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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)**

### **DISCLOSEABLE TRANSACTION**

Reference is made to the announcement of the Company dated 8 May 2008 relating to the close-down of the Weiqiao First Thermal Power Plant (the “**Announcement**”).

On 4 September 2008, the Company entered into the Asset Swap Agreement with Gaoxin Thermal Power, pursuant to which the Company has agreed to acquire the Thermal Power Assets for an aggregate consideration of RMB1,599,017,500 (equivalent to approximately HK\$1,825,362,400). The Company will satisfy the payment of such consideration by transferring to Gaoxin Thermal Power the thermal power assets making up the Weiqiao First Thermal Plant and setting off against the payment of the remaining consideration through the sale of electricity generated by the Thermal Power Assets to Gaoxin Thermal Power which is in excess of the Group’s actual electricity consumption requirement after Completion.

Upon Completion:

- (a) the Group would own and operate by itself the Thermal Power Assets, which have an installed electricity generation capacity of about 420 MW and steam generation capacity of about 1,680 tons per hour;
- (b) the Company would lease from Gaoxin Thermal Power the land use rights in respect of the land on which the Thermal Power Assets are currently located at an annual rate of RMB 6 per sq.m. for a term of 20 years. The aggregate annual rent is approximately RMB1,460,000 (equivalent to approximately HK\$1,666,660) (subject to adjustment); and

- (c) Gaoxin Thermal Power will purchase from the Company surplus electricity generated by the Thermal Power Assets which is in excess of the Group's actual electricity consumption requirement, at a rate to be agreed upon between both parties, from the date of Completion to 31 December 2011, which will be governed by the Supply of Excess Electricity Agreement.

The Board believes that the Acquisition and the Relevant Transactions provide the appropriate solution to the handling of the assets from the close-down of the Weiqiao First Thermal Power Plant and enhance the energy reserve for the Group as well as accommodate the Group's future operational needs for electricity and steam; and is likely to result in an increase of profitability of the Group for the following reasons:

- (a) with the acquisition of the Thermal Power Assets, it is expected that the operating efficiency of the Group would improve and economies of scale would be achieved; and
- (b) an additional stream of income from Gaoxin Thermal Power under the Supply of Excess Electricity Agreement can be generated.

The terms and conditions of each of the Acquisition and the Relevant Transactions have been negotiated on an arm's length basis or more favorable to the Company. The Board considers such terms to be normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. The Acquisition is subject to the notification and publication requirements but is exempt from the shareholders' approval requirements under the Listing Rules.

A circular containing, among others, further details of the Acquisition and the Relevant Transactions, will be despatched to the Shareholders as soon as practicable.

Reference is made to the announcement of the Company dated 8 May 2008 relating to the close-down of the Weiqiao First Thermal Power Plant (the "**Announcement**").

## **A. THE ASSET SWAP AGREEMENT**

### **1. Background**

In accordance with the current attitude and/or spirit of the central government and relevant local governments towards environmental protection, energy savings and emission reductions, Zouping County Development and Reform Bureau issued the Notice on the Trial Reform of the Self-owned Power Plants of the Enterprises in Zouping County (關於鄒平縣企業自備電力機組試點改單的通知) on 19 June 2007 (the “**Notice**”). According to the Notice, Gaoxin Thermal Power was designated as the enterprise to implement the Notice and is responsible for acquiring the relevant self-owned power plants in Zouping City in accordance with the Notice. Pursuant to the trial reform under the Notice, Gaoxin Thermal Power acquires and consolidates thermal power plants owned by relevant enterprises in Zouping County, under the principles of maintaining big power plants while closing down small power plants (保大壓小), to promote energy savings and emissions reductions. The Notice further provides that (i) Gaoxin Thermal Power will acquire the power plants which comply with relevant national industrial policies; and (ii) the power plants which do not comply with the relevant national industrial policies will have to be closed down to facilitate the application for the construction of big power plants.

According to the Notice, in general, relevant enterprises who own self-owned power plants are not allowed to retain, re-construct self-owned power plants or build new power plants. However, if an enterprise has such needs, with the approval of Zouping County government, Gaoxin Thermal Power shall transfer big power plants which meet the relevant national industrial policies to these relevant enterprises or through assets swap, i.e. Gaoxin Thermal Power will use the big power plants to swap or replace a set of the smaller power plants with similar aggregate capacity. The Assets Swap Agreement was entered into by the Company and Gaoxin Thermal Power in accordance with the Notice.

### **2. Date**

4 September 2008

### **3. Parties**

(a) Company

(b) Gaoxin Thermal Power

#### **4. Assets to be acquired and disposed by the Company**

The Thermal Power Assets comprise principally the buildings, machinery and equipment. The land use rights in respect of the land on which the Thermal Power Assets are currently located would remain with Gaoxin Thermal Power after Completion.

The Company will transfer the thermal power assets making up the Weiqiao First Thermal Power Plant to Gaoxin Thermal Power as part consideration for the Acquisition.

#### **5. Consideration**

The consideration for the Acquisition amounting to RMB1,599,017,500 (equivalent to approximately HK\$1,825,362,400) has been determined with reference to the aggregate appraised value of the Thermal Power Assets of RMB1,599,017,500 (equivalent to approximately HK\$1,825,362,400) as at 31 July 2008, as set out in the assets valuation report prepared by Sallmanns, an independent international assets appraisal firm appointed by the Company.

The Company will transfer to Gaoxin Thermal Power all the thermal power assets making up the Weiqiao First Thermal Power Plant which it owns, with an aggregate appraised value of RMB291,476,165 (equivalent to approximately HK\$332,735,340) as at 31 July 2008 as set out in the asset valuation report prepared by Jianxin, to set off RMB291,476,160 (equivalent to approximately HK\$332,735,340) against payment of part consideration in the amount of the Acquisition.

The machinery and equipment are valued by cost and market approaches to arrive at market value estimates and depreciated replacement cost approach is used for the property assets to arrive at market value estimates. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age and taking into consideration their maintenance policy and rebuilding history. The cost approach generally provides the most reliable indication of values for assets without a known used market. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparables. Assets for which there is an established used market may be appraised by this approach. The depreciated replacement cost considers the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence.

The Company will use the price for the sale of electricity to Gaoxin Thermal Power to set off against payment of the remaining consideration in the amount of RMB1,307,541,340 (equivalent to approximately HK\$1,492,627,100) after the Completion. If the price falls short of such amount of the remaining consideration, the Company will make up the shortfall by payment in cash.

Once the above set-off amount is equivalent to the above remaining consideration amount, Gaoxin Thermal Power shall pay for the electricity supplied in arrears to the Company based on the actual amount of electricity supplied under the Supply of Excess Electricity Agreement.

## **6. Completion**

Completion is subject to (i) the Acquisition having been approved by the board of directors and the shareholder(s) of Gaoxin Thermal Power, the competent state assets supervision authority of Gaoxin Thermal Power and the Board, respectively; and (ii) Zouping Country government having approved the operation of the Thermal Power Assets by the Company and the Asset Swap Agreement (if required), respectively.

Completion is scheduled to take place on the date (or a later date as mutually agreed between Gaoxin Thermal Power and the Company) when the last of the above conditions are satisfied. If all the above conditions are not satisfied by 31 November 2008, the Company and Gaoxin Thermal Power are each entitled to terminate the Asset Swap Agreement.

## **7. Other significant terms**

- (a) The Company shall employ all the existing staff in relation to the operation of the Thermal Power Assets, and enter into new employment contracts with these existing staff at Completion. The Company shall make the relevant social security contributions for these existing staff.
- (b) Where it becomes impossible for a party to perform the Asset Swap Agreement due to a force majeure event, which includes but is not limited to earthquake, fire, tidal wave and war, such party shall notify the other party in writing, together with supporting written evidence of such force majeure event. If the force majeure delays or prevents the performance of the obligations of such party for a continuous period of 3 months, any party may give notice to the other party to terminate the Assets Swap Agreement at the end of this period.

(c) Considering that the operation of the Thermal Power Assets by the Company may be affected by the PRC national and local laws, regulations and government policies, as well as the operation status of the Company, including but not limited to possible energy shortages in the future, Gaoxin Thermal Power has granted the Company a put option in relation to the Thermal Power Assets, i.e. the Company has the right which entitles it to require Gaoxin Thermal Power to purchase all or part of the Thermal Power Assets according to the related laws, regulations and government policies of the PRC or the Company's reasonable business judgment and the value determined by an independent third party valuer at the relevant time. Gaoxin Thermal Power has undertaken to obtain all necessary permits and approvals for the transfer of all or part of the Power Thermal Assets by the Company to it.

## **B. THE LAND LEASING AGREEMENT**

### **1. Date**

The date of Completion (i.e. to be executed at Completion)

### **2. Parties**

Lessor: Gaoxin Thermal Power

Lessee: The Company

### **3. Transaction nature**

Pursuant to the Land Leasing Agreement, Gaoxin Thermal Power would agree to lease to the Company the land use rights in respect of the land on which the Thermal Power Assets are currently located. The principal terms of the Land Leasing Agreement are as follows:

<b>Commencement date</b>	<b>Address</b>	<b>Term</b>	<b>Total land area (sq.m.)</b>	<b>Agreed annual rent for each of the twenty calendar years commencing from the date of Completion (subject to adjustments) (RMB)</b>
The date of Completion	one piece of land with a total land area of about 243,311 sq.m. Weigiao Town, Shandong Province	20 years	about 243,311	1,460,000

Without the Company's consent, Gaoxin Thermal Power may not unilaterally terminate the Land Leasing Agreement except due to fundamental breach by Company. Either party to the Land Leasing Agreement may terminate the agreement upon giving the other party six months' prior written notice save that (a) they must agree on the terms of the termination; and (b) Gaoxin Thermal Power can only terminate with the Company's consent.

Considering the land under the Land Leasing Agreement is of vital importance for the operation of the Thermal Power Assets by the Company and other business which may be conducted by the Company, Gaoxin Thermal Power has granted the Company a purchase option, i.e., the Company can, within the lease period upon giving Gaoxin Thermal Power three months, prior written notice, and inform Gaoxin Thermal Power that it will purchase the land use rights attached to the land under the Land Leasing Agreement. Gaoxin Thermal Power should transfer such land use rights to the Company at a price determined by the Company's appointed independent valuer (the transfer price in any event shall not be higher than the corresponding local market price for similar land) and cooperate with the Company to complete all necessary procedures and obtain all necessary approvals thereof.

#### **4. Pricing basis**

The rent chargeable by Gaoxin Thermal Power to the Company is determined by reference to the rent payable for leasing land use rights in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their businesses in Zouping County, Shandong Province, the PRC.

The aggregate annual rent payable by the Company to Gaoxin Thermal Power for each of the twenty calendar years commencing from the date of Completion is RMB 1,460,000 (equivalent to approximately HK\$1,666,660) and may be adjusted annually in accordance with the valuation amount to be determined by the Company's appointed independent property valuer.

#### **5. Payment term**

The Company can choose to pay the rent in advance on an annual basis before 31 December of each year or on a monthly basis. If the Company decides to make the payment on a monthly basis, the Company shall make the payment within the first 5 business days of each month.

## **C. THE SUPPLY OF EXCESS ELECTRICITY AGREEMENT**

### **1. Date**

The date of Completion (i.e. to be executed at Completion)

### **2. Parties**

(a) Company

(b) Gaoxin Thermal Power

### **3. Transaction nature**

The Company and Gaoxin Thermal Power propose to enter into the Supply of Excess Electricity Agreement at Completion, pursuant to which the Company would supply electricity generated by the Thermal Power Assets which is in excess of the Group's actual electricity consumption requirement, to Gaoxin Thermal Power for a term commencing from the date of Completion and ending on 31 December 2011 (both dates inclusive).

### **4. Pricing basis**

The price at which electricity is supplied to Gaoxin Thermal Power by the Company shall be RMB0.52 per kWh (including VAT at the rate of 17%, same below) or the price from time to time at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, whichever is higher. If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, it would be adopted instead.

The above price of RMB0.52 per kWh has been determined after arm's length negotiation between Gaoxin Thermal Power and the Company, taking into account that RMB0.52 per kWh is a price which (i) is higher than the current price at which a power plant in Shandong Province sells its electricity produced to the relevant power grid; and (ii) is lower than the current electricity purchase price charged by power grids in Shandong Province.

The Company and Gaoxin Thermal Power have agreed that if there is a significant increase of cost for the generation of electricity by the Thermal Power Assets, the Company and Gaoxin Thermal Power will negotiate with each other to adjust the price of electricity accordingly.



## 5. Payment term

As mentioned in paragraph 5 of section 5 headed Consideration under part A headed the Asset Swap Agreement in this announcement, once the set-off amount is equivalent to the remaining consideration amount, Gaoxin Thermal Power shall pay for the electricity supplied in arrears based on the actual amount of electricity supplied. The Company will provide the amount due on the last business day of each month and Gaoxin Thermal Power shall make the payment within the first 5 business days of the following month.

## 6. Maximum aggregate annual value

Set out below is the maximum aggregate annual price (the “**Annual Electricity Caps**”) (excluding VAT at the rate of 17%) for the electricity supplied under the Supply of Excess Electricity Agreement for each of the three financial years ending 31 December 2011:

<b>Financial year ending 31 December 2009</b> <i>(RMB)</i>	<b>Financial year ending 31 December 2010</b> <i>(RMB)</i>	<b>Financial year ending 31 December 2011</b> <i>(RMB)</i>
1,026,666,700	1,026,666,700	1,026,666,700

The Annual Electricity Caps for each of the three financial years ending 31 December 2011 were determined based on:

<b>(kWh)</b>	<b>Financial year ending 31 December 2009</b>	<b>Financial year ending 31 December 2010</b>	<b>Financial year ending 31 December 2011</b>
Projected total electricity generated by the Thermal Power Assets	2,940,000,000	2,940,000,000	2,940,000,000
Projected total electricity to be sold under the Supply of Excess Electricity Agreement	2,310,000,000	2,310,000,000	2,310,000,000

*Note:* The above projected total electricity generation of the Thermal Power Assets is calculated on the assumption that the working hours are 7,000 per year.

#### **D. REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE RELEVANT TRANSACTIONS**

The Board believes that the terms of the Acquisition are fair and reasonable and beneficial to the Group and are in the interests of the Shareholders as a whole after taking into account of the following factors and reasons:

- (a) the Acquisition would enhance the energy reserve as well as accommodate the Group's future operational needs for electricity and steam; and
- (b) the transfer of the assets making up the Weiqiao First Thermal Plant to Gaoxin Thermal Power, as part of consideration for the Acquisition, will provide an appropriate solution for the handling of the assets from its close-down as mentioned in the Announcement.

The Board considers that the electricity to be purchased by Gaoxin Thermal Power under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the Thermal Power Assets; and (ii) allow the Group to receive an additional stream of income and thus is likely to result in an increase of the profits of the Group upon Completion.

The Board considers that (i) the entering into of the Land Leasing Agreement would allow the Company to continue utilizing the Thermal Power Assets at their existing premises; and (ii) it would not be beneficial to the Group at this stage to make substantial capital investment in acquiring the subject land.

#### **E. INFORMATION REGARDING THE THERMAL POWER ASSETS**

<b>Assets Location</b>	<b>Installed capacity at Completion (MW)</b>
Weiqiao Town	420 MW

The original purchase cost of the Thermal Power Assets to Gaoxin Thermal Power was approximately RMB1,815,596,299 (equivalent to approximately HK\$2,072,598,500).

The net book value of the Thermal Power Assets on the books of Gaoxin Thermal Power as at 31 July 2008 was approximately RMB1,558,239,076 (equivalent to approximately HK\$1,778,811,700).

The Thermal Power Assets do not themselves alone constitute a business or a company. As such, the information regarding the net profit attributable to the Thermal Power Assets is not available.

#### **F. INFORMATION REGARDING THE ASSETS OF THE WEIQIAO FIRST THERMAL PLANT**

<b>Assets Location</b>	<b>Installed Capacity (MW)</b>	<b>Electricity and steam originally supply to which member(s) of the Group</b>
Weiqiao Town	90	Production base located in Weiqiao Town

The original purchase cost of the assets making up the Weiqiao First Thermal Plant to the Company was approximately RMB342,476,044 (equivalent to approximately HK\$390,954,388).

The net book value of the assets making up the Weiqiao First Thermal Plant on the books of the Company as at 31 July 2008 was approximately RMB291,468,096 (equivalent to approximately HK\$332,726,137). It is expected that the gain accrued for the disposal of such asset is approximately RMB8,064 (equivalent to approximately HK\$9,205).

Similar to the Thermal Power Assets mentioned above, the assets of the Weiqiao First Thermal Plant do not themselves alone constitute a business or a company. As such, the information regarding the net profit attributable to the assets making up the Weiqiao First Thermal Plant is not available.

#### **G. LISTING RULES IMPLICATIONS**

As certain applicable percentage ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition, therefore, constitutes a discloseable transaction for the Company under 14.06(2) of the Listing Rules.

The terms and conditions of each of the Acquisition and the Relevant Transactions have been negotiated on an arm's length basis. The Board considers such terms to be normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

A circular containing, among others, further details of the Acquisition and the Relevant Transactions, will be despatched to the Shareholders as soon as practicable.

## **H. GENERAL**

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Gaoxin Thermal Power is principally engaged in the production and sale of electricity and steam. To the best of knowledge, information and belief of the Directors having made all reasonable enquiry, Gaoxin Thermal Power and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

## **I. DEFINITIONS**

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

“Acquisition”	the transaction as contemplated under the Asset Swap Agreement
“Asset Swap Agreement”	the agreement dated 4 September 2008 and entered into between the Company and Gaoxin Thermal Power relating to the acquisition of the Thermal Power Assets by the Company and the disposal of the thermal power assets making up the Weiqiao First Thermal Power Plant to Gaoxin Thermal Power
“Board”	the board of directors of the Company
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited)
“Completion”	the completion of the Acquisition
“Director(s)”	the director(s) of the Company
“Jianxin”	Zouping Jianxin Accounting Firm (鄒平鑒鑫會計師事務所), the valuer appointed by Gaoxin Thermal Power for the valuation of the thermal power assets making up the Weiqiao First Thermal Power Plant

“Gaoxin Thermal Power”	ZouPing Gaoxin Thermal Power Co., Ltd. (鄒平高新熱電有限公司), a company incorporated in the PRC on 24 January 2007 with limited liability. Shandong Zouping Yunda Investment and Operation Co., Ltd. (山東鄒平運達投資經營有限公司) holds 100% equity interests in Gaoxin Thermal Power. The shareholders of Shandong Zouping Yunda Investment and Operation Co., Ltd. are Shandong Zouping Economic Development Zone Governmental Trade Union Committee (山東鄒平經濟開發區機關工會委員會), Shandong Zouping Kaida Real Estate Development Co., Ltd. (山東鄒平開達房地產有限公司) and Zouping Economic Development Zone Property Management Co., Ltd. (鄒平經濟開發區物業管理有限公司), who hold approximately 74.56%, 10.44% and 15% equity interests in Shandong Zouping Yunda Investment and Operation Co., Ltd., respectively. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, Shandong Zouping Yunda Investment and Operation Co., Ltd. and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“kWh”	kilowatt hour. The standard unit of energy used in the electric power industry. One kilowatt hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“Land Leasing Agreement”	the land use rights leasing agreement which is proposed to be entered into between the Company and Gaoxin Thermal Power at Completion for the leasing of land use rights in respect of the land on which the Thermal Power Assets is currently located, for a term of 20 years commencing from the date of Completion
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“MW”	Megawatt. One million watts
“PRC”	People’s Republic of China
“Relevant Transactions”	the relevant transactions contemplated under the Land Leasing Agreement and the Supply of Excess Electricity Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“sq.m.”	square metres
“Sallmanns”	Jones Lang LaSalle Sallmanns Limited, an independent third party valuer appointed by the Company for the valuation of the Thermal Power Assets
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply of Excess Electricity Agreement”	the supply of electricity agreement which is proposed to be entered into between the Company and Gaoxin Power Plant at Completion for the supply of electricity which generated by the Thermal Power Assets which is in excess of the Group’s actual electricity consumption requirement to Gaoxin Thermal Power for a term commencing from the date of Completion and ending on 31 December 2011 (both dates inclusive)
“Thermal Power Assets”	certain assets proposed to be acquired by the Company from Gaoxin Thermal Power pursuant to the Asset Swap Agreement. Such assets principally comprise buildings, machinery and equipment.
“VAT”	value added tax
“Weiqiao First Thermal Power Plant”	means Weiqiao First Thermal Power Plant of the Company located at Weiqiao Town

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

4 September 2008

Shandong, The People’s Republic of China

*Notes:*

1. As at the date of this announcement, the board of Directors of the Company comprises 11 Directors, namely Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen and Ms. Zhang Yanhong as executive Directors, Mr. Zhang Shiping, Mr. Wang Zhaoting, Ms. Zhao Suhua and Ms. Wang Xiaoyun as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.
  2. For indication purpose only, the conversion of RMB into HK\$ is based on the exchange rate of RMB0.876 = HK\$1.
  3. Save as specified in this announcement, the unit price of electricity is presented on a VAT inclusive basis.
- \* *The Company is registered in Hong Kong as an oversea company under the English name "Weiqiao Textile Company Limited".*