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魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2698)

**CONTINUING CONNECTED TRANSACTIONS
ENTRUSTED PROCESSING SERVICE AGREEMENT**

ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

The Board would like to announce that, on 2 July 2020, the Company and the Parent Company entered into the Entrusted Processing Service Agreement for a term commencing on 2 July 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which the Parent Company will provide grey fabric processing services to the Company.

LISTING RULES IMPLICATION

The Parent Company is the controlling shareholder of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Entrusted Processing Service 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, on an annual basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. THE ENTRUSTED PROCESSING SERVICE AGREEMENT

The major terms of the Entrusted Processing Service Agreement are set out as follows:

1. Date

2 July 2020

2. Parties

- (i) the Company (including its subsidiaries); and
- (ii) the Parent Company (including its subsidiaries, excluding the Company and its subsidiaries)

3. Connected person

The Parent Company is the controlling shareholder of the Company, holding approximately 63.67% of the total issued shares of the Company as at the date of this announcement, 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 Entrusted Processing Service Agreement on 2 July 2020 for a term commencing on 2 July 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which the Parent Company will provide grey fabric processing services to the Company.

Pursuant to the Entrusted Processing Service Agreement, the Parent Company shall process the grey fabric to be provided by the Company into printed and dyed fabric according to the specific processing requirements to be set out in the entrusted processing orders that will be placed from time to time by the Company to the Parent Company in advance. The printed and dyed fabric to be delivered by the Parent Company to the Company shall conform to the relevant national or industry quality standards.

5. Pricing basis and payment terms

The processing fees of the processing services to be provided by the Parent Company to the Company shall be determined on a cost plus basis with reference to the cost of dye, grey fabric loss and the labour cost. The Parent Company has agreed that, in principle, the terms and conditions of the processing services offered by the Parent Company to the Company shall be no less favourable than the terms and conditions offered by the Parent Company to independent third parties in the PRC for providing the same or similar

processing services on normal commercial terms in its ordinary and usual course of business. The Parent Company shall provide the evidence of such market prices to the Company upon the request by the Company.

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

The Parent Company shall deliver the relevant documents (including but not limited to the transport documents, commercial invoices and quality certificates) to the Company upon delivery of the printed and dyed fabric. The Company shall pay the processing fees to the Parent Company within five (5) business days after receiving the aforesaid documents according to the payment terms to be set out in the entrusted processing orders that will be placed by the Company from time to time.

6. Termination and renewal

Either party to the Entrusted Processing Service Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Entrusted Processing Service Agreement is renewable for another term of three 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. For the avoidance of doubt, the Entrusted Processing Service Agreement shall not be renewed without approval from the Board and/or the independent Shareholders, where necessary.

7. Historical transaction values and the Annual Caps

The Company confirms that there were no historical transaction values available since the Company did not enter into any similar transaction agreement with the Parent Company in relation to entrusted processing services in the past.

Set out below are the Annual Caps which are estimated to be payable by the Company to the Parent Company under the Entrusted Processing Service Agreement for the period from 2 July 2020 to 31 December 2022:

	For the period from 2 July 2020 to 31 December 2020 (RMB) (excluding VAT)	For the financial year ending 31 December 2021 (RMB) (excluding VAT)	For the financial year ending 31 December 2022 (RMB) (excluding VAT)
Annual Caps	12,000,000	24,000,000	24,000,000

The Annual Caps for the period from 2 July 2020 to 31 December 2022 are determined with reference to (i) the estimated demand of the Company for the processing services; and (ii) the estimated processing fees of the processing services under the Entrusted Processing Service Agreement for the period from 2 July 2020 to 31 December 2022.

B. REASONS FOR AND BENEFITS OF ENTERING INTO THE ENTRUSTED PROCESSING SERVICE AGREEMENT

In order to expand the overseas market and ensure the quality of export products, the Company and the Parent Company entered into the Entrusted Processing Service 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 providing processing services; and
- (ii) the Parent Company has advanced technology to produce printed and dyed fabric of high quality, and is able to provide stable processing services with flexible adjustment for the sales plan of the Company, which is favourable to the stable operation and expansion of the Group's business.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Group and the terms of the Entrusted Processing Service 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.

C. LISTING RULES IMPLICATION

The Parent Company is the controlling shareholder of the Company and it therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Entrusted Processing Service 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, on an annual basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen and Mr. Zhang Jinglei had abstained from voting on the relevant resolution of the Board for approving the Continuing Connected Transactions as they concurrently have equity interests or hold relevant positions in the Parent Company.

D. INTERNAL CONTROL PROCEDURES

The Company has adopted the following internal control measures to ensure that the Continuing Connected Transactions are and will be conducted in accordance with the pricing policies and the terms of the Entrusted Processing Service Agreement, 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 to ensure the processing fees of the processing services to be provided by the Parent Company to the Company are no less favourable to the Group than the processing fees at which such similar processing services are provided by independent third parties to the Group;
- (ii) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are and will be conducted in accordance with the terms of the Entrusted Processing Service Agreement and the Annual Caps are not exceeded;
- (iii) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (iv) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the Annual Caps in accordance with the requirements of the Listing Rules.

E. GENERAL INFORMATION

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

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.

F. DEFINITIONS

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

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Entrusted Processing Service Agreement for the period from 2 July 2020 to 31 December 2022
“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 of Hong Kong Limited (Stock Code: 2698)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Entrusted Processing Service Agreement
“Director(s)”	the director(s) of the Company
“Entrusted Processing Service Agreement”	the entrusted processing service agreement entered into between the Company and the Parent Company on 2 July 2020 for a term commencing on 2 July 2020 and ending on 31 December 2022 (both days inclusive)
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company

“VAT” value added tax at the rate of 13% which is subject to adjustment from time to time according to the tax laws and regulations in the PRC

“%” per cent

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

2 July 2020
Shandong, the PRC

As at the date of this announcement, the Board comprises eight Directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, 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.

* *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).*