and the Independent Third Party Large Customers and basically part of the electricity transmission and distribution charge saved when using direct transmission of electricity, we consider the determination of discount commercially justifiable.

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 (including the Proposed Annual Caps) are to be carried out on normal commercial terms and in the ordinary and usual course of business.

#### **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, in all material respects, entered into in accordance with the terms of the relevant agreement(s) governing the Continuing Connected Transactions; (iii) have been, in all material respects, 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. Meanwhile, the finance department of the Company shall designate specific personnel to check the Monthly Local State Grid Selling Price on a monthly basis and report to the chief financial officer of the Company in writing. The chief financial officer of the Company shall review and confirm the adoption of such price;

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- 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.

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.

### 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 (including the Proposed Annual Caps).

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**  
**Wesker Poon**  
*Managing Director*

*Note:* Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Wesker Poon has 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 and short positions 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)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)
Zhang Hongxia ( <i>Executive Director/Chairman</i> )	Beneficial interest	17,700,400	2.27	1.48

*Note: 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/Chairman)	Parent Company	Beneficial interest and spouse interest (Note i)	7.78 (Note i)
Zhang Yanhong (Executive Director/Vice Chairman)	Parent Company	Beneficial interest	4.50
Wei Jiakun (Executive Director/General Manager)	Parent Company	Beneficial interest	0.52
Zhao Suwen (Executive Director/Chief Financial Officer)	Parent Company	Beneficial interest	0.30
Zhao Suhua (Non-executive Director)	Parent Company	Spouse interest (Note ii)	3.95 (Note ii)

Notes:

- i:* Ms. Zhang Hongxia holds an aggregate of 7.78% equity interests of the Parent Company, of which 5.60% are directly held by Ms. Zhang Hongxia. The remaining 2.18% 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.
- ii:* Ms. Zhao Suhua is deemed to be interested in the 3.95% 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, Mr. Wei Jiakun, 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 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 were 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 the Directors, supervisors and the chief executive of the Company, the following persons (other than the Directors, supervisors and 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 i)</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

Interests in the H Shares:

Name of shareholders	Type of interest	Number of H Shares (Note ii)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued share capital (%)
Brandes Investment Partners, L.P.	Investment manager	41,333,000 (Long position) (Note iii)	9.99	3.46
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note iv)	9.93	3.44

Notes:

- i* Unlisted shares.
- ii*: Shares listed on the Main Board of the Stock Exchange.
- iii*: According to the disclosure of interest filed on the website of the Stock Exchange, these 41,333,000 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
- iv*: According to the disclosure of interest filed on the website of the Stock Exchange, 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. MAM (MA) Trust was wholly controlled by MAM (DE) Trust. MAM (DE) Trust was 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 (other than the Directors, supervisors and 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 have entered, or are proposing to enter, into any service contract with any member of the Group which is not expiring or may not be terminated by such member of the Group 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) were 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**

The Directors confirm that there had been no material adverse change in the financial position or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, and up to the Latest Practicable Date.

**8. LITIGATION**

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was 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 qualification of the expert who has given opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
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 2021, 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. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.

- (ii) The principal place of business of the Company in the PRC is at No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.
- (iii) The place of business of the Company in Hong Kong is at Suite 5109, The Center, 99 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, 17th 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 company 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 ON DISPLAY**

Copies of the following documents will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.wqfz.com](http://www.wqfz.com) for a period of 14 days from the date of this circular:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (b) the letter of advice from Sorrento Capital, the text of which is set out on pages 14 to 21 of the circular;
- (c) the written consent from Sorrento Capital referred to under the section headed "9. Expert and consent" in the Appendix; and
- (d) the Renewed Excess Electricity Supply Agreement.

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## NOTICE OF THE EGM

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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)**

### 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, 9 December 2022 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 30 September 2022 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 30 September 2022 and the circular of the Company dated 24 October 2022) for each of the three financial years ending 31 December 2025 (the “Annual Caps”) be and are hereby approved and confirmed; and
- (c) any director of the Company be and is hereby authorised to do such 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\***  
**Mr. Zhang Jinglei**  
*Executive Director and Company Secretary*

24 October 2022  
Shandong, the PRC

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## NOTICE OF THE EGM

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*As at the date of this notice, the board of directors of the Company comprises nine directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei as executive directors, Ms. Zhao Suhua as non-executive director and Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao as independent non-executive directors.*

*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 24 October 2022.
- (B) The Company's register of members will be closed from Wednesday, 9 November 2022 to Friday, 9 December 2022 (both days inclusive), during which no transfer of shares will be registered. Shareholders whose names appear on the Company's register of members on Wednesday, 9 November, 2022, are entitled to attend and vote at the EGM after completing the registration procedures for attending the meeting. In order to qualify for attending and voting at the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 8 November 2022.
- (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. no later than Saturday, 19 November 2022.

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 (or at any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company 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.
- (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.

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## NOTICE OF THE EGM

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- (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 (such certification to be made by a notary public), must be delivered to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th 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.
- (H) Each holder of domestic shares of the Company is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his 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 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 authorisation 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).*