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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 forms of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**PROPOSED REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING
CONNECTED TRANSACTION (SUPPLY OF COTTON YARN,
GREY FABRIC AND DENIM)
AND
NOTICES OF EXTRAORDINARY GENERAL MEETING**

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



**Lego Corporate
Finance Limited**
力高企業融資有限公司

A letter from the Board is set out on pages 3 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 25 of this circular.

A notice convening the EGM to be convened and held at 9:00 a.m. on Monday, 18 October 2021 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 are set out on pages 32 to 33 of this circular. Whether or not you are able to attend the above meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch H Shares registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) or to the office of the secretary to the Board, Room 412, Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC (for holders of Domestic Shares) as soon as possible and in any event not less than 24 hours before the time for holding the above meeting or the time appointed for taking the poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

2 September 2021

* For identification purposes only.

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DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this circular:

“Board”	the board of directors of the Company
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Liu Yanzhao, Mr. Chen Shuwen and Mr. George Chan Wing Yau, established to give an opinion on the Revised Annual Caps
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, which is the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Revised Annual Caps
“Independent Shareholders”	Shareholders who do not have any material interests in the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement other than by virtue of their respective shareholdings in the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Cotton Yarn, Grey Fabric and Denim Supply Agreement”	the supply of cotton yarn, grey fabric and denim agreement entered into between the Company and Parent Company on 17 October 2017 with a term of three years ending 31 December 2020
“Original Annual Cap(s)”	the original annual cap amounts for the transactions under the Agreement for the three years ending 31 December 2021, 2022 and 2023 as disclosed in the announcement dated 16 October 2020 and the circular dated 9 November 2020
“Parent Company”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC, being the controlling shareholder of the Company

DEFINITIONS

“Parent Group”	Parent Company, its subsidiaries, associated companies and associates (as defined in the Listing Rules) (excluding the Group)
“PRC”	the People’s Republic of China
“Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement”	The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement dated 16 October 2020 and entered into between the Company and the Parent Company for a term of three years commenced on 1 January 2021 to 31 December 2023 (both dates inclusive) pursuant to which the Group will supply cotton yarn, grey fabric and denim to Parent Group
“Revised Annual Cap(s)”	the revised annual cap amounts proposed by the Company in respect of The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, being RMB600,000,000, RMB720,000,000 and RMB864,000,000 for each of the three years ending 31 December 2021, 2022 and 2023
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax at the rate of 17% from 1 July 2017 to 30 April 2018, at the rate of 16% from 1 May 2018 to 31 March 2019 and at the rate of 13% since 1 April 2019
“%”	per cent

LETTER FROM THE BOARD



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*)
Ms. Zhao Suwen (*Chief Financial Officer,*
Authorized Representative)
Mr. Wei Jiakun (*General Manager*)
Mr. Zhang Jinglei (*Company Secretary,*
Authorized Representative)

Non-executive Directors:

Ms. Zhao Suhua

Independent Non-executive Directors:

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

Registered Address:

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

Principal Place of Business in the PRC:

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

Place of Business In Hong Kong:

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

To the Shareholders

Dear Sir/Madam,

**PROPOSED REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING
CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN,
GREY FABRIC AND DENIM)
AND
NOTICES OF EXTRAORDINARY GENERAL MEETING**

A. INTRODUCTION

The purpose of this circular is to provide you with information regarding resolution to be proposed at the EGM relating to the Revised Annual Caps for the Continuing Connected Transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

* For identification purposes only.

LETTER FROM THE BOARD

B. PROPOSED REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM)

(I) The Continuing Connected Transactions

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

(II) The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement

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

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

1. *Date*

16 October 2020

2. *Parties*

(a) the Company; and

(b) the Parent Company

3. *Connected person*

the Parent Company

4. *Transaction nature*

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

LETTER FROM THE BOARD

Company for a term of three years commenced on 1 January 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Company will continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group.

5. *Pricing basis and payment terms*

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

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

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

6. *Termination and renewal*

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

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

LETTER FROM THE BOARD

(III) Original Annual Caps

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

(IV) Revised Annual Caps

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

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

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

Basis of the Revised Annual Caps

The above Revised Annual Caps are determined with reference to:

- (a) The actual unaudited transaction value for the seven months ended 31 July 2021, which was approximately RMB296,000,000 and, on a hypothetical basis, the annualized figure based on such will be approximately RMB510,000,000.
- (b) The Company expects that as the market remains strong, the transaction value under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will be further increased in the second half year of 2021. Generally, there will be strong product demands before the Chinese New Year.
- (c) The annual caps for each of the two years ending 31 December 2022 and 2023 were determined based the annual cap for the year ending 31 December 2021, with a growth rate of 20% for each year. The 20% growth rate was determined after taking into consideration the growth rates for the total retail sales of consumer goods and the retail

LETTER FROM THE BOARD

sales of commodities such as of apparel, footwear, headwear, knitwear and textile products by enterprises above a designated size in the PRC for the first half of 2021, which were 23.0% and 33.7%, respectively.

Historical Amounts

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

(V) Reasons for and Benefits of Revision of Annual Caps for the Existing Continuing Connected Transactions

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

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

(VI) Information of the Group and Parent Group

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

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

LETTER FROM THE BOARD

(VII) Implications under the Listing Rules

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

As at the Latest Practicable Date, the Parent Company, being the controlling shareholder of the Company, holds approximately 63.67% of the total issued Shares and is therefore a connected person of the Company, the transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement therefore constitute continuing connected transactions of the Company under Rule 14A.25 of the Listing Rules.

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

(VIII) Internal Control Procedures

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

- (1) the general manager and/or the executive deputy general manager of the sales department of the Company shall prepare a draft price list for the Group's products based on the prices of raw materials and the prevailing market conditions, and submit such list for review and approval by the chairman of the Board on monthly basis. At the time when the raw material prices fluctuate, the general manager and/or the executive deputy general manager of the sales department of the Company will adjust the draft price list more frequently to reflect the market conditions. Upon approval, the price list shall be announced internally. Any deviation from the price list shall be separately approved by the general manager and the executive deputy general manager of the sales department of the Company, as well as the chairman of the Board;
- (2) the finance department of the Company shall provide the monthly caps, calculated pursuant to the Revised Annual Caps, to the sales department of the Company, which will keep track of the actual transaction sum of the contracts of the Continuing Connected Transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement from time to time and will submit a report to the finance department of the Company when the actual transaction amounts may exceed the monthly caps. The finance department of the Company will also monitor the aggregate value of the Continuing Connected Transactions on a monthly basis and ensure it will not exceed the Revised Annual Caps;

LETTER FROM THE BOARD

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

C. EGM

The notice convening the EGM to be held at 9:00 a.m. on Monday, 18 October 2021 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, are set out on pages 32 to 33 of this circular for the purpose of considering and if thought fit, passing the resolutions set out therein.

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 resolution in relation to the Revised Annual Caps at the EGM. Ms. Zhang Hongxia, being a Director, serves as a director of the Parent Company and holds approximately 7.78% (directly and indirectly) of the equity interest in the Parent Company. She and her family members (jointly holding approximately 1.92% of the equity interest in the Company) will also abstain from voting on the resolution in relation to the Revised Annual Caps at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no other Shareholder has a material interest in the Continuing Connected Transactions, and no other Shareholder is required to abstain from voting to approve the Revised Annual Caps.

Pursuant to Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. The poll results will be published on the websites of the Company and of the Stock Exchange following the EGM.

The Independent Board Committee will advise the Independent Shareholders in relation to their voting on the resolution relating to the Revised Annual Caps.

Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Revised Annual Caps.

LETTER FROM THE BOARD

Form of proxy for use at the EGM is accompanied with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch H Shares registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) or to the office of the secretary to the Board, Room 412, Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC (for holders of Domestic Shares) as soon as possible and in any event not less than 24 hours before the time for holding the above meeting or the time appointed for taking the poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

The reply slip for the EGM is also enclosed with this circular. You are reminded to complete and sign the reply slip and return the signed reply slip to the office of the secretary to the Board at Room 412, Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC, no later than Tuesday, 28 September 2021 in accordance with the instructions printed thereon.

D. BOOK CLOSURE

The Company's register of members will be closed from Saturday, 18 September 2021 to Monday, 18 October 2021 (both dates inclusive), during which no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on Saturday, 18 September 2021 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 Rooms 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, 17 September 2021.

E. RECOMMENDATIONS

The Board (including the Independent Board Committee) is of the opinion that the Revised Annual Caps in respect of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee) recommends that all the Independent Shareholders vote in favour of the resolution as set out in the notice of EGM to approve the Revised Annual Caps in respect of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

F. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. George Chan Wing Yau, Mr. Chen Shuwen and Mr. Liu Yanzhao, has been established to advise the Independent Shareholders on the Revised Annual Caps in respect of the supply of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement. Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Revised Annual Caps in respect of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

LETTER FROM THE BOARD

G. ADDITIONAL INFORMATION

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

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

Shandong, the PRC
2 September 2021

* *For identification purposes only.*



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)

2 September 2021

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING
CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC
AND DENIM)**

We refer to the circular dated 2 September 2021 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, it would be in the interests of the Company and its Shareholders to revise the annual caps for the existing continuing connected transaction in respect of the supply of cotton yarn, grey fabric and denim to Parent Group (as defined in the announcement of the Company dated 13 August 2021) for the three years ending 31 December 2021, 2022 and 2023. Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps.

We wish to draw your attention to the letter from the Board set out on pages 3 to 11 of the Circular, and the letter of advice from Lego Corporate Finance, the Independent Financial Adviser, set out on pages 14 to 25 of the Circular which contains its advise and recommendation in respect of the Revised Annual Caps.

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, we consider that the terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement and the continuing connected transactions thereunder are fair and reasonable, and were entered into on normal commercial terms and in the ordinary and usual course business of the Company, and it would be in the interests of the Company and its Shareholders to revise the annual caps for the existing continuing connected transactions in respect of the supply of cotton yarn, grey fabric and denim to Parent

* *For identification purposes only*

APPENDIX I LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Group (as defined in the announcement of the Company dated 13 August 2021) for the three years ending 31 December 2021, 2022 and 2023. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Revised 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*

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, which has been prepared for the purpose of inclusion in this Circular.



2 September 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 2 September 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 16 October 2020, the Company and the Parent Company entered into the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, 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 for a term of three years commenced on 1 January 2021 and ending on 31 December 2023. As the global spread of novel coronavirus pandemic has gradually under control over time, the global production activities as well as the consumption of domestic and oversea textile and apparel markets have largely recovered to the pre-pandemic levels, it is expected that the transaction value for the Continuing Connected Transactions supplied by the Group to Parent Group will continue to increase. The Directors anticipate the maximum transaction value for the Continuing Connected Transactions will exceed the Original Annual Caps. In this regard, the Board proposes to revise the Original Annual Caps under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023. Save for the revision of the Original Annual Caps, all terms and conditions of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement remain unchanged.

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

As at the Latest Practicable Date, the Parent Company, being the controlling shareholder of the Company, holds approximately 63.67% of the total issued Shares and is therefore a connected person of the Company. The transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement constitute continuing connected transactions of the Company under Rule 14A.25 of the Listing Rules. Given that certain of the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, on an annual basis, is more than 5%, the transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 established to advise the Independent Shareholders as to whether the Revised Annual Caps in respect of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Revised Annual Caps. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regards.

OUR INDEPENDENCE

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Company and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the Revised Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Company (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and up to the Latest Practicable Date and may be relied upon. We have also assumed that all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or

representations provided to us by the Directors and the Management were true, accurate, complete and not misleading in all respects at the time they were made and continued to be so up to the Latest Practicable Date.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Parent Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Revised Annual Caps, we have considered the following principal factors and reasons:

I. Background information of the Group and Parent Group

The Group

The Company is a joint stock limited company incorporated in the PRC with limited liability. The principal activities of the Group are the production, sale and distribution of cotton yarn, grey fabric and denim.

Set out below is a summary of the financial information of the Group as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and the interim results announcement of the Company for the six months ended 30 June 2021 (the “**2021 Interim Results**”).

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	15,167,562	12,743,437	5,430,121	7,498,296
Textile products	9,901,701	8,644,697	3,593,255	5,518,421
Electricity and steam	<u>5,265,861</u>	<u>4,098,740</u>	<u>1,836,866</u>	<u>1,979,875</u>
Gross profit	<u>960,914</u>	<u>962,155</u>	<u>410,386</u>	<u>879,879</u>
Profit for the year/period	<u><u>215,675</u></u>	<u><u>202,228</u></u>	<u><u>154,048</u></u>	<u><u>583,978</u></u>

For the year ended 31 December 2020

The Group's revenue decreased by approximately 16.0% from approximately RMB15,167.6 million for the year ended 31 December 2019 to approximately RMB12,743.4 million for the year ended 31 December 2020. Such decrease was mainly due to the sluggish demand for textile products and declining product prices as a result of the continued weak domestic and overseas textile markets due to the negative impact of the coronavirus pandemic and delay in the resumption of work and production by the downstream enterprises, resulting the decrease in revenue of the three main textile products of the Group. Despite the fact that the revenue decreased, the Group's gross profit slightly increased from approximately RMB960.9 million for the year ended 31 December 2019 to approximately HK\$962.2 million for the year ended 31 December 2020, which is explained by the reduced gross loss of textile products of the Group by approximately RMB341.6 million, partly offset by the decrease in gross profit of electricity and steam supply by approximately RMB340.3 million. The Group's profit for the year slightly decreased from approximately RMB215.7 million for the year ended 31 December 2019 to approximately RMB202.2 million for the year ended 31 December 2020.

For the six months ended 30 June 2021

The Group recorded revenue of approximately RMB7,498.3 million for the six months ended 30 June 2021, representing an increase of approximately RMB38.1% as compared to the corresponding period of 2020. Such increase is mainly explained by the increase in revenue of the Group's cotton textile products by approximately RMB1,925.2 million or 53.6%, due to (i) the increase in demands from domestic and overseas textile and garment markets resulting from the recovery of consumption as the coronavirus pandemic is gradually under control and restoring normalcy; and (ii) the increase in the sales volume as well as the sales prices of the cotton textile products of the Group as compared to the corresponding period of 2020. The Group recorded gross profit of approximately RMB879.9 million which doubled that of the corresponding period of 2020. Such increase is mainly explained by (i) the increased sales volume of textile products of the Group and (ii) the increased gross profit margin of textile products of the Group as a result of the increase in overall sales prices of the Group's textile products. Net profit of the Group increased significantly from approximately RMB154.0 million for the six months ended 30 June 2020 to approximately RMB584.0 million for the six months ended 30 June 2021, representing an increase by approximately RMB429.9 million, which is mainly due to the overall increase in sales volume and sales price of the Group's textile products as compared to the corresponding period of 2020.

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 yarn, print cloth, retail and distribution of cloth.

II. Principal terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement**1. Date**

16 October 2020

2. Parties

- (a) the Company; and
- (b) the Parent Company

3. Transaction nature

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

4. Pricing basis

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

The Directors have confirmed that the pricing basis agreed between the Company and the Parent Company for the supply of the cotton yarn, grey fabric and denim is fair and reasonable, negotiated on an arm's length basis and constitutes a normal commercial term. The Group has a wide variety of textile products to be sold to its customers according to indicative price lists for different textile products. Such prices were determined after taking into account of a series of factors, such as product costs and prevailing market conditions. The Group usually reviews, adjusts and approves such price lists from time to time, when and where necessary, taking into account of the prevailing market conditions and other relevant factors at that time. Given that there is an uniform price for a single product category of the Group, the Directors are of the view that the sales prices of the products sold to the Parent Group are the same with those sold to the independent third party

customers at the same time and such method shall be able to ensure that the Continuing Connected Transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders.

Please refer to the subsection headed “B. (II) – The Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement” in the Letter from the Board for details of the terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

To assess the fairness and reasonableness of the terms as stipulated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement, we have obtained and reviewed the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement and further discussed with the Management in relation to the pricing basis as stated above. We understand that the Group will prepare a monthly indicative price list for its textile products, which are determined based on various factors including, the prevailing market condition, cost of raw material and production cost of the Group. As confirmed by the Management, before entering into any contracts with the customers, the sales department of the Group make reference to the indicative price list from time to time which is applied to all customers of the Group, in another word, the sales prices charged to the Parent Group are generally the same as those charged to the independent third parties from time to time. As part of our due diligence work, we have obtained and reviewed 27 sample sale transactions of the Group conducted between the Parent Group and the independent third parties (being 9 sample sale transactions with the Parent Group and 18 sample sale transactions with two independent customers, collectively the “**Sample Sales**”) during the seven months ended 31 July 2021. We noted that the sales prices charged to the Parent Group are comparable to those charged to the independent third parties on the same product in the similar period. Furthermore, we also noted from the Sample Sales that the sales prices being charged were in line with the indicative price list from time to time.

Having considered the above, we concur with the view of the Directors that the pricing basis as stipulated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will enable the Continuing Connected Transactions to be conducted on terms no less favourable to the Group than those available to the independent third parties.

III. Reasons for and benefits of revising the Original Annual Caps

As disclosed in the Letter from the Board, in view of the textile market is currently recovering from the coronavirus pandemic, market demands for the Parent Group’s products remain strong and steady and hence increase its demands of raw materials supplied by the Group including cotton yarn, grey fabric and denim. In addition, the Company also expects there will be an increase in the sales prices of the Group’s products in years to come. The Board anticipates that the Continuing Connected Transactions with the Parent Group pursuant to the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will continue to grow steadily and will exceed the original estimation of maximum amount of Continuing Connected Transactions for the three years ending 31 December 2021, 2022 and 2023. In another words, the Original Annual Caps approved by the Independent Shareholders in 2020 will not be sufficient to meet the Company’s needs in upcoming years. Accordingly, the Board proposes to revise the Original Annual Caps. Save for the revision of the Original Annual Caps, all terms and conditions of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement remain unchanged.

Moreover, we understand from the Management that the Group has established a long term and stable relationship with the Parent Group in supplying its textile products since 2003. As one of the key customers of the Group, owing to its extensive sales network of downstream cotton textile products, the Parent Group has a substantial and stable demand for cotton yarn, grey fabric and denim from the Group. According to the annual report of the Company for the year ended 31 December 2019 and the 2020 Annual Report, sales of textile products to the Parent Group amounted to approximately 3.9% and 3.5% of the total revenue of textile products of the Group in 2019 and 2020, respectively. The Directors are of the view, and we concur, that the revision of the Original Annual Caps ensures a broaden steam of revenue source from the Parent Group and benefit to the Group in capturing the upward trend of demand with respect to the market recovery of downstream cotton textile markets.

Taking into account that (i) the transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; (ii) the anticipated transactions with the Parent Group pursuant to the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement may exceed the original projection for the three years ending 31 December 2021, 2022 and 2023; (iii) save for the revision of the Original Annual Caps, all terms and conditions of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement remain unchanged; and (iv) the bases and assumptions in determining the Revised Annual Caps as further discussed below. We are of the view that the revision of the Original Annual Caps are in the interest of the Company and the Shareholders as a whole.

IV. Review of the historical transaction amount

According to the Letter from the Board, we noticed that the actual unaudited transaction amount (excluding VAT) under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for the seven months ended 31 July 2021 amounted to approximately RMB296.0 million and utilised up to approximately 68.5% of the Original Annual Cap for 2021. On a hypothetical basis, the annualised transaction amount for 2021 would be amounted to approximately RMB510.0 million, which exceeds the Original Annual Cap for 2021 by approximately RMB77.6 million or 18.0%. Hence, the Original Annual Caps would not be sufficient if the Parent Group demands additional orders from the Group in similar pattern as for the seven months ended 31 July 2021.

V. Revised Annual Caps

The table below sets forth the Original Annual Caps and Revised Annual Caps (excluding VAT) for transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for each of the three years ending 31 December 2021, 2022 and 2023:

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

As stated in the Letter from the Board, the Revised Annual Caps are determined primarily based on (i) the actual unaudited transaction value for the seven months ended 31 July 2021 and, on a hypothetical basis, the annualised figure based on such will be approximately RMB510.0 million; (ii) the expectation that as the market remains strong, the transaction value under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will be further increased in the second half year of 2021 as there will be strong product demands before the Chinese New Year in general; and (iii) the annual growth rate of 20% for each of the two years ending 31 December 2022 and 2023.

In order to assess the fairness and reasonableness of the Revised Annual Caps, we have obtained and reviewed the sales projection table in estimating the Revised Annual Caps, and discuss with the Management on the bases and assumptions underlying the determination of the Revised Annual Caps as below:

- In the first half of 2021, as the global spread of novel coronavirus pandemic has been eased over time, the global production activities have largely recovered to the pre-pandemic level, leading to an accelerated recovery in the consumption sector, in particular, the consumption of domestic and overseas textile and apparel market. According to the 2021 Interim Results, as benefit from the global market recovery, revenue generated by the Group's cotton textile products for the six months ended 30 June 2021 increased significantly by approximately 53.6% as compared to the corresponding period of 2020, whereas the actual transaction amount of the Group under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement for the seven months ended 31 July 2021 also increased significantly to approximately RMB296.0 million. The annualised transaction amount would be amounted to approximately RMB510.0 million for the year ending 31 December 2021. On this basis, we are of the view that, in order to capture the robust growth of sales of the Group's textile products, it is considered reasonable for the Board in estimating the Revised Annual Cap of RMB600.0 million for the year ending 31 December 2021.
- We noted from the projection table that the Revised Annual Caps for each of the two years ending 31 December 2022 and 2023 represents an annual growth rate of approximately 20% based on the Revised Annual Cap for 2021. We understand from the Management that the annual growth rate of 20% was determined after taking into consideration various factors, including (i) the prevailing upward trend in demand from downstream textile products as well as retail sales of consumer goods; (ii) the increasing trend of cost of raw materials resulting an increasing sales prices of the Group's textile products; and (iii) the expectation of the continuous recovery of global economy in the post-pandemic era.

According to the National Bureau of Statistics of the PRC, the total retail sales of consumer goods in the PRC for the first half of 2021 amounted to approximately RMB21,190.4 billion, whereas the total retail sales of consumer goods (such as apparel, footwear, headwear, knitwear) and textile products amounted to approximately RMB673.8 billion, representing a growth of approximately 23.0% and 33.7%, respectively, as compared to that for the first half of 2020. We also noted from the financial index for industrial textile enterprises above the designated size recorded a total revenue of RMB1,170.8 billion for the first half of 2021, representing a growth of approximately 18.9% as compared to the corresponding period in

2020. In addition, according to the “14th Five-Year Plan” China Apparel Industry Market Prospects and Investment Research Report* (“十四五”中國服裝行業市場前景及投資研究報告), published by China Business Industry Research Institute (中商產業研究院) in April 2021, predicts that the market size of China’s apparel industry will reach approximately RMB2,900 billion in 2025, representing a growth of approximately 26.1% than that of 2020.

With respect to the price of raw material, according to the China Cotton Index 3128B (a domestic index for standard cotton) published by China Cotton Association (中國棉花協會), a non-profit organisation under the supervision and management of Ministry of Civil Affairs of the PRC, the average price of cotton in the PRC increased from approximately RMB15,276 per ton in January 2021 to approximately RMB18,010 per ton in August 2021, representing an increase of approximately 17.9%. Furthermore, in accordance to the cotton market research published by China Business Industry Research Institute, due to the significant increase in cotton demand in the PRC as a result of the market recovery, it is expected that the domestic price of cotton will continue to go up steadily in short-run.

- According to the 2021 Interim Results, the Group proactively adjusts its product portfolio in response to the orientation of market demand and fashion trends. In 2021, the Group has successfully launched 6 categories and 33 series of new textile products. We understand from the Management that, it is the business strategy of the Company to gradually adjust its product mix of the Group towards new textile products, whereas these new textile products mainly consist of innovative functional fabrics and new fiber which sales prices are generally higher than common products of the Group.
- Furthermore, we were given to understand that in estimating the revised sales projection of the Group and the Parent Group for the three years ending 31 December 2021, 2022 and 2023, the Management has also considered the continuous improvement of production capacities and the introduction of intelligent production lines by the member companies of the Parent Group, thus the demand of the Group’s textile products from the Parent Group is expected to increase accordingly.
- In view of the recent upward trend in the market demand for the Group’s textile products, the Directors are of the view that the sales projections of textile products for the two years ending 31 December 2022 and 2023 should be upward adjusted to better reflect the Group’s growth potential in its business and sales performance. We concur with the Directors’ view that it is in the interest of the Company and its Shareholders that the Company be allowed to adjust its sales targets and projections upward, and correspondingly revise the Original Annual Caps, to allow the Company with the flexibility to realise the business potential. Having considered all of the above, we concur with the Directors’ view that in estimating the Revised Annual Cap for the each of the two years ending 31 December 2022 and 2023, an annual growth rate of 20% is justifiable.

Taking to consideration that (i) the reasons for and benefits of revising the Original Annual Caps as discussed above; (ii) the anticipated growth in demand for the Group’s products as a result of the gradual global market recovery and effective containment of the coronavirus pandemic; (iii) the increasing

production capacity of the Parent Group; (vi) the expected upward trend of the sales price of the Group's innovative textile products; and (vii) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, we are of the view that the Revised Annual Caps and the major factors considered as the bases in determining the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

However, the Shareholders should note that as the Revised Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent any forecasts or estimations of the Group's financial performance. Consequently, we express no opinion as to how closely the actual future transaction amounts of the Continuing Connected Transactions will correspond with the relevant Revised Annual Caps.

VI. Internal Control Measures

We have discussed with the Management and understand that the Company has the internal control measures in place to ensure the Continuing Connected Transactions will be conducted on normal commercial terms and in accordance with the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement:

- (1) the general manager and/or the executive deputy general manager of the sales department of the Company shall prepare a draft price list for the Group's products based on the prices of raw materials and the prevailing market conditions, and submit such list for review and approval by the chairman of the Board on monthly basis. At the time when the raw material prices fluctuate, the general manager and/or the executive deputy general manager of the sales department of the Company will adjust the draft price list more frequently to reflect the market conditions. Upon approval, the price list shall be announced internally. Any deviation from the price list shall be separately approved by the general manager and the executive deputy general manager of the sales department of the Company, as well as the chairman of the Board;
- (2) the finance department of the Company shall provide the monthly caps, calculated pursuant to the Revised Annual Caps, to the sales department of the Company, which will keep track of the actual transaction sum of the contracts of the Continuing Connected Transactions under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement from time to time and will submit a report to the finance department of the Company when the actual transaction amounts may exceed the monthly caps. The finance department of the Company will also monitor the aggregate value of the Continuing Connected Transactions on a monthly basis and ensure it will not exceed the Revised Annual Caps;
- (3) prior to executing any contract of the Continuing Connected Transactions, such contract, including its transaction value and terms, will be provided by the sales department of the Company to the finance department of the Company for their review. Such contract will not be executed unless and until the finance department of the Company has confirmed that the aggregate value of the transaction sums under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement will not exceed the Revised Annual Caps and the terms of such

contract are in compliance with the terms of the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement. If it is contemplated that the Revised Annual Caps will be exceeded as a result of entering into the relevant contracts, such transaction will not be entered into until the Company has complied with the relevant requirements under the Listing Rules;

- (4) the Board will continue to periodically review the Company's internal control systems and their effectiveness, as well as the pricing policy in order to keep it fair and reasonable; and
- (5) the independent non-executive Directors themselves shall, and the Company shall engage its external auditors to conduct annual review of the Continuing Connected Transactions and the Revised Annual Caps in accordance with the requirements of the Listing Rules.

Based on the above, we have discussed with the Management and were given to understand that, the Group has adopted internal control measures when conducting the continuing connected transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement. The Company has assigned specific responsibilities to the senior management, finance department and sales department of the Company in performing regular checks on the Continuing Connected Transactions, monitoring the amounts of transactions and conducting assessment and evaluation on the fairness of the transaction terms and pricing terms to ensure the Continuing Connected Transactions with the Parent Group are in accordance with Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement.

Furthermore, we noted from the annual reports of the Company for each of the three years ended 31 December 2018, 2019 and 2020, that the independent non-executive Directors of the Company had reviewed the historical continuing connected transactions in relation to the Old Cotton Yarn, Grey Fabric and Denim Supply Agreement and confirmed the then continuing connected transactions were (i) entered into in the ordinary course of business of the Group; (ii) on normal commercial terms or better; and (iii) conducted according to the Old Cotton Yarn, Grey Fabric and Denim Supply Agreement governing it on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole. We also noted the auditor of the Company had confirmed to the Board that the historical continuing connected transactions were, in all material respects, in accordance with the Old Cotton Yarn, Grey Fabric and Denim Supply Agreement.

As confirmed by the Company, the Company will continue to comply with the relevant annual review requirements under the Listing Rules on an on-going basis.

Given the above, we concur with the Directors' view that the Group has implemented effective internal control measures to ensure that the continuing connected transactions with Parent Group will be conducted on normal commercial terms and in accordance with the Revised Cotton Yarn, Grey Fabric and Denim Supply Agreement.

RECOMMENDATIONS

Having considered the principal factors and reasons described above, we are of the opinion that (i) the transactions contemplated under the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Given that there will be no change, amendment or revision to the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement and on the basis of our review on the Revised Annual Caps, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Stanley Ng
Managing Director

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 15 years of experience in the accounting and investment banking industries.

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 <i>(Note 1)</i>	Approximate percentage of total issued domestic share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Zhang Hongxia (<i>Executive Director/Chairman</i>)	Beneficial interest	17,700,400	2.27	1.48

Note 1: 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 (Note 1)	7.78 (Note 1)
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 (Note 2)	3.95 (Note 2)
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, Ms. Zhao Suwen, Mr. Wei Jiakun 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 of the Company.

Save as disclosed above, as at the Latest Practicable Date, there was no any 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 pursuant to 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>
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 <i>(Note 2)</i>	Approximate percentage of total issued H share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Brandes Investment Partners, L.P.	Investment manager	44,313,998 (Long position) <i>(Note 3)</i>	10.71	3.71
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) <i>(Note 4)</i>	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 published on the website of the Stock Exchange by Brandes Investment Partners, L.P., these 44,313,998 H shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 4: According to the disclosure of interests published on the website of the Stock Exchange by Mellon Financial Corporation, 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 indirectly and 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

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial position or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance 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:

Name	Qualifications
Lego Corporate Finance	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

Lego Corporate Finance 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) Lego Corporate Finance had no interest, either direct or indirect, in any assets which have been, since 31 December 2020, 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) Lego Corporate Finance had no shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate any persons to subscribe for securities of any members of the Group.

10. MISCELLANEOUS

- (i) The registered office of the Company is at No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.
- (ii) The principal place of business of the Company in the PRC is 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, 99th 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 FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 5109, The Center, 99th Queen's Road Central, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (c) the letter of advice from Lego Corporate Finance, the text of which is set out on pages 14 to 25 of this circular;
- (d) the written consent from Lego Corporate Finance;
- (e) the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement; and
- (f) this circular.

NOTICE OF THE EGM



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”) will be held at 9:00 a.m. on Monday, 18 October 2021 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”) for the following purposes:

ORDINARY RESOLUTION

1. to consider and approve the revision of annual caps for existing continuing connected transactions in respect of the supply of cotton yarn, grey fabric and denim to Parent Group (as defined in the announcement of the Company dated 13 August 2021) for the three years ending 31 December 2021, 2022 and 2023.

By behalf of the Board

Weiqiao Textile Company Limited*

Zhang Jinglei

Executive Director and Company Secretary

2 September 2021
Shandong, the PRC

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

Notes:

- (A) The Company's register of members will be closed from Saturday, 18 September 2021 to Monday, 18 October 2021 (both dates inclusive), during which no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on Saturday, 18 September 2021 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 Rooms 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, 17 September 2021.

NOTICE OF THE EGM

- (B) Holders of H shares and domestic shares, who intend to attend the EGM, must complete the reply slip for attending the EGM and return it to the office of the secretary to the board of directors of the Company not later than 20 days before the date of the EGM, i.e. no later than Tuesday, 28 September 2021.

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

- (C) Each holder of H shares 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.
- (D) 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.
- (E) 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 certified copy of that power of attorney or other authority (such certification to be made by a notary public), must be delivered to the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited, at 17M 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.
- (F) Each holder of domestic shares is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Notes (C) to (D) also apply to holders of Domestic Shares, 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 (B) 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.
- (G) If a proxy attends the EGM on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the EGM, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of the company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
- (H) 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 the Company under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).*