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魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2698)

**CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM – REVISION OF
ANNUAL CAPS**

Reference is made to the announcement of the Company dated 16 October 2020 and the circular of the Company dated 9 November 2020.

Based on reasons mentioned in this announcement, it is expected that the transaction value for the cotton yarn, grey fabric and denim to be supplied by the Group to Parent Group will increase. The Directors estimate that the maximum transaction value for the cotton yarn, grey fabric and denim to be supplied by the Group to Parent Group under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023 will exceed the Original Annual Caps as disclosed in the announcement dated 16 October 2020 and the circular dated 9 November 2020. The Board therefore proposes to revise the Original Annual Caps under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023.

Given that certain of the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, on an annual basis, is more than 5%, the transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company proposes to seek the approval of the Independent Shareholders at the forthcoming EGM relating to the Revised Annual Caps.

A circular containing, among others, (i) further details of the Revised Annual Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and (iv) the notice of the EGM will be despatched to the Shareholders on or before 2 September 2021.

THE CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 16 October 2020 and the circular of the Company dated 9 November 2020.

THE RENEWED COTTON YARN, GREY FABRIC AND DENIM SUPPLY AGREEMENT

On 16 October 2020, the Company and Parent Company, same as the parties to the Old Cotton Yarn, Grey Fabric and Denim Supply Agreement, agreed to renew the terms of the transaction and entered into the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for a period of three years commencing on 1 January 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Company will continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group.

The Revised Annual Caps only increases the annual caps for Continuing Connected Transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement between the Company and Parent Company. There was no change to the other aspects of Continuing Connected Transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement. The principal terms are set out as follows:

1. Date

16 October 2020

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 Cotton Yarn, Grey Fabric and Denim Supply Agreement on 17 October 2017, pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group for the production of downstream cotton textile products for the period from 1 January 2018 to 31 December 2020 (both days inclusive). On 16 October 2020, the Company entered into the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Company will continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group.

5. Pricing basis and payment terms

The prices of cotton yarn, grey fabric and denim products supplied by the Group to the Parent Group are the same with their respective prices when supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC. The Company shall provide the evidence of such market prices to the Parent Company upon the request of the Parent Company, such as samples of contracts entered into by the Group and independent third parties and relevant invoices.

The Directors have confirmed that the pricing basis agreed between the Company and the Parent Company for the supply of the cotton yarn, grey fabric and denim is fair and reasonable, negotiated on an arm's length basis and constitutes a normal commercial term. The Group has a wide variety of textile products to be sold to its customers according to indicative price lists for different textile products. Such prices were determined after taking into account of a series of factors, such as product costs and prevailing market conditions. The Group usually reviews, adjusts and approves such price lists from time to time, when and where necessary, taking into account of the prevailing market conditions and other relevant factors at that time. Given that there is an uniform price for a single product category of the Group, the Directors are of the view that the sales prices of the products sold to the Parent Group are the same with those sold to the independent third party customers at the same time and such method shall be able to ensure that the Continuing Connected Transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders.

The Company would, on the last business day of each calendar month, prepare an account book of the relevant costs/expenses that shall be paid by the Parent Company for that month. The expenses undue shall not be included in such account book. The Parent Company shall, within the first ten (10) business days of the following month, pay the amount due in full.

6. Termination and renewal

Either party to the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty.

The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement is renewable for another term of three years (subject to the compliance of the applicable requirements under the Listing Rules by the Company) unless either party decides not to renew it and give at least thirty (30) days prior written notice to the counterparty accordingly.

ORIGINAL ANNUAL CAPS

As disclosed in the announcement dated 16 October 2020 and the circular dated 9 November 2020, the Original Annual Caps (excluding VAT) for each of the three years ending 31 December 2021, 2022 and 2023 under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement were expected to be not more than RMB432,380,000, RMB475,620,000 and RMB523,180,000, respectively.

REVISED ANNUAL CAPS

Based on the reasons mentioned in this announcement, it is expected that the transaction value for the cotton yarn, grey fabric and denim to be supplied by the Group to Parent Group will increase. The Directors estimate that the maximum transaction value under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023 will exceed the Original Annual Caps as disclosed in the announcement dated 16 October 2020 and the circular dated 9 November 2020. The Board therefore proposes to revise the Original Annual Caps under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023.

The Original Annual Caps and the Revised Annual Caps (excluding VAT) under The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement proposed by the Board are as follows:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Original Annual Caps	432,380,000	475,620,000	523,180,000
Revised Annual Caps	600,000,000	720,000,000	864,000,000

Basis of the Revised Annual Caps

The above Revised Annual Caps are determined with reference to:

- (a) The actual unaudited transaction value for the seven months ended 31 July 2021, which was approximately RMB296,000,000 and, on a hypothetical basis, the annualized figure based on such will be approximately RMB510,000,000.

- (b) The Company expects that as the market remains strong, the transaction value under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will be further increased in the second half year of 2021. Generally, there will be strong product demands near the Chinese New Year.
- (c) The annual caps for each of the two years ending 31 December 2022 and 2023 were determined based the annual cap for the year ending 31 December 2021, with a growth rate of 20% for each year. The 20% growth rate was determined after taking into consideration the growth rates for the total retail sales of consumer goods and the retail sales of commodities such as of apparel, footwear, headwear, knitwear and textile products by enterprises above a designated size in the PRC for the first half of 2021, which were 23.0% and 33.7%, respectively.

Historical Amounts

Based on the Group's latest unaudited management accounts, the supply of cotton yarn, grey fabric and denim under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement from 1 January 2021 to 31 July 2021 amounted to approximately RMB296,000,000 (excluding VAT), representing approximately 68.46% of the Original Annual Cap for the year ending 31 December 2021.

REASONS FOR AND BENEFITS OF REVISION OF ANNUAL CAPS FOR THE EXISTING CONTINUING CONNECTED TRANSACTIONS

As the textile market is currently recovering from the coronavirus pandemic, market demands for the Parent Group's products remain strong and steady and hence increased its demand of raw materials including, cotton yarn, grey fabric and denim. Based on the unaudited management accounts of the Group for the seven months ended 31 July 2021, the amount of Continuing Connected Transactions supplied by the Group to the Parent Group is approaching the Original Annual Cap for the year ending 31 December 2021. In addition, the Company also expects there will be an increase in the sales price of the Group's products in upcoming years. The Board therefore proposes the Revised Annual Caps.

Based on the above, the Board represented by the only one non-executive Director (i.e. Ms. Zhao Suhua, excluding Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Wei Jiakun and Mr. Zhang Jinglei who had abstained from voting on the relevant resolution of the Board approving the Revised Annual Caps as they concurrently serve as directors of the Parent Company and the independent non-executive Directors whose views will be contained in the circular to be dispatched to the Shareholders after considering the advice from the independent financial adviser) considers that the Revised Annual Caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

INFORMATION OF THE GROUP AND PARENT GROUP

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

Parent Company is a company incorporated in the PRC on 14 April 1998 with limited liability. Parent Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transactions.

Parent Company is a connected person of the Company, the transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement therefore constitute continuing connected transactions of the Company under Rule 14A.25 of the Listing Rules.

Given that certain of the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, on an annual basis, is more than 5%, the transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Wei Jiakun and Mr. Zhang Jinglei had abstained from voting on the relevant resolution of the Board for approving the Revised Annual Caps as they concurrently serve as directors of the Parent Company.

INTERNAL CONTROL PROCEDURES

The Company has adopted the following internal control measures to ensure that the Continuing Connected Transactions are and will be conducted in accordance with the pricing policies and the terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, and in compliance with the Listing Rules:

- (1) the general manager and/or the executive deputy general manager of the sales department of the Company shall prepare a draft price list for the Group's products based on the prices of raw materials and the prevailing market conditions, and submit such list for review and approval by the chairman of the Board on monthly basis. At the time when the raw material prices fluctuate, the general manager and/or the executive deputy general manager of the sales department of the Company will adjust the draft price list more frequently to reflect the market conditions. Upon

approval, the price list shall be announced internally. Any deviation from the price list shall be separately approved by the general manager and the executive deputy general manager of the sales department of the Company, as well as the chairman of the Board;

- (2) the finance department of the Company shall provide the monthly caps, calculated pursuant to the Revised Annual Caps, to the sales department of the Company, which will keep track of the actual transaction sum of the contracts of the Continuing Connected Transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement from time to time and will submit a report to the finance department of the Company when the actual transaction amounts may exceed the monthly caps. The finance department of the Company will also monitor the aggregate value of the Continuing Connected Transactions on a monthly basis and ensure it will not exceed the Revised Annual Caps;
- (3) prior to executing any contract of the Continuing Connected Transactions, such contract, including its transaction value and terms, will be provided by the sales department of the Company to the finance department of the Company for their review. Such contract will not be executed unless and until the finance department of the Company has confirmed that the aggregate value of the transaction sums under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will not exceed the Revised Annual Caps and the terms of such contract are in compliance with the terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement. If it is contemplated that the Revised Annual Caps will be exceeded as a result of entering into the relevant contracts, such transaction will not be entered into until the Company has complied with the relevant requirements under the Listing Rules;
- (4) the Board will continue to periodically review the Company's internal control systems and their effectiveness, as well as the pricing policy in order to keep it fair and reasonable; and
- (5) the independent non-executive Directors themselves shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the Revised Annual Caps in accordance with the requirements of the Listing Rules.

EGM

As at the date of this announcement, the Parent Company held approximately 63.67% of the total issued Shares. According to the Listing Rules, the Parent Company will abstain from voting on the resolution relating to the Revised Annual Caps at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 7.78% (directly and indirectly) of the equity interest in the Parent Company. She and her family members (jointly holding approximately 1.92% of the equity interest in the Company) will also abstain from voting on the on the resolution relating to the Revised Annual Caps 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 resolution relating to the Revised Annual Caps, and no other Shareholder is required to abstain from voting on the resolution relating to the Revised Annual Caps at the EGM.

The votes to be taken at the EGM in relation to the above proposed resolution will be taken by poll.

GENERAL

The Independent Board Committee will be established to advise the Independent Shareholders in relation to their voting on the resolution relating to the Revised Annual Caps. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the Revised Annual Caps.

A circular containing, among others, (i) further details of the Revised Annual Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and (iv) the notice of the EGM will be despatched to the Shareholders on or before 2 September 2021.

DEFINITIONS

“Board”	the board of directors of the Company
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited*)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Liu Yanzhao, Mr. Chen Shuwen and Mr. George Chan Wing Yau, established to give an opinion on the Revised Annual Caps
“Independent Shareholders”	Shareholders who do not have any material interests in the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement other than by virtue of their respective shareholdings in the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Cotton Yarn, Grey Fabric and Denim Supply Agreement”	the supply of cotton yarn, grey fabric and denim agreement entered into between the Company and Parent Company on 17 October 2017 with a term of three years ending 31 December 2020
“Original Annual Cap(s)”	the original annual cap amounts for the transactions under the Agreement for the three years ending 31 December 2021, 2022 and 2023 as disclosed in the announcement dated 16 October 2020 and the circular dated 9 November 2020
“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, being the controlling shareholder of the Company
“Parent Group”	Parent Company, its subsidiaries, associated companies and associates (as defined in the Listing Rules) (excluding the Group)
“PRC”	the People’s Republic of China
“Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement”	The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement dated 16 October 2020 and entered into between the Company and the Parent Company for a term of three years commencing on 1 January 2021 to 31 December 2023 (both dates inclusive) pursuant to which the Group will supply cotton yarn, grey fabric and denim to Parent Group
“Revised Annual Cap(s)”	the revised annual cap amounts proposed by the Company in respect of The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, being RMB600,000,000, RMB720,000,000 and RMB864,000,000 for each of the three years ending 31 December 2021, 2022 and 2023
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“VAT” value added tax at the rate of 17% from 1 July 2017 to 30 April 2018, at the rate of 16% from 1 May 2018 to 31 March 2019 and at the rate of 13% since 1 April 2019

“%” per cent

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

Shandong, the People’s Republic of China
13 August 2021

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

* *The Company is registered in Hong Kong as a non-Hong Kong company under the English name “Weiqiao Textile Company Limited” and the Chinese name of the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).*