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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 your 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**This circular does not constitute an offer or invitation to subscribe for or purchase any securities in the Company 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 COTTON YARN, GREY FABRIC AND DENIM BY THE GROUP;  
SUPPLY OF FABRICS, KNITTED FABRICS, APPAREL AND HOME  
TEXTILES PRODUCTS BY PARENT GROUP AND THE REVISED 2023  
ANNUAL CAP  
AND  
NOTICE OF THE EGM**

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



A letter from the Board is set out in pages 5 to 22 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) is set out in pages 23 to 24 of this circular. A letter from South China Capital containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) is set out in pages 25 to 44 of this circular.

Notice convening the EGM to be convened and held at 9:00 a. m. on Wednesday, 27 December 2023 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 51 to 54 of this circular. Whether or not you are able to attend the above meeting, you are requested to complete and return the forms of proxy 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 holding the above meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

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 Thursday, 7 December 2023 in accordance with the instructions printed thereon.

10 November 2023

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

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## DEFINITIONS

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

“2021 Announcement”	the announcement of the Company dated 17 May 2021 regarding the entering into of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement
“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 dates inclusive)
“Annual Caps”	the Annual Caps for the Group Products and the Annual Caps For Parent Company Products
“Annual Caps For Group Products”	the annual caps for the Continuing Connected Transactions For the Group Products contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement for the period from 1 January 2024 to 31 December 2026
“Annual Caps For Parent Company Products”	the annual caps for the Continuing Connected Transactions For Parent Company Products for the period from 1 January 2024 to 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 For Group Products and the Continuing Connected Transactions For Parent Company Products
“Continuing Connected Transactions For Group Products”	the continuing connected transactions contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement

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## DEFINITIONS

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“Continuing Connected Transactions For Parent Company Products”	the continuing connected transactions contemplated under the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) 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 to be convened and held on Wednesday, 27 December 2023 for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 Shareholders on the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)

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## DEFINITIONS

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“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 SFO, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 Ms. Zhang Yanhong and their family member for the purpose of the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Latest Practicable Date”	6 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement”	the fabrics, knitted fabrics, apparel and home textiles products supply agreement entered into between the Company and the Parent Company on 17 May 2021 for a term commencing on 17 May 2021 and ending on 31 December 2023 (both days inclusive)
“Original 2023 Annual Cap”	the original annual cap amount for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the year ending 31 December 2023 as disclosed in the 2021 Announcement
“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 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)
“Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement”	the renewed fabrics, knitted fabrics, apparel and home textiles products supply agreement entered into between the Company and the Parent Company on 13 October 2023 for a term of three years commencing on 1 January 2024 and ending on 31 December 2026 (both days inclusive)
“Revised 2023 Annual Cap”	the revised annual cap for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the year ending 31 December 2023
“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
“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 Directors:*

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

*Principal place of business in Hong Kong:*

Suite 5109

The Center, 99 Queen's Road Central

Central

Hong Kong

10 November 2023

*To the Shareholders*

Dear Sir/Madam,

\* For identification purposes only.

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## LETTER FROM THE BOARD

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### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM BY THE GROUP; SUPPLY OF FABRICS, KNITTED FABRICS, APPAREL AND HOME TEXTILES PRODUCTS BY PARENT GROUP AND THE REVISED 2023 ANNUAL CAP AND NOTICE OF THE EGM**

The purpose of this circular is to provide you with (i) further details of the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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.

#### **PART I: SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM BY THE GROUP**

##### **A. INTRODUCTION**

As disclosed in the announcement of the Company dated 28 September 2023, the Company and the Parent Company entered into the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement on 28 September 2023, pursuant to which the Group will continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group for a term of three years commencing on 1 January 2024 and ending on 31 December 2026 (both dates inclusive).

##### **B. THE 2023 COTTON YARN, GREY FABRIC AND DENIM SUPPLY AGREEMENT**

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



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## LETTER FROM THE BOARD

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#### 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 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 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 For Group Products 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 based on the products delivered to the Parent Company for the period from the 25th day of the previous month to the 24th day of current month. The fees undue (i.e., for the remaining days from the 25th day of the current month) shall not be included in such account book for the purpose of preparation of the account book. The Parent Company shall, within the first ten (10) business days of the following month, pay the amount due in full.

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## LETTER FROM THE BOARD

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### 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 For Group Products

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:

	For the financial year ended/ending 31 December		
	2021	2022	2023
	(RMB)	(RMB)	(RMB)
	(excluding VAT)	(excluding VAT)	(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 For Group Products 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:

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## LETTER FROM THE BOARD

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	For the financial year ending 31 December		
	2024	2025	2026
	(RMB)	(RMB)	(RMB)
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Annual Caps			
For Group			
Products <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 cap 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.*

### **C. 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 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, 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 For Group Products as they and/or their associates concurrently have material interests in and/or that they serve as directors of the Parent Company and the members of the Independent Board Committee, the opinion of which, after considering the

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## LETTER FROM THE BOARD

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advice from South China Capital, is included in the section “Letter from the Independent Board Committee” in this circular) considers that the Continuing Connected Transactions For Group Products 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 For Group Products) 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.

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

As at the Latest Practicable Date, the Parent Company held approximately 63.67% of the issued Shares and is the controlling shareholder of the Company. 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 For Group Products is more than 5%, the Continuing Connected Transactions For Group Products 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, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei had abstained from voting on the relevant resolution of the Board for approving the Continuing Connected Transactions For Group Products as they and/or their associates concurrently have material interests in and/or that they serve as 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 For Group Products 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. The key raw material used by the Group for the production of cotton yarn, grey fabric and denim is cotton and the purchase price of cotton will be determined with reference to the cotton futures main contract price provided by Zhengzhou Futures Exchange. 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

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## LETTER FROM THE BOARD

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sales department of the Company, as well as the chairman of the Board. The Company confirms that there is no overlapping role in the Parent Company for the general manager and/or the executive deputy general manager of the sales department of the Company. The chairman of the Board, Ms. Zhang Hongxia, is also a director of the Parent Company. To ensure the fairness of the price, if the chairman of Board intends to make any changes to those price list prepared by for the general manager and/or the executive deputy general manager of the sales department of the Company based on prices of raw materials and the prevailing market conditions, the Company will get written confirmations from the independent non-executive Directors of the Company, confirming, with reasonable evidence, that such changes are fair and reasonable;

- (2) the finance department of the Company shall provide the monthly caps, calculated pursuant to the Annual Caps For Group Products, to the sales department of the Company, which will keep track of the actual transaction sum of the contracts of the Continuing Connected Transactions For Group Products 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 For Group Products on a monthly basis and ensure it will not exceed the Annual Caps For Group Products;
- (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 For Group Products 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 For Group Products 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 For Group Products and the Annual Caps For Group Products in accordance with the requirements of the Listing Rules.

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## LETTER FROM THE BOARD

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### PART II: SUPPLY OF FABRICS, KNITTED FABRICS, APPAREL AND HOME TEXTILES PRODUCTS

#### A. REVISION OF THE ORIGINAL 2023 ANNUAL CAP

Reference is made to the 2021 Announcement. According to the aforesaid announcement, the Company and the Parent Company entered into the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement on 17 May 2021 for a term commencing on 17 May 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Parent Group agreed to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group.

The Revised 2023 Annual Cap only increases the annual cap for the year 2023 for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement between the Company and Parent Group. There was no change to the other aspects of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement.

##### 1. Original 2023 Annual Cap

As disclosed in the 2021 Announcement, the Original 2023 Annual Cap for the year ending 31 December 2023 is RMB72,000,000 (excluding VAT).

##### 2. Revised 2023 Annual Cap

Based on the reasons mentioned below, the transaction amounts for the fabrics, knitted fabrics, apparel and home textiles products supplied by the Parent Group to the Group during the year 2023 increased and is expected to further increase for the remaining period of the year 2023. The Directors estimate that the maximum transaction amount under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the year ending 31 December 2023 will exceed the Original 2023 Annual Cap. The Board therefore proposes to revise the Original 2023 Annual Cap as below:

	<b>For the year ending 31 December 2023</b> (RMB) (excluding VAT)
Original 2023 Annual Cap	72,000,000
Revised 2023 Annual Cap	100,000,000

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## LETTER FROM THE BOARD

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### 3. Basis of the Revised 2023 Annual Cap

The Revised 2023 Annual Cap is determined based on the following:

- (a) the actual unaudited transaction amounts for the nine months ended 30 September 2023 are approximately RMB68,225,400 (excluding VAT). Considering the average monthly transaction amounts for the past nine months in 2023 and the expected increase of the relevant transactions for the remaining period of the year 2023, the annual transaction amount for 2023 is expected to be approximately RMB93,240,000 (excluding VAT); and
- (b) the Group established a specialised trading company to engage in trade-related business. In 2023, with the continuous development of the market, the trading business in respect of products such as fabrics, knitted fabrics, apparel and home textiles products gradually increased, resulting in a corresponding increase in the transaction amounts.

The Company confirmed that, as at the Latest Practicable Date, the actual transaction amounts had not exceeded the Original 2023 Annual Cap.

### 4. Reasons for and benefits of the Revised 2023 Annual Cap

In light of the increased transaction amounts as set out above, based on the unaudited management accounts of the Group for the nine months ended 30 September 2023, the transaction amounts under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement are approaching the Original 2023 Annual Cap for the year ending 31 December 2023. The Board therefore proposes the Revised 2023 Annual Cap.

Based on the above, the Board represented by one non-executive Director (i.e. 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 Revised 2023 Annual Cap as they and/or their associates concurrently have material interests in and/or that they serve as directors of the Parent Company and the members of the Independent Board Committee, the opinion of which, after considering the advice from South China Capital, is included in the section “Letter from the Independent Board Committee” in this circular) considers that the Revised 2023 Annual Cap is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

## B. THE RENEWED FABRICS, KNITTED FABRICS, APPAREL AND HOME TEXTILES PRODUCTS SUPPLY AGREEMENT

The Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement shall expire by the end of 2023 and the Company and the Parent Company consider to continue their business in respect of the supply of fabrics, knitted fabrics, apparel and home textiles products. On 13 October 2023, the Company and the Parent Company entered into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for a term commencing on 1 January 2024 and ending on 31 December 2026 (both days inclusive), pursuant to which the Parent Group

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## LETTER FROM THE BOARD

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agreed to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group. The terms and conditions of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement are basically the same as those of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement.

The major terms of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement are set out as follows:

**1. Date**

13 October 2023

**2. Parties**

- (i) the Company; and
- (ii) the Parent Company

**3. Connected person**

The Parent Company is the controlling shareholder of the Company, holding approximately 63.67% of the total issued Shares as at the Latest Practicable Date, and it therefore constitutes a connected person of the Company under the Listing Rules.

**4. Transaction nature**

The Company and the Parent Company entered into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement on 13 October 2023 for a term commencing on 1 January 2024 and ending on 31 December 2026 (both days inclusive), pursuant to which the Parent Group agreed to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group.

**5. Pricing basis and payment terms**

The prices of the fabrics, knitted fabrics, apparel and home textiles products to be supplied by the Parent Group to the Group shall be determined with reference to the prices at which the same or comparable types of fabrics, knitted fabrics, apparel and home textiles products are supplied by the Parent Group to independent third parties on normal commercial terms in its ordinary and usual course of business in the PRC. The Parent Company shall provide the evidence of such market prices to the Company upon the request of the Company.

The Directors (excluding the members of the Independent Board Committee, the opinion of which, after considering the advice from South China Capital, is included in the section “Letter from the Independent Board Committee” in this circular) confirmed that the pricing basis



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## LETTER FROM THE BOARD

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agreed between the Company and the Parent Company for supply of fabrics, knitted fabrics, apparel and home textiles products is negotiated on an arm's length basis and is fair and reasonable, and constitutes normal commercial terms.

The Parent Company would, on the last business day of each calendar month, prepare an account book of the relevant fees that shall be paid by the Company for that month based on the products delivered to the Company for the period from the 25th day of the previous month to 24th day of current month. The fees undue (i.e., for the remaining days from the 25th day of the current month) shall not be included in such account book for the purpose of preparation of the account book. The Group 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 Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement is renewable for another term of three (3) years (subject to the compliance of relevant requirements under the Listing Rules by the Company) unless either party decides not to renew it and gives at least thirty (30) days prior written notice to the counterparty accordingly.

### 7. Historical transaction amounts and the Annual Caps For Parent Company Products

The historical transaction amounts and historical annual caps for the fabrics, knitted fabrics, apparel and home textiles products supplied by the Parent Group to the Group under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the two financial years ended 31 December 2022 and the financial year ending 31 December 2023 are as follows:

	For the financial year ended/ending 31 December		
	2021	2022	2023
	(RMB)	(RMB)	(RMB)
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction amounts	16,223,700	40,836,300	93,241,400 <sup>(Note 1)</sup>
Historical annual caps	50,000,000	60,000,000	100,000,000 <sup>(Note 2)</sup>
Utilisation rates	32.45%	68.06%	93.24% <sup>(Note 1)</sup>

*Note 1: For the nine months ended 30 September 2023, the aggregate transaction amounts for the supply of fabrics, knitted fabrics, apparel and home textiles products by the Parent Group to the Group amounted to approximately RMB68,225,400 (excluding VAT). In general, the fourth quarter is the peak season for product demand and coupled with the approaching Chinese New Year, the Directors currently expect that the transaction amounts for each month of the fourth quarter of 2023 will increase by approximately 10% as compared to the monthly average transaction amounts for the nine months ended 30 September 2023 (RMB7,580,600 (exclusive of VAT)). Therefore, the total transaction amounts for*

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## LETTER FROM THE BOARD

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*the supply of fabrics, knitted fabrics, apparel and home textiles products by the Parent Group to the Group for the three months ending 31 December 2023 are expected to be approximately RMB25,016,000 (excluding VAT).*

*Note 2: The Revised 2023 Annual Cap.*

Set out below are the Annual Caps For Parent Company Products which are estimated to be payable by the Group to the Parent Group under the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the period from 1 January 2024 to 31 December 2026:

	<b>For the financial year ending 31 December 2024 (RMB) (excluding VAT)</b>	<b>For the financial year ending 31 December 2025 (RMB) (excluding VAT)</b>	<b>For the financial year ending 31 December 2026 (RMB) (excluding VAT)</b>
Annual Caps For Parent Company Products <sup>(Note)</sup>	139,860,000	167,830,000	201,400,000

*Note: Weiqiao Textile Trading (Shanghai) Company Limited\* (魏橋紡織貿易(上海)有限公司), a subsidiary of the Group, was established in August 2020. The business of the company is undergoing a period of rapid development, with the trading business of products such as fabrics, knitted fabrics, apparel and home textiles products gradually increasing, and is expected to continue to maintain a higher rate of growth in the foreseeable future. At the same time, the Parent Group has completed the automation and digitisation of part of the production lines, which has increased its production capacity and improved product grade, and is therefore able to satisfy all aspects of the supply of fabrics, knitted fabrics, apparel and home textiles products, thereby driving the demand for its products in the market. Having considered the compound annual growth rate of approximately 90% from 2021 to 2023, the annual cap for the financial year ending 31 December 2024 is expected to increase by approximately 50% compared to the estimated annual transaction amounts for the financial year ending 31 December 2023 (approximately RMB93,240,000 (excluding VAT)).*

*The annual cap for each of the two financial years ending 31 December 2026, compared to the preceding financial year, is expected to increase by approximately 20%. This growth rate is estimated after taking into account that (i) due to the expansion of the domestic textile market and the efforts made by the Group to develop new customers, the Group expects to gain a larger share in the domestic market and will require the Parent Group to supply more fabrics, knitted fabrics, apparel and home textiles products for the three years ending 31 December 2026; and (ii) based on a 50% increase in the annual cap for 2024, the growth rate is expected to be relatively stable in 2025 and 2026.*

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## LETTER FROM THE BOARD

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### **8. Reasons for and benefits of entering into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement**

In order to expand the domestic market and ensure the quality of fabrics, knitted fabrics, apparel and home textiles products, the Company and the Parent Company entered into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement after considering, among others, the following reasons:

- (i) the close location between the Parent Company and the Company makes it convenient and efficient for supply of fabrics, knitted fabrics, apparel and home textiles products; and
- (ii) the Parent Company has advanced technology to produce fabrics, knitted fabrics, apparel and home textiles products of high quality, and is able to provide fabrics, knitted fabrics, apparel and home textiles products with flexible adjustment for the sales plan of the Company, which is favourable to the stable operations and expansion of the Group's business.

Based on the above, the Board represented by one non-executive Director (i.e. 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 Renewed Fabrics, Knitted Fabrics, Apparel and House Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products as they and/or their associates concurrently have material interests in and/or that they serve as directors of the Parent Company and the members of the Independent Board Committee, the opinion of which, after considering the advice from South China Capital, is included in the section "Letter from the Independent Board Committee" in this circular) considers that the Continuing Connected Transactions For Parent Company Products are and will be conducted in the ordinary and usual course of business of the Group and the terms of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement (including the Annual Caps For Parent Company Products) 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. LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, the Parent Company holds approximately 63.67% of the total issued Shares and is therefore the controlling shareholder and a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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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Pursuant to Rule 14A.54 of the Listing Rules, the Company shall re-comply with the requirements under Chapter 14A of the Listing Rules applicable to the Revised 2023 Annual Cap for the continuing connected transactions under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement before the Original 2023 Annual Cap is exceeded.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Revised 2023 Annual Cap for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement is more than 5%, such 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.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions For Parent Company Products is more than 5%, the Continuing Connected Transactions For Parent Company Products constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are also 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 for approving the Revised 2023 Annual Cap, the Renewed Fabrics, Knitted Fabrics, Apparel and House Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products 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 contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products are and will be conducted in accordance with the pricing policies and the terms of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement respectively, and in compliance with the relevant Listing Rules:

- (i) the finance department of the Company shall obtain and monitor all the quotations and/or pricing records as reference prices of the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products to ensure the prices of fabrics, knitted fabrics, apparel and home textiles products to be supplied by the Parent Group to the Group are no less favourable to the Group than the prices at which the same or comparable types of fabrics, knitted fabrics, apparel and home textiles products are supplied by independent third parties to the Group;

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## LETTER FROM THE BOARD

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- (ii) the finance department of the Company shall monitor and ensure that the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products are and will be conducted in accordance with the terms of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement, respectively, and the Revised 2023 Annual Cap and the Annual Caps For Parent Company Products, respectively, shall not be not exceeded;
- (iii) Prior to executing any contract of the continuing connected transactions under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions For Parent Company Products, 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 Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement will not exceed the Revised 2023 Annual Cap and the Annual Caps For Parent Company Products, respectively, and that the terms of such contract are in compliance with the terms of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement or the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement (as the case may be). If it is contemplated that the Revised 2023 Annual Cap or Annuals Caps For Parent Company Products (as the case may be) 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;
- (iv) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (v) the independent non-executive Directors shall, and the Company shall engage external auditors to, conduct annual review of the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement, the Continuing Connected Transactions For Parent Company Products, the Revised 2023 Annual Cap and the Annual Caps For Parent Company Products in accordance with the requirements of the Listing Rules.

### **PART III: EGM AND OTHER INFORMATION**

#### **A. EGM**

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

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## LETTER FROM THE BOARD

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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 on the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) at the EGM. Ms. Zhang Hongxia and Ms. Zhang Yanhong, being Directors, serve as directors of the Parent Company and hold approximately 7.78% (including beneficial interest and spouse interest) and 4.50% of the equity interest in the Parent Company respectively. They and their family member (holding approximately 1.92% in total of the equity interest in the Company) will also abstain from voting on the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 resolutions relating to the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), and no other Shareholder is required to abstain from voting on such resolutions 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 advise the Independent Shareholders in relation to their voting on the resolution relating to the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

The relevant proxy form and reply slip for attending the EGM are enclosed. Shareholders who intend to attend the EGM are required to complete and return the reply slip to the Company on or before Thursday, 7 December 2023.

The Company's register of members will be closed from Monday, 27 November 2023 to Wednesday, 27 December 2023 (both days inclusive), during which no transfer of Shares will be registered. Shareholders whose names appear on the Company's register of members on Monday, 27 November 2023 are entitled to attend and vote at the EGM. In order to qualify for attending and voting at the EGM, all transfers of share accompanied by the relevant share certificates must be lodged with the

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## LETTER FROM THE BOARD

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Company's branch 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 Friday, 24 November 2023.

### B. RECOMMENDATION

The Board is of the opinion that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and the Revised 2023 Annual Cap and the terms of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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. 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 Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

### C. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, has been formed to advise the Independent Shareholders in relation to their voting on the resolution in respect of the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

### D. GENERAL INFORMATION

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

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

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## LETTER FROM THE BOARD

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Mr. Yang Congsen, 3.21% by Mr. Zhang Shixue, 3.95% by Mr. Wei Yingzhao, 1.13% by Mr. Qi Xingli, 1.73% by the late 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.

### **E. ADDITIONAL INFORMATION**

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

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

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



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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)**

10 November 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM BY THE GROUP;  
SUPPLY OF FABRICS, KNITTED FABRICS, APPAREL AND HOME  
TEXTILES PRODUCTS BY PARENT GROUP AND THE REVISED 2023  
ANNUAL CAP**

We have been appointed as members of the Independent Board Committee to consider the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 10 November 2023 (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 Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) and the advice and opinion of South China Capital in relation thereto as set out on pages 25 to 44 of the Circular, we are of the opinion that (i) the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms; and (ii) the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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

\* *For identification purposes only.*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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the Shareholders as a whole. We therefore recommend that the Independent shareholders vote in favour of the resolution to be proposed at the EGM to approve the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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*

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## LETTER FROM SOUTH CHINA CAPITAL

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*The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser setting out its opinion regarding the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) for the purpose of inclusion in this circular.*



**South China Capital Limited**

28/F., Bank of China Tower  
No. 1 Garden Road, Central  
Hong Kong

10 November 2023

*To the Independent Board Committee and  
the Independent Shareholders*

**Weiqiao Textile Company Limited**

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

Dear Sirs,

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

- (1) SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM BY THE GROUP;**
- (2) SUPPLY OF FABRICS, KNITTED FABRICS, APPAREL AND HOME TEXTILES PRODUCTS BY THE PARENT GROUP; AND**
- (3) REVISION OF THE ORIGINAL 2023 ANNUAL CAP**

### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular dated 10 November 2023 (the “**Circular**”). Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

Reference is made to the announcement of the Company dated 28 September 2023 in relation to the entering into of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement by the Company 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 yarns, grey fabric and denim to the Parent Group.

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## LETTER FROM SOUTH CHINA CAPITAL

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Reference is also made to the announcement of the Company dated 13 October 2023 in relation to (i) the revision of Original 2023 Annual Cap and (ii) the entering into of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement by the Company 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 Parent Group agreed to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group.

### **IMPLICATIONS UNDER THE LISTING RULES**

As at the Latest Practicable Date, the Parent Company held approximately 63.67% of the issued Shares and is the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, (1) the transactions contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement, (2) the transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement, and (3) the transactions contemplated under the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 For Group Products is more than 5%, the Continuing Connected Transactions For Group Products 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.

Pursuant to Rule 14A.54 of the Listing Rules, the Company shall re-comply with the requirements under Chapter 14A of the Listing Rules applicable to the Revised 2023 Annual Cap for the continuing connected transactions under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement before the Original 2023 Annual Cap is exceeded.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Revised 2023 Annual Cap for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement is more than 5%, such 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.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions For Parent Company Products is more than 5%, the Continuing Connected Transactions For Parent Company Products 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, Mr. Wei Jiakun, Ms. Zhao Suwen and Mr. Zhang Jinglei had abstained from voting on the relevant resolutions of the Board for approving the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted

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Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) as they and/or their associates concurrently have material interests in and/or that they serve as the directors of the Parent Company.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, has been established to make recommendation to the Independent Shareholders regarding the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) are (i) conducted in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; (iii) fair and reasonable so far as the Independent Shareholders are concerned; and (iv) in the interests of the Company and the Shareholders as a whole, and to further give independent advice to the Independent Board Committee and the Independent Shareholders as to whether they should vote in favour of the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship or interests with the Company that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transaction that could reasonably be regarded as relevant to our independence. During the past two years, we did not have any engagement with the Company or the Directors, chief executives of the Company and substantial Shareholders or any of their associates. Therefore, we consider that we are independent of the Company pursuant to the Listing Rules.

### BASIS OF OUR OPINION

In arriving at our recommendation, we have reviewed, among other things, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement, the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement, the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement, the Company's annual report for the financial year ended 31 December (the "FY(s)") 2021 (the "**2021 Annual Report**"), the Company's annual report for the FY 2022 (the "**2022 Annual Report**") and the Company's interim report for the six months ended 30 June 2023 (the "**2023 Interim Report**"). We have also discussed with the management of the Group (the "**Management**") regarding the commercial implications of the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply

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Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps). In addition, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the Management. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information which forms a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations whose omission would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group and the Parent Company.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation regarding the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), we have taken into consideration the following principal factors and reasons:

#### **1. Information of the Group**

The Group is principally engaged in the manufacture and sale of cotton yarns, grey fabric and denim and generation and sale of electricity and steam.

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## LETTER FROM SOUTH CHINA CAPITAL

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Set out below is a summary of the consolidated financial information of the Group for the three FYs from 2020 to 2022 as extracted from the 2021 Annual Report and the 2022 Annual Report and for the six months ended 30 June 2022 and 2023 as extracted from the 2023 Interim Report:

	For the three FYs			For the six months ended 30 June	
	2020	2021	2022	2022	2023
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	12,743,437	16,262,686	16,573,668	8,293,034	7,951,142
Profit/(loss) for the year/ period	202,228	614,905	(1,562,659)	(651,114)	(505,552)
				<b>As at</b>	<b>30 June</b>
				<b>2022</b>	<b>2023</b>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	10,126,549	9,316,161	9,361,045	9,047,749	9,047,749
Current assets	14,335,667	15,902,321	16,143,140	15,240,936	15,240,936
Current liabilities	5,730,503	5,455,180	7,658,909	6,902,319	6,902,319
Net current assets	8,605,164	10,447,141	8,484,231	8,338,617	8,338,617
Non-current liabilities	179,192	668,734	528,357	574,999	574,999
Net assets	18,552,521	19,094,568	17,316,919	16,811,367	16,811,367

### ***For the FY 2021***

The Group's total revenue increased by about 27.6% from approximately RMB12,743.4 million for the FY 2020 to RMB16,262.7 million for the FY 2021. Based on the 2021 Annual Report, such increase in revenue was attributable to the year-on-year increase in the sales volume of the Group's main textile products, as well as the increase in the sales price.

The Group's net profit increased by about 204.1% from approximately RMB202.2 million for the FY 2020 to RMB614.9 million for the FY 2021. Based on the 2021 Annual Report, such increase was mainly due to (i) the year-on-year increase in the sales volume of the Group's main textile products, as well as the increase in the sales price; and (ii) the fact that the net profit of the Group was at a low level for 2020 due to the adverse impacts brought by the COVID pandemic.

As at 31 December 2021, the Group recorded net current assets and net assets of approximately RMB10,447.1 million and RMB19,094.6 million, respectively.

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### *For the FY 2022*

The Group's total revenue increased by about 1.9% from approximately RMB16,262.7 million for the FY 2021 to RMB16,573.7 million for the FY 2022. Based on the 2022 Annual Report, such increase in total revenue was attributable to the increase in the revenue of sale of electricity and steam but such increase had been offset by the decrease in the revenue of textile products.

The Group recognised a net loss of approximately RMB1,562.7 million for the FY 2022 while there was a net profit of approximately RMB614.9 million for the FY 2021. Based on the 2022 Annual Report, such turnaround was mainly due to a substantial increase in the Group's production costs for its textile products that was driven by (i) the initial upward trend and the subsequent fall in the price of cotton lint (the major raw material for the Group's production of textile products); (ii) the year-on-year increase in the average price of it; and (iii) an increase in staff costs as compared with that in 2021.

As at 31 December 2022, the Group recorded net current assets and net assets of approximately RMB8,484.2 million and RMB17,316.9 million, respectively.

### *For the six months ended 30 June 2023*

The Group's total revenue slightly decreased by about 4.1% from approximately RMB8,293.0 million for the six months ended 30 June 2022 to RMB7,951.1 million for the six months ended 30 June 2023. Based on the 2023 Interim Report, such decrease in revenue was mainly attributable to the decrease in electricity sales volume due to (i) the impact of the adjustments to macro policies; and (ii) the decreased demand for electricity from the downstream market.

The Group's net loss decreased from approximately RMB651.1 million for the six months ended 30 June 2022 to RMB505.6 million for the six months ended 30 June 2023. Based on the 2023 Interim Report, such net loss of approximately RMB505.6 million for the six months ended 30 June 2023 was mainly attributable to the fact that (i) the production costs for the Group's textile products increased due to the unsteady increase in the price of cotton lint; and (ii) although the Group maintained a profit in the electricity business, the sales volume of electricity decreased as compared to that for the corresponding period of 2022, leading to a period-on-period decrease in gross profit; meanwhile, the Group made an impairment provision for certain electricity assets based on the operation conditions of the electricity assets.

As at 30 June 2023, the Group recorded net current assets and net assets of approximately RMB8,338.6 million and RMB16,811.4 million, respectively.

## **2. Information of the Parent Group**

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



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### 3. The 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement

#### 3.1 *Reasons for the entering into the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement*

As set out in the Letter from the Board, the Parent Group has a substantial and stable demand for cotton yarns, grey fabric and denim for further processing into downstream cotton textile products for sale to independent third parties. The Parent Group is one of the Group's major customers for cotton yarns, grey fabric and denim. The provision of cotton yarns, 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 believe that the establishment of the long-term cooperation relationship with the Parent Company will stabilize the Company's operation and ensure a broaden stream of revenue source, and therefore the cooperation relationship is of commercial benefit to the Group as a whole.

The transactions between the Group and the Parent Group, where the Group would supply cotton yarns, grey fabric and denim to the Parent Group, started many years ago. According to the 2022 Annual Report and the 2023 Interim Report, the sale of textile products represented approximately 70.4%, 63.3% and 74.4% of the total revenue for the FYs 2021 and 2022 and the six months ended 30 June 2023, respectively. The sale of textile products by the Group to the Parent Group represented approximately 3.3%, 2.6% and 2.7% of the total revenue for the FY 2021 and 2022 and the six months ended 30 June 2023, respectively.

After taking account of (i) the long-term business relationship between the Group and the Parent Group in relation to supply of cotton yarns, grey fabric and denim; (ii) the sale of the cotton yarns, grey fabric and denim to the Parent Group has been stable; and (iii) the Parent Group has been a major and stable customer of the Group in respect of supply cotton yarns, grey fabric and denim, we concur with the Board, which was represented by the only one non-executive Director (i.e. Ms. Zhao Suhua), that the Continuing Connected Transactions For Group Products contemplated under the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement are 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 For Group Products) are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

#### 3.2 *Principal terms of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement*

##### *Pricing basis*

As extracted from the Letter from the Board, the prices of cotton yarns, 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.

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The Directors have confirmed that the pricing basis agreed between the Company and the Parent Company for the supply of the cotton yarns, 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 account of the prevailing market conditions and other relevant factors at that time. Given that there is a 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 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 For Group Products will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

### *Payment terms*

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 based on the products delivered to the Parent Company for the period from the 25th day of the previous month to 24th day of current month. The fees undue (i.e., for the remaining days from the 25<sup>th</sup> day of the current month) shall not be included in such account book for the purpose of preparation of the account book. The Parent Company shall, within the first ten (10) business days of the following month, pay the amount due in full.

Based on our independent review of the 2022 Annual Report, we have noted that the Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers who have a long-term relationship with the Group. According to aging analyses for the Group's trade receivables for the two FYs 2021 and 2022, the Group's outstanding balances of trade receivables within 90 days were about 96% and 96% as at 31 December 2021 and 2022. On such basis, the credit period allowable to the Parent Group are not more favourable than those granted to the Group's other independent third party customers, and therefore are fair and reasonable so far as the Independent Shareholders are concerned.

For more details of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement, please refer to the Letter from the Board.

### *Our view*

In assessing the fairness and reasonableness of the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement, we have discussed with the pricing basis with the Management. We understand that the Group will 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

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## LETTER FROM SOUTH CHINA CAPITAL

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the sales department of the Company will adjust the draft price list more frequently to reflect the market conditions. As part of our due diligence work, we have obtained and reviewed five sample invoices or sales contracts for ascertaining the pricing basis and payment terms for each of the three FYs from 2021 to 2023 conducted between the Group and its independent third party customers, and have satisfied ourselves that the prevailing pricing basis and payment terms reinforced between the Group and the Parent Group have been conducted on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

### 3.3 Proposed Annual Caps For Group Products and basis of determination

The below table sets out (i) the historical transaction amounts (excluding VAT) for the sale of the cotton yarns, grey fabric and denim by the Group to the Parent Group for each of the two FYs 2021 and 2022 and the FY 2023 (based on the unaudited transaction amount for eight months ended 31 August 2023 and the Company's estimate on the last four months of 2023) (collectively the "Historical CCT Period"); (ii) the existing annual caps for each of the three FYs 2021 to 2023; and (iii) the proposed Annual Caps For Group Products for each of the three FYs 2024 to 2026 (the "CCT Period"):

	<b>For the FYs</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>
Historical transaction amounts	555,604,000	427,363,000	419,995,000 <sup>(Note 1)</sup>
Historical annual caps	600,000,000	720,000,000	864,000,000
Utilisation rates	92.60%	59.36%	48.61% <sup>(Note 1)</sup>

	<b>For the FYs</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>
Proposed annual caps <sup>Note 2</sup>	667,000,000	733,000,000	807,000,000

Notes:

- 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).

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2. 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 sale 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.

In order to assess the fairness and reasonableness of the proposed Annual Caps For Group Products, we have (i) reviewed the average selling price of the sale of cotton yarns, grey fabric and denim, all excluding VAT, under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement during the Historical CCT Period (up to 31 August 2023); and (ii) obtained, on yearly basis, some sample invoices of the sale of cotton yarns, grey fabric and denim to the Parent Group as well as the independent third party customers, during the Historical CCT Period (up to 31 August 2023). We have noted from these sample invoices that the unit prices of the cotton yarns, grey fabric and denim sold to the Parent Group (i) were comparable with those the Group sold to its independent third party customers; and (ii) were no more favourable than those the Group sold to its independent third party customers.

In respect of the proposed Annual Caps For Group Products to be sought for each of the three FYs from 2024 to 2026, we have obtained and reviewed the expected sale of cotton yarns, grey fabric and denim summing roughly up the proposed Annual Caps For Group Products. We understand from the Management that such estimates were prepared after taking into consideration (i) the 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 between the PRC and the United States of America (the "U.S.") as well as the COVID-19 pandemic widespread all over the world; (ii) the highest actual/estimated annual transaction amounts of the cotton yarns, grey fabric and denim for the three years ending 31 December 2023; and (iii) an annual growth rate of approximately 20% for 2024 (when compared with that of approximately RMB555.6 million in 2021) and 10% for each of 2025 and 2026 during the CCT Period such that the proposed Annual Cap For Group Products for the year ending 31 December 2024 represents a growth of 20% of the highest annual/estimated transaction amounts for the three years ending 31 December 2023 and the proposed Annual Caps For Group Products for each of the two FYs 2025 and 2026 would also grow by about 10% per annum.

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We have reviewed the historical transaction amounts for the sale of cotton yarns, grey fabric and denim, and have noted that they were decreasing from approximately RMB555.6 million in 2021 to RMB427.4 million and RMB420.0 million in 2022 and 2023, respectively. As advised by the Management, such decrease in historical transaction amounts in 2022 and 2023 was mainly due to the overall unfavourable economic environment in most of the western countries that the Group's cotton yarns, grey fabric and denim to be ultimately, through the Parent Group, exported to, resulting from (i) the outbreak of COVID-19 pandemic in early 2020 and lasting for over three years, which in turn had adversely affected the demand for the Group's cotton yarns, grey fabric and denim by the Parent Group; and (ii) the persistent increase in interest rates in most western countries. As a consequence, the Parent Group's customers had reduced certain of their purchase orders, particularly export sales, which were delayed or cancelled and their production was interrupted since the first half of 2022. Therefore, the Company after considering (i) the expecting possible economic recovery in the coming years after the control of COVID-19 pandemic in the PRC and those exporting western countries; (ii) the Parent Group's marketing effort to expand in local market, by approaching more with local home textile companies and brand-owners, in response to the trade frictions between the PRC and the U.S. and promotion of local circular economy in the PRC; and (iii) the potential replenishment orders by the Parent Group affected by COVID-19 pandemic during 2023, expects a rebound on demand for cotton yarns, grey fabric and denim by the Parent Group and the transaction amount of such products in 2024 to be RMB667.0 million, being a more reasonable level comparable to the past few years, and furthermore an annual growth rate of approximately 10% for the proposed Annual Caps For Group Products during each of the two years ending 31 December 2026.

As part of our due diligence, we have reviewed the retail sales of consumer goods under the category of apparel, footwear, headwear and knitwear as published by National Bureau of Statistics of the PRC and noted that sales value in 2022 have decreased by up to approximately 6.5% as compared with that for the corresponding period in 2021 but the sales amounts in the first half of 2023 were improved by approximately 12.8% as compared to the corresponding period in 2022. Therefore, we consider that it is reasonable for the Company to estimate the transaction amount for sale of cotton yarns, grey fabric and denim, being raw materials of apparel, footwear, headwear and knitwear, for the year ending 31 December 2024 based on the total transaction amount of 2021 which the Group has achieved in past few years under relatively normal situation.

Regarding the expected annual growth rate of approximately 10% in sales amounts for the sale of cotton yarns, grey fabric and denim for each of the two FYs 2025 and 2026, we understand from the Management that it is based on the expected increase in demand for such products from the Parent Group as well as the possible increase in selling price thereof. As mentioned before, the Company has taken into account the effort of the Parent Group to expand in local market in response to the trade frictions between the PRC and U.S. and promotion of local circular economy in the PRC as promulgated by the Central Government. On such basis, we have reviewed the retail sales of consumer goods under the category of apparel, footwear, headwear and knitwear as published by National Bureau of Statistics of the PRC for the first half of 2023 and the eight months ended 31 August 2023 and noted that the sales values have a growth of about 12.8% and 10.6%, respectively, as compared to their respective periods in

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2022. Hence, it is reasonable for the Company to expect an increase in demand for its products in the coming three years should the PRC overall economic environment continues to recover and grows thereafter.

Having considered the factors above, in particular (i) the anticipated recovery of apparel, footwear, headwear and knitwear industry in the PRC after the overall adverse economic environment over the past few years due to the outbreak of COVID19 pandemic; (ii) the potential increase in demand for the cotton yarns, grey fabric and denim by the Parent Group; and (iii) the fluctuation of cotton price, we consider that (a) the about 20% annual growth rate in 2024 when compared with that of approximately RMB555.6 million in 2021, and (b) 10% annual growth rate for each of 2025 and 2026 implied by each of the proposed Annual Caps For Group Products with reference to the expected increase in demand in the future, are prudent and justifiable. On such basis, we are of the view that the bases for determining the proposed Annual Caps For Group Products are fair and reasonable.

#### 4. Revision of the Original 2023 Annual Cap

##### 4.1 *Background of and reasons for the revision of the Original 2023 Annual Cap*

Reference is made to the 2021 Announcement. On 17 May 2021, the Company and the Parent Company entered into the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement on 17 May 2021 for a term commencing on 17 May 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Parent Group agreed to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group.

As disclosed in the Letter from the Board, in light of the increased transaction amounts, based on the unaudited management accounts of the Group for the nine months ended 30 September 2023, the transaction amounts under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement are approaching the Original 2023 Annual Cap. The Board therefore proposes the Revised 2023 Annual Cap.

Based on the above, the Board, which was represented by the only one non-executive Director (i.e. Ms. Zhao Suhua), considers that the Revised 2023 Annual Cap is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

We understand from the Management that the trading business in respect of products such as fabrics, knitted fabrics, apparel and home textiles products (the “**Parent Company Products**”) gradually increased in 2023, as such, the demand of the purchase of the Parent Company Products may exceed the Original 2023 Annual Cap.

Taking into account the fact that (i) the transactions amounts for the nine months ended 30 September 2023 under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement are approaching the Original 2023 Annual Cap; and (ii) purchase of the

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Parent Company Products is in the ordinary course of business of the Group, we are of the view that the Revised 2023 Annual Cap is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### ***4.2 Principal terms of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement***

The Revised 2023 Annual Cap only increases the annual cap for the year 2023 for the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement between the Company and Parent Group. There was no change to the other aspects of the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement.

#### *Pricing basis*

The prices of Parent Company Products to be supplied by the Parent Company to the Group shall be determined with reference to the prices at which the same or comparable types of Parent Company Products are supplied by the Parent Company to independent third parties on normal commercial terms in its ordinary and usual course of business in the PRC. The Parent Company shall provide the evidence of such market prices to the Group upon requests of the Group.

The Directors confirmed that the pricing basis agreed between the Company and the Parent Company for supply of Parent Company Products is negotiated on an arm's length basis and is fair and reasonable, and constitutes normal commercial terms.

#### *Payment terms*

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

#### *Our View*

In respect of the pricing basis, we have obtained and reviewed five sample invoices or sales contracts for ascertaining the pricing basis and payment terms for each of the three FYs from 2021 to 2023 (up to 31 August 2023) conducted between the Group and its independent third party suppliers, and have satisfied ourselves that the prevailing pricing basis and payment terms reinforced between the Group and the Parent Group have been conducted on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM SOUTH CHINA CAPITAL

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### 4.3 *Review of the historical transaction amount*

According to the Letter from the Board, we noticed that the actual unaudited transaction amounts (excluding VAT) for the nine months ended 30 September 2023 were approximately RMB68,225,400 and utilised up to approximately 94.8% of the Original 2023 Annual Cap. Based on the estimation of the Board, the estimated transaction amounts for 2023 would amount to approximately RMB93,240,000, which exceeds the Original 2023 Annual Cap by approximately RMB21,240,000. Hence, the Original 2023 Annual Cap would not be sufficient if the Group continues to purchase the Parent Company Products in 2023 in order to capture the continuous growth of the market share of the Group in the textile market in the PRC.

### 4.4 *Revised 2023 Annual Cap*

The table below sets forth the Original 2023 Annual Cap and Revised 2023 Annual Cap (excluding VAT) for transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the year ending 31 December 2023:

	<b>For the year ending 31 December 2023</b> (RMB) (excluding VAT)
Original 2023 Annual Cap	72,000,000
Revised 2023 Annual Cap	100,000,000

As stated in the Letter from the Board, the Revised 2023 Annual Cap is determined based on the following facts: (a) the actual unaudited transaction amounts for the nine months ended 30 September 2023 of approximately RMB68,225,400 (excluding VAT). Considering the average monthly transaction amounts for the past nine months in 2023 and the expected increase of the relevant transactions for the remaining period of the year 2023, the annual transaction amount for 2023 is expected to be approximately RMB93,240,000 (excluding VAT); and (b) the Group established a specialised trading company to engage in trade-related business. In 2023, with the continuous development of the textile market in the PRC, the trading business in respect of products such as fabrics, knitted fabrics, apparel and home textiles products will see a corresponding increase in the transaction amounts.

In order to assess the fairness and reasonableness of the Revised 2023 Annual Cap, we have obtained and reviewed the purchase projection table in estimating the Revised 2023 Annual Cap, and discussed with the Management on the bases and assumptions underlying the determination of the Revised 2023 Annual Cap that the Revised 2023 Annual Cap was derived by (1) the actual unaudited transaction amounts for the nine months ended 30 September 2023 of approximately RMB68,225,400 (excluding VAT); (2) the expected transaction amounts for the fourth quarter of 2023 of approximately RMB25,016,000 (being the average monthly transaction amounts for the past nine months in 2023 plus 10% growth); and (3) 10% buffer. As part of our due diligence, we have reviewed the retail sales of consumer goods under the



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## LETTER FROM SOUTH CHINA CAPITAL

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category of apparel, footwear, headwear and knitwear as published by National Bureau of Statistics of the PRC and noted that the sales amounts in the first half of 2023 were improved by approximately 12.8% as compared to those for the corresponding period in 2022. We are of the view that (i) the expected growth rate of 10% on the average monthly transaction amounts for the past nine months in 2023 is justifiable, fair and reasonable; (ii) the 10% buffer allows the Company to have the flexibility to cater for the increase of sales order in a conservative approach which we consider that the buffer is prudent, fair and reasonable, and (iii) the Revised 2023 Annual Cap is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **5. The Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement**

#### ***5.1 Reasons for entering into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement***

As set out in the Letter from the Board, in order to expand the domestic market and ensure the quality of Parent Company Products, the Company and the Parent Company entered into the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement after considering, among others, the following reasons: (i) the close location between the Parent Company and the Company makes it convenient and efficient for supply of Parent Company Products; and (ii) the Parent Company has advanced technology to produce Parent Company Products of high quality, and is able to provide Parent Company Products with flexible adjustment for the sales plan of the Company, which is favourable to the stable operations and expansion of the Group's business.

Based on the above, we concur with the Board, which was represented by the only one non-executive Director (i.e. Ms. Zhao Suhua), that the Continuing Connected Transactions For Parent Company Products are and will be conducted in the ordinary and usual course of business of the Group and the terms of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement (including the Annual Caps For Parent Company Products) 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.

#### ***5.2 Principal terms of the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement***

##### *Pricing basis*

As extracted from the Letter from the Board, the prices of Parent Company Products to be supplied by the Parent Company to the Group shall be determined with reference to the prices at which the same or comparable types of Parent Company Products are supplied by the Parent Company to independent third parties on normal commercial terms in its ordinary and usual course of business in the PRC. The Parent Company shall provide the evidence of such market prices to the Group upon requests of the Group.

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## LETTER FROM SOUTH CHINA CAPITAL

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The Directors confirmed that the pricing basis agreed between the Company and the Parent Company for supply of Parent Company Products was negotiated on an arm's length basis and is fair and reasonable, and constitutes normal commercial terms.

In assessing the fairness and reasonableness of the pricing basis, we have obtained and reviewed five sample invoices or sales contracts for ascertaining the pricing basis and payment terms for each of the three FYs from 2021 to 2023 (up to 31 August 2023) conducted between the Group and its independent third party suppliers, and have satisfied ourselves that the prevailing pricing basis and payment terms reinforced between the Group and the Parent Group have been conducted on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

### *Payment terms*

The Parent Company would, on the last business day of each calendar month, prepare an account book of the relevant fees that shall be paid by the Company for that month based on the products delivered to the Company for the period from the 25th day of the previous month to 24th day of current month. The fees undue (i.e., for the remaining days from the 25th day of the current month) shall not be included in such account book for the purpose of preparation of the account book. The Group shall, within the first ten (10) business days of the following month, pay the amount due in full.

Based on our independent review of the 2022 Annual Report, we have noted that the suppliers normally grant a credit period of about 30 days to the Group. According to aging analyses for the Group's trade payables for the two FYs 2021 and 2022, the Group's outstanding balances of trade payables within 90 days were about 88% and 76% as at 31 December 2021 and 2022. On such basis, the credit period allowable to the Group is not less favourable than those granted by the Group's other independent third party suppliers, and therefore is fair and reasonable so far as the Independent Shareholders are concerned.

### **5.3 Proposed Annual Caps For Parent Company Products and basis of determination**

The below table sets out (i) the historical transaction amounts (excluding VAT) for the purchase of the Parent Company Products by the Group from the Parent Group for each of the two FYs 2021 and 2022 and the FY 2023 (based on the unaudited transaction amount for nine months ended 30 September 2023 and the Company's estimate on the last three months of

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## LETTER FROM SOUTH CHINA CAPITAL

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2023) (collectively the “**Historical CCT Period (B)**”); (ii) the existing annual caps for each of the three FYs 2021 to 2023; and (iii) the proposed Annual Caps For Parent Company Products for the CCT Period:

	<b>For the FYs</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>
Historical transaction amounts	16,223,700	40,836,300	93,241,400 <sup>(Note 1)</sup>
Historical annual caps	50,000,000	60,000,000	100,000,000 <sup>(Note 2)</sup>
Utilisation rates	32.45%	68.06%	93.24% <sup>(Note 1)</sup>

	<b>For the FYs</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>	<i>(RMB)</i> <i>(excluding VAT)</i>
Proposed annual caps <sup>(Note 3)</sup>	139,860,000	167,830,000	201,400,000

*Notes:*

1. For the nine months ended 30 September 2023, the aggregate transaction amounts for the supply of Parent Company Products by the Parent Group to the Group amounted to approximately RMB68,225,400 (excluding VAT). In general, as the fourth quarter is the peak season for product demand and coupled with the approaching Chinese New Year, the Directors currently expect that the transaction amounts for each month of the fourth quarter of 2023 will increase by approximately 10% as compared to the monthly average transaction amounts for the nine months ended 30 September 2023 (RMB7,580,600 (exclusive of VAT)). Therefore, the total transaction amounts for the supply of Parent Company Products by the Parent Group to the Group for the three months ending 31 December 2023 are expected to be approximately RMB25,016,000 (excluding VAT).
2. The Revised 2023 Annual Cap.
3. Weiqiao Textile Trading (Shanghai) Company Limited\* (魏橋紡織貿易(上海)有限公司), a subsidiary of the Group, was established in August 2020. The business of the company is undergoing a period of rapid development, with the trading business of products such as Parent Company Products gradually increasing, and is expected to continue to maintain a higher rate of growth in the foreseeable future. At the same time, the Parent Group has completed the automation and digitisation of part of the production lines, which has increased its production capacity and improved product grade, and is therefore able to satisfy all aspects of the supply of Parent Company Products, thereby driving the demand for its products in the market. Having considered the compound annual growth rate of approximately 90% from 2021 to 2023, the annual cap for the financial year ending 31 December 2024 is expected to increase by approximately 50% compared to the estimated annual transaction amounts for the financial year ending 31 December 2023 (approximately RMB93,240,000 (excluding VAT)).

The annual cap for each of the two financial years ending 31 December 2026, compared to the preceding financial year, is expected to increase by approximately 20%. This growth rate is estimated after taking into account that (i) due to the expansion of the domestic textile market and the efforts made by the Group to develop new customers, the Group expects to gain a larger share in the domestic

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## LETTER FROM SOUTH CHINA CAPITAL

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market and will require the Parent Group to supply more Parent Company Products for the three years ending 31 December 2026; and (ii) based on a 50% increase in the annual cap for 2024, the growth rate is expected to be relatively stable in 2025 and 2026.

In order to assess the fairness and reasonableness of the proposed Annual Caps For Parent Company Products, we have obtained, on yearly basis, five sample invoices of the purchase of the Parent Company Products from the Parent Group as well as the independent third party suppliers, during the Historical CCT Period (B). We have noted from these sample invoices that the unit prices of the Parent Company Products sold by the Parent Group (i) were comparable with those the Group purchased from its independent third party suppliers; and (ii) were not higher than those the Group purchased from its independent third party suppliers.

In respect of the proposed Annual Caps For Parent Company Products to be sought for each of the three FYs from 2024 to 2026, we have obtained and reviewed the expected purchase amount of the Parent Company Products summing roughly up the proposed Annual Caps For Parent Company. We understand from the Management that such estimates were prepared after taking into consideration (i) the historical transaction amounts for the past few years which showed the increasing demands for the Parent Company Products; (ii) the expansion of the domestic textile market and the efforts made by the Group to develop new customers; and (iii) an annual growth rate of approximately 50% for 2024 (when compared with expected transaction amounts of approximately RMB93.2 million in 2023) and 20% for each of 2025 and 2026.

We have reviewed the historical transaction amounts as shown in the above table for the purchase amounts of the Parent Company Products, which increased rapidly from approximately RMB16.2 million in 2021 to RMB40.8 million and RMB93.2 million in 2022 and 2023, respectively, representing a compound annual growth of about 90% from 2021 to 2023. As part of our due diligence, we have also obtained the key financials of Weiqiao Textile Trading (Shanghai) Company Limited (the “**Trading Subsidiary**”), a subsidiary of the Company which principally engaged in the trading of the Parent Company Products, for the FYs 2021 and 2022 and the nine months ended 30 September 2023, we noted that the sales amounts of the Trading Subsidiary was increasing in the similar trend of the purchase amounts of the Parent Company Products. Therefore, we consider that it is justifiable and reasonable for the Company to estimate the transaction amount for 2024 to 2026 for purchase of Parent Company Products based on the historical purchase amounts and the historical sales performance of the Trading Subsidiary.

Having considered the factors above, we consider that (a) about 50% annual growth rate in 2024 on the expected transaction amounts of approximately RMB93.2 million in 2023, and (b) 20% annual growth rate for each of 2025 and 2026 implied by each of the proposed Annual Caps For Parent Company Products are justifiable and reasonable. On such basis, we are of the view that the bases for determining the proposed Annual Caps For Parent Company Products are fair and reasonable.

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## LETTER FROM SOUTH CHINA CAPITAL

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### 6. Internal control procedures of the Group

As mentioned in the Letter from the Board, the Company has adopted certain internal control procedures to ensure that the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) are properly controlled and monitored and in compliance with the Listing Rules. Please refer to the Letter from the Board for more details.

Having considered the abovementioned, in particular, (i) the restriction of the value of (1) the Continuing Connected Transactions by way of the proposed Annual Caps and (2) the continuing connected transactions contemplated under the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement by way of the Revised 2023 Annual Cap; (ii) the internal control measures adopted by the Company as detailed in the Letter from the Board; and (iii) the ongoing review by the audit committee and the auditors of the Company on the terms of (1) the Continuing Connected Transactions and the proposed Annual Caps, and (2) the Revised 2023 Annual Cap, not being exceeded, we are of the view that the Company has established effective internal control procedures to ensure the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) will be conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As disclosed in each of the 2021 Annual Report and 2022 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and confirmed that each of the above continuing connected transactions has been entered into: (i) in the ordinary course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. In addition, the auditors of the Company have provided a letter to the Board confirming that, for the FY 2022, nothing has come to their attention that causes them to believe that the above continuing connected transactions: (1) have not been approved by the Board; (2) were not, in all material respects, in accordance with the pricing policies of the Group (for those transactions involving the provision of goods or services by the Group); (3) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; or (4) have exceeded the respective annual caps.

### RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) are conducted in

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## LETTER FROM SOUTH CHINA CAPITAL

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the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,  
For and on behalf of  
**South China Capital Limited**

**Nicholas Cheng**  
*Managing Director*

**Felix Leung**  
*Associate Director*

*Note:*

Mr. Nicholas Cheng and Mr. Felix Leung are licensed persons registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nicholas Cheng has extensive experience in corporate finance industry and has participated in, and completed, the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong. Mr. Felix Leung has over ten years of experience in corporate finance industry.

## 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 and debentures of the Company or any of 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept by the Company under 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:

	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	19,260,400	2.47	1.61
Zhang Yanhong ( <i>Executive Director/Vice Chairman</i> )	Beneficial interest	1,560,000	0.20	0.13

Note: Unlisted Shares

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

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital (%)
Ms. Zhang Hongxia <i>(Executive Director/ Chairman)</i>	Parent Company	Beneficial interest and spouse interest <i>(Note 1)</i>	7.78 <i>(Note 1)</i>
Ms. Zhang Yanhong <i>(Executive Director/ Vice Chairman)</i>	Parent Company	Beneficial interest	4.50
Ms. Zhao Suhua <i>(Non-executive Director)</i>	Parent Company	Spouse interest <i>(Note 2)</i>	3.95 <i>(Note 2)</i>
Mr. Wei Jiakun <i>(Executive Director/ General Manager)</i>	Parent Company	Beneficial interest	0.52
Ms. Zhao Suwen <i>(Executive Director/ Chief Financial Officer)</i>	Parent Company	Beneficial interest	0.30

*Note 1: 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.*

*Note 2: 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, 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.

Save as disclosed above, as at the Latest Practicable Date, there was no other Directors, supervisors or chief executive of the Company who had any interests or short positions 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 were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept by the Company under section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

### 4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors, supervisors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had interests or short positions in the Shares and 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 recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests in the Domestic Shares:

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

Interests in the H Shares:

Name of Shareholder	Type of interest	Number of H Shares (Note 2)	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 3)	9.99	3.46
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 4)	9.93	3.44

Note 1: Unlisted Shares.

Note 2: Shares listed on the Main Board of the Stock Exchange.

Note 3: According to the disclosure of interests dated 13 May 2022 and published 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.

Note 4: According to the disclosure of interests dated 2 July 2008 and published 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, which is wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Save as disclosed above, so far as known to the Directors, supervisors and chief executive of the Company, as at the Latest Practicable Date, there was no any other person (other than the Directors, supervisors or chief executive of the Company) who had any 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 pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company under section 336 of the SFO.

## 5. SERVICE CONTRACTS

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

**6. COMPETING INTEREST**

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

**7. MATERIAL ADVERSE CHANGE**

The Group recorded an unaudited net loss attributable to the owners of the Company of approximately RMB504 million. Further information is set out in the 2023 interim report of the Company.

Save as the above, as at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial position or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

**8. LITIGATION**

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any of its subsidiaries was 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 qualifications of the expert who has given opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
South China Capital	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

South China 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) South China Capital had no interest, either direct or indirect, in any assets which have been, since 31 December 2022, 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) South China 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 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 No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.
- (iii) The principal place of business of the Company in Hong Kong is Suite 5109, The Center, 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 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 pages 23 to 24 of this circular;
- (b) the letter of advice from South China Capital, the text of which is set out on pages 25 to 44 of this circular;
- (c) the written consent from South China Capital referred to under the section headed "9. Expert and consent" in the Appendix;
- (d) the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement;
- (e) the Old Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement; and
- (f) the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products 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 Wednesday, 27 December 2023 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:

#### ORDINARY RESOLUTION

1. “THAT:

- (a) the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement (the “**2023 Cotton Yarn, Grey Fabric and Denim 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 28 September 2023 be and is hereby approved and confirmed;
- (b) the estimated annual maximum transaction values of the supply of cotton yarn, grey fabric and denim by the Group to the Parent Group (as set out in the circular of the Company dated 10 November 2023) for the three financial years ending 31 December 2026 (the “**Group Products 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 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the transactions thereunder, and the Group Products Annual Caps.”

\* For identification purposes only.

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## NOTICE OF THE EGM

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2. **“THAT:**

the revision of annual cap for existing continuing connected transactions in respect of the supply of fabrics, knitted fabrics, apparel and home textiles products by the Parent Group to the Group (the “Revised 2023 Annual Cap”, as defined in the circular of the Company dated 10 November 2023) for the year ending 31 December 2023 be and is hereby approved and confirmed.

3. **“THAT:**

- (a) the renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement (the “**Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement**”) entered into between the Company and the Parent Company on 13 October 2023 be and is hereby approved and confirmed;
- (b) the estimated annual maximum transaction values of the supply of fabrics, knitted fabrics, apparel and home textiles products by the Parent Group to the Group (as set out in the circular of the Company dated 10 November 2023) for the three financial years ending 31 December 2026 (the “**Parent Group Products 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 Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the transactions thereunder, and the Parent Group Products Annual Caps.”

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

10 November 2023  
Shandong, the PRC

*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 Revised 2023 Annual Cap, the 2023 Cotton Yarn, Grey Fabric and Denim Supply Agreement and the Renewed Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement and the continuing connected transactions contemplated thereunder (including the Group Products Annual Caps and the Parent Group Products Annual Caps); (ii) the letter from the independent board committee to the independent shareholders; 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 10 November 2023.

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- (B) The Company's register of the members will be closed from Monday, 27 November 2023 to Wednesday, 27 December 2023 (both days inclusive), during which no transfer of shares will be registered. Shareholders whose names appear on the Company's register of members on Monday, 27 November 2023 are entitled to attend and vote at the EGM.

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 branch 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 Friday 24 November 2023.

- (C) Holders of H shares and domestic shares of the Company, who intend to attend the EGM, must complete the reply slip for attending the EGM and return them to the office of the secretary to the board of directors of the Company not later than 20 days before the date of the EGM, i.e. on or before Thursday, 7 December 2023.

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.
- (G) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited, at shop 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 its behalf at the EGM. Notes (E) to (F) also apply to holders of domestic shares of the Company, except that the proxy form or other documents of authority must be delivered to the office of the secretary to the board of directors of the Company, the address of which is set out in Note (C) above, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (I) If a proxy attends the EGM on behalf of a shareholder of the Company, 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

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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 for 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).*