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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 COTTON YARN, GREY FABRIC AND DENIM**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcements of the Company dated 16 October 2020 and 13 August 2021, respectively. According to the aforesaid announcements, among others, the Company and the Parent Company entered into the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement on 16 October 2020, 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 2021 to 31 December 2023 (both days inclusive).

The Board announces that, on 28 September 2023, the Company entered into the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2024 and ending on 31 December 2026 (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 terms and conditions of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement are basically the same as those of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

### **LISTING RULES IMPLICATION**

As at the date of this announcement, 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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions is 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, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **EGM**

The EGM will be convened to consider and, if thought fit, approve, among other things, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

A circular containing, among others, (i) further details of the 2023 Cotton Yarn, Grey Fabric and Denim 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 South China Capital to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM is expected to be despatched to the Shareholders on or before 20 October 2023.

## **A. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

The material terms of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement are set out as follows:

### **1. Date**

28 September 2023

### **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 Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement on 16 October 2020, 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 2021 to 31 December 2023 (both days inclusive). On 28 September 2023, the Company entered into the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement with the Parent Company for a term of three years commencing on 1 January 2024 and ending on 31 December 2026 (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 shall be no less than 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 (excluding 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) 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 (excluding 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) are of the view that the sales prices of the products sold to the Parent Group are no less than the price of the respective products 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 fees to be paid by the Parent Company for that month. The fees 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 2023 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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement is renewable for another term of three years (subject to the compliance with 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.

## 7. Historical transaction amounts and Annual Caps

The historical transaction amounts and historical annual caps for the cotton yarn, grey fabric and denim supplied by the Group to the Parent Group and under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for the two financial years ended 31 December 2022 and the financial year ending 31 December 2023 are as follows:

	<b>For the financial year ended/ending 31 December</b>		
	<b>2021</b> (RMB) (excluding VAT)	<b>2022</b> (RMB) (excluding VAT)	<b>2023</b> (RMB) (excluding VAT)
Historical transaction amounts	555,604,000	427,363,000	419,995,000 <i>(Note)</i>
Historical annual caps	600,000,000	720,000,000	864,000,000
Utilisation rates	92.60%	59.36%	48.61% <i>(Note)</i>

*Note:* For the eight months ended 31 August 2023, the aggregate transaction amounts for supply of the cotton yarn, grey fabric and denim by the Group to the Parent Group amounted to approximately RMB270,965,000. The Directors currently estimate that, given that there will be generally strong product demands near the Chinese New Year, the transaction amounts for each of the four months ending 31 December 2023 will increase by approximately 10% from the average monthly transaction amounts for the eight months ended 31 August 2023 (i.e. RMB33,870,000 (excluding VAT)). Therefore, the aggregate transaction amounts for supply of the cotton yarn, grey fabric and denim for the four months ending 31 December 2023 are expected to be approximately RMB149,030,000 (excluding VAT).

Set out below are the Annual Caps which are the maximum amount estimated to be payable by the Parent Group to the Group under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement for the three financial years ending 31 December 2026:

	<b>For the financial year ending 31 December</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Proposed annual caps <sup>(Note)</sup>	667,000,000	733,000,000	807,000,000

*Note:* Taking into consideration that there has been a significant fluctuation in the historical transaction amounts for the past few years as a result of the fluctuation in the demands for cotton textile products due to the impact of various factors including trade frictions, the Annual Cap for the financial year ending 31 December 2024 represents a growth rate of approximately 20% from the highest amount (i.e. approximately RMB555,604,000 for 2021 (excluding VAT)) of the actual annual transaction amounts for each of the two financial years ended 31 December 2022 and the estimated annual transaction amounts for the financial year ending 31 December 2023.

The Annual Caps for each of the two financial years ending 31 December 2026 represent an increase of approximately 10% than that of the preceding year. The growth rate of 10% is determined in consideration of (i) the fact that the management of the Parent Group is in the process of proactively enhancing customer relationship management, stepping up efforts to optimise order structure and exploring various regional markets amidst gradual consumption recovery and increasing internal circulation in the PRC; and (ii) the growth rates of approximately 8.2% and 12.8% for the total retail sales of consumer goods and the retail sales of apparel, footwear, headwear, knitwear and textile products by enterprises above designated size, respectively in the PRC for the first half of 2023. In addition, the Directors are of the opinion that, with the increase in the number of domestic home textile and apparel enterprises, the Parent Group is expected to obtain a bigger domestic market share and will require more supply of the cotton yarn, grey fabric and denim from the Group for the three financial years ending 31 December 2026.

**B. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2023 COTTON YARN, GREY FABRIC AND DENIM SUPPLY AGREEMENT**

The Parent Group has a substantial and stable demand for cotton yarn, grey fabric and denim for further processing into downstream cotton textile products for sales to independent third parties. The Parent Group is one of the Group's major customers for cotton yarn, grey fabric and denim products. The provision of cotton yarn, grey fabric and denim to the Parent Group at prices no more favourable than those available to independent third parties falls within the ordinary and usual course of the Group's business. The Directors (excluding 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) believe that the

establishment of the long-term cooperation relationship with the Parent Company will stabilise the Company's operations and ensure a broader stream of revenue source, and therefore is of commercial benefit to the Group as a whole.

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 Continuing Connected Transactions as they and/or their associates concurrently have material interests in and/or that they 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 Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Group and the terms of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement (including the Annual Caps) have been negotiated on an arm's length basis, and are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

#### **C. IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, 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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions is 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, circular 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 Continuing Connected Transactions as they and/or their associates concurrently have material interests in and/or that they serve as directors of the Parent Company.

#### **D. 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 2023 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 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 2023 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 Annual Caps;
- (3) prior to executing any contract of the Continuing Connected Transactions, such contract, including its transaction amounts 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 amounts of the transaction sums under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement will not exceed the Annual Caps and the terms of such contract are in compliance with the terms of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement. If it is contemplated that the 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 Annual Caps in accordance with the requirements of the Listing Rules.

## **E. EGM**

The EGM will be convened to consider and, if thought fit, approve, among other things, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 7.78% (including beneficial interest and spouse interest) 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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the 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 Continuing Connected Transactions, and no other Shareholder is required to abstain from voting to approve the 2023 Cotton Yarn, Grey Fabric and Denim 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 above proposed resolution will be taken by poll.

The Independent Board Committee will be established to advise the Independent Shareholders in relation to their voting on the resolution relating to the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

South China Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

A circular containing, among others, (i) further details of the 2023 Cotton Yarn, Grey Fabric and Denim 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 South China Capital to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the EGM is expected to be despatched to the Shareholders on or before 20 October 2023.

## **F. GENERAL**

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



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. For details of the shareholdings of the Parent Company, please refer to the circular of the Company dated 24 October 2022.

## G. DEFINITIONS

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

“2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement”	the cotton yarn, grey fabric and denim supply agreement entered into between the Company and the Parent Company on 28 September 2023 for a term of three years commencing on 1 January 2024 and ending on 31 December 2026 (both days inclusive)
“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement for the three financial years ending 31 December 2026
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited*), a joint stock limited company incorporated in the PRC with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2698)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares issued by the Company, with a RMB-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 proposed to be convened and held as soon as possible for the Independent Shareholders to consider and, if thought fit, approve, among other things, the 2023 Cotton Yarn, Grey Fabric and Denim 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 RMB-denominated par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholder on the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Independent Financial Adviser” or “South China Capital”	South China Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than the Parent Company, Ms. Zhang Hongxia and her family members for the purpose of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Parent Company”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC on 14 April 1998, being the controlling shareholder of the Company
“Parent Group”	the Parent Company, its subsidiaries and associates (excluding the Group)
“PRC”	the People’s Republic of China
“Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement”	the cotton yarn, grey fabric and denim supply agreement entered into between the Company and the Parent Company on 16 October 2020 for the period from 1 January 2021 to 31 December 2023 (both days inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax of the PRC
“%”	per cent

By order of the Board  
**Wei Qiao Textile Company Limited\***  
**Zhang Jinglei**  
*Executive Director and Company Secretary*

Shandong, the PRC  
28 September 2023

*As at the date of this announcement, the Board 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.*

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