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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, or as to the action to be taken, you should consult our stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Weiqiao Textile Company Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation.**

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**魏橋紡織股份有限公司**

**Weiqiao Textile Company Limited\***

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

**(Stock Code: 2698)**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
(SUPPLY OF EXCESS ELECTRICITY)**

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

**CROSBY**  
**Crosby Securities Limited**

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A letter from the Board is set out in pages 4 to 10 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction, is set out in page 11 of this circular. A letter from Crosby Securities Limited containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction is set out in pages 12 to 20 of this circular.

A notice dated 12 November 2013 convening the EGM to be convened and held on 27 December 2013 at 9:00 a.m. at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Lu, Economic Development Zone, Zouping County, Shandong Province, The People's Republic of China is set out in pages 28 to 30 of this circular. Whether or not you are able to attend the above meetings, you are requested to complete and return the enclosed proxy form(s) in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or at any adjournment thereof. Completion and return of the proxy form(s) will not preclude you from attending and voting in person at the meeting(s) or at any adjourned meeting(s) should you so wish.

Reply slip for the EGM have also been enclosed. You are reminded to complete and sign the relevant reply slip and return it to the office of the secretary to the Board, the People's Republic of China on or before 6 December 2013 (Friday) in accordance with the instructions printed thereon.

\* *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 Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).*

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## EXPECTED TIMETABLE

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Register of members of the Company closes . . . . . from 27 November 2013 to 27 December 2013

Latest time for lodging proxy forms in respect of the EGM . . . . . 4:30 p.m. 26 December 2013

EGM . . . . . 9:00 a.m. 27 December 2013

Register of members of the Company re-opens . . . . . 30 December 2013

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## DEFINITIONS

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

“Associate”	has the meaning ascribed to it in the Listing Rules
“Annual Caps”	the maximum transaction value under the Supply of Excess Electricity Agreement for the three years ending 31 December 2016 which is set out in page 7 of this circular
“Board”	the board of Directors of the Company
“Business Day”	any day other than the public holidays stipulated under PRC laws, Saturdays and Sundays
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited)
“Connected Person”	has the meanings ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company proposed to be convened and held on 27 December 2013 for the Independent Shareholders to consider and, if thought fit, approve the Excess Electricity Supply Transaction (including the Annual Caps)
“Excess Electricity Supply Transaction”	the continuing connected transactions contemplated under the Supply of Excess Electricity Agreement
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holding 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 a promoter and the controlling shareholder of the Company

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the Independent Directors
“Independent Directors”	the independent non-executive directors of the Company, who are invited to advise the Independent Shareholders on the Excess Electricity Supply Transaction (including the Annual Caps)
“Independent Financial Adviser”	Crosby Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance and being the Independent Financial Adviser appointed by the Company to make the relevant recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Excess Electricity Supply Transaction (including the Annual Caps)
“Independent Shareholders”	the shareholders of the Company other than Holding Company, Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia
“Latest Practicable Date”	8 November 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Old Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 4 November 2010 with a term of three years ending on 31 December 2013
“Parent Group”	Holding Company, its subsidiaries and associates (excluding the Group)
“PRC”	People’s Republic of China
“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

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## DEFINITIONS

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“Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 1 November 2013 for the supply of electricity which are in excess of the actual electricity consumed by the Group to Parent Group for a term commencing from 1 January 2014 and ending on 31 December 2016 (both dates inclusive)
“VAT”	value added tax

*For ease of reference, the names of the PRC-incorporated companies and entities have been included in this circular in both the Chinese and English languages. In the event of any inconsistency, the Chinese name prevails.*

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## LETTER FROM THE BOARD

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**魏橋紡織股份有限公司**  
**Weiqiao Textile Company Limited\***

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

**(Stock Code: 2698)**

*Executive Directors:*

Zhang Hongxia (*Chairman*)  
Zhang Yanhong  
Zhao Suwen  
Zhang Jinglei

*Registered Office:*

No. 34 Qidong Road  
Weiqiao Town  
Zouping County  
Shandong Province The PRC

*Non-executive Directors:*

Zhang Shiping  
Zhao Suhua

*Principal place of business*

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

*Independent Non-executive Directors:*

Wang Naixin  
Xu Wenying  
Chan Wing Yau, George

12 November 2013

*To the Shareholders*

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
(SUPPLY OF EXCESS ELECTRICITY)**

**A. INTRODUCTION**

Reference is made to the announcements of the Company dated 4 November 2010 and 1 November 2013, respectively. The Old Supply of Excess Electricity Agreement will expire on 31 December 2013. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the transaction and on 1 November 2013, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2014 to 31 December 2016 pursuant to which the Group will supply excess electricity to Parent Group. Terms and conditions under the Supply of Excess Electricity Agreement are basically the same with the conditions under the Old Supply of Excess Electricity Agreement.

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## LETTER FROM THE BOARD

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Holding Company currently holds 744,937,600 Domestic Shares, representing approximately 62.37% of the entire issued share capital of the Company. As Holding Company is a substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Excess Electricity Supply Transaction is on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, the same transaction is subject to the reporting, annual review, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

Details of the Supply of Excess Electricity Agreement will also be disclosed in the Company's next published annual report and accounts, as required under Rule 14A.46 of the Listing Rules.

An Independent Board Committee, comprising all of the Independent Directors of the Company, namely Mr. Wang Naixin, Mr. Xu Wenying and Mr. Chan Wing Yau, George, has been formed to advise the Independent Shareholders in respect of the Supply of Excess Electricity Agreement. The Company has appointed Crosby Securities Limited to advise the Independent Board Committee and the Independent Shareholders in respect of the Supply of Excess Electricity Agreement.

The Board (excluding Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong who have abstained from voting on the Board resolution of the Company in respect of the Excess Electricity Supply Transaction due to their equity interests in Holding Company and the members of the Independent Board Committee, the opinion of which, after taking into account of the advice from the Independent Financial Adviser, is included in the section "Letter from the Independent Board Committee" in this circular) is of the view that the Supply of Excess Electricity Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms and that they, as well as the Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

The purpose of this circular is to provide you with information regarding the resolution to be approved at the EGM relating to the Supply of Excess Electricity Agreement and the continuing connected transactions contemplated thereunder.

### **B. THE SUPPLY OF EXCESS ELECTRICITY AGREEMENT**

#### **1. Date**

1 November 2013

#### **2. Parties**

- (a) Company
- (b) Holding Company



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## LETTER FROM THE BOARD

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### 3. Transaction nature

Supply of electricity by the Group, which are in excess of the Group's actual electricity consumed, to Parent Group for a term commencing from 1 January 2014 and ending on 31 December 2016 (both dates inclusive).

### 4. Pricing basis

The price at which excess electricity is supplied to Parent Group by the Group shall be RMB0.50 per kWh (inclusive of VAT at the rate of 17%) or the market price (VAT inclusive) from time to time at which power plants in Shandong Province would sell electricity produced to the relevant power grid in Shandong Province, whichever is higher (subject to adjustment mentioned in the following paragraph). The aforesaid market price (VAT inclusive) is made with reference to the average price (VAT inclusive) to be charged by key power plants in Shandong Province for supply of electricity to the relevant local power grid according to information published on the website of Shandong Price Bureau, which was RMB0.46 per kWh based on the information relating to the prices for supply of electricity to power grid by key power plants in Shandong Province published on the website of Shandong Price Bureau ([www.sdwj.gov.cn](http://www.sdwj.gov.cn)) on 16 October 2013. If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, it would be adopted instead. As at the Latest Practicable Date, there was no mandatory electricity price prescribed for the transactions under the Old Supply of Excess Electricity Agreement.

As the market price of electricity generally will be adjusted in a later stage after the fluctuation of coal prices, the Company, according to the fluctuation of the price of coal, may adjust the price at which excess electricity is supplied to Parent Group by the Company up to the price (VAT inclusive) at which the relevant power grid in Shandong Province would sell electricity to companies (which was RMB0.6144 per kWh for large scale industry enterprises for Binzhou City where the Company located with a voltage range from 35 KV to 110 KV (exclusive of a total fee of RMB0.0538, including fees such as city public utilities fee) prescribed by Shandong Price Bureau (Lu Jiage Fa(2011) No. 201)) and no less than the price (VAT inclusive) at which key power plants in Shandong Province would sell electricity to power grid in Shandong Province upon a 10 days' prior written notice to Holding Company. In such circumstance, the price principle set out in the above paragraph will not apply and after such adjustment, the price may be lower or higher than the current price of RMB 0.5 or the market price (VAT inclusive) from time to time at which key power plants in Shandong Province would sell electricity produced to the relevant power grid in Shandong Province, which is higher. The Board is of the view that such adjustment would provide more flexibility to the Company to adjust the prices in accordance with production cost and maintain competitive in terms of pricing.

The above price of RMB0.50 per kWh has been determined after arm's length negotiation between Holding Company and the Company, taking into account that RMB0.50 per kWh is a price which (i) is higher than the current average price at which key power plants in Shandong Province sell electricity produced to the relevant power grid in Shandong Province; and (ii) is lower than the current electricity purchase price charged by the relevant power grid in Shandong Province.

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## LETTER FROM THE BOARD

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### 5. Payment term

Holding Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual amount of electricity supplied. The Company will provide the amount due on the last business day of each month and Holding Company shall make the payment within the first 10th days of the following month. To the best knowledge of the Directors, such payment terms are in line with the market practice in Shandong Province.

### 6. Termination and Renewal

Any party to the Supply of Excess Electricity Agreement may terminate it by providing at least 30 days prior written notice to the counterparty.

The Supply of Excess Electricity Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules by the Company) unless any party decides not to renew it and give a 30 days prior written notice to the counterparty accordingly.

### 7. Maximum aggregate annual value

Set out below is the maximum aggregate annual value for electricity (excluding VAT at the rate of 17%) for the excess electricity supplied under the Supply of Excess Electricity Agreement which is estimated to be payable by Holding Company to the Company for each of the three financial years ending 31 December 2016:

	<b>Financial year ending 31 December 2014</b>	<b>Financial year ending 31 December 2015</b>	<b>Financial year ending 31 December 2016</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Transaction amount	2,142,000,000	2,142,000,000	2,142,000,000 <sup>1</sup>
Expected electricity amount (kWh)	5,011,802,000	5,011,802,000	5,011,802,000

*Note 1:* The maximum transaction value for the excess electricity to be supplied by the Group to Parent Group was determined with reference to the electricity purchased by Parent Group from the Company for the year ending 31 December 2013, which was estimated to be approximately RMB1,947,000,000 (excluding VAT at the rate of 17%), with an expected growth rate of approximately 10% for the year ending 31 December 2014. The growth rate was determined with reference to the expected production growth of Parent Group in the downstream textile industry, including printing and dyeing and home textile products. For the year 2014, Parent Group intends to make further investment to expand its production capacity with an expected growth rate of 10% in comparison with that for the year 2013. As the production capacity of Parent Group is expected to be remained stable for the two years ending 31 December 2016, the maximum transaction annual values for the two years ending 31 December 2016 are the same with the one for the year ending 31 December 2014.

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## LETTER FROM THE BOARD

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The historical figures and annual caps for the three years ending 31 December 2013 for the electricity purchased by Parent Group from the Company are as follows:

	Financial year ending 31 December 2011 (RMB)	Financial year ending 31 December 2012 (RMB)	Financial year ending 31 December 2013 (RMB)
Historical figures	1,436,000,000	1,883,000,000	1,947,000,000 <sup>2</sup>
Annual caps	1,453,030,000	1,888,940,000	2,415,250,000
Historical purchase volume of electricity	3,360,209,000	4,406,652,000	4,556,184,000

*Note 2:* the transaction value for 2013 was calculated based on the actual average monthly transaction value for the nine months ended 30 September 2013 by multiplying 12. The sales of the excess electricity to the Parent Group by the Group for the three months ended 31 December 2013 is expected to be stable in comparison with the average transaction value for the nine months ended 30 September 2013.

### C. REASONS FOR AND BENEFITS OF THE EXCESS ELECTRICITY SUPPLY TRANSACTION

The excess electricity to be purchased by Parent Group under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets and thus improving operation efficiency and achieving economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional stream of income and thus enhancing the profits of the Group. The Board is of the view that although the Company may sell excess electricity to other third parties with comparable terms, such sales may be far less than the amount of electricity to be purchased by Parent Group under the Supply of Excess Electricity Agreement or may not be as stable and sustainable as the sales to the Parent Group.

Based on the above, the Board believes that the Excess Electricity Supply Transaction would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings through improving operation efficiency and reducing electricity generation cost per kWh and enhancement of its profitability of the Group.

The terms and conditions of the Excess Electricity Supply Transaction have been negotiated on an arm's length basis. The Board (excluding Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong who have abstained from voting on the Board resolution of the Company in respect of the Excess Electricity Supply Transaction due to their equity interests in Holding Company and the members of the Independent Board Committee, the opinion of which, after taking into account of the advice from the Independent Financial Adviser, is included the section "Letter from the Independent Board Committee" in this circular) is of the view that the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms, and that the terms, as well as the Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

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## LETTER FROM THE BOARD

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### **D. LISTING RULES IMPLICATIONS**

Holding Company currently holds 744,937,600 Domestic Shares, representing about 62.37% of the entire issued share capital of the Company. As Holding Company is a substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Excess Electricity Supply Transaction is on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, the same transaction is subject to the reporting, annual review, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

### **E. EGM**

The Company proposes to seek the approvals of the Independent Shareholders at the EGM relating to the Excess Electricity Supply Transaction (including the Annual Caps).

According to the Listing Rules, Holding Company will abstain from voting in respect of the resolutions relating to the Excess Electricity Supply Transaction (including the Annual Caps) at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors and Mr. Zhang Bo, the son of Mr. Zhang Shiping and the brother of Ms. Zhang Hongxia, are considered to be parties acting in concert with Holding Company and hold approximately 33.61% (directly and indirectly), 7.00% and 7.00% of the equity interests in Holding Company, respectively, will also abstain from voting in respect of the same resolutions at the EGM.

As at the Latest Practicable Date, Holding Company holds approximately 62.37% of the total issued Shares, and Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia hold approximately 0.44%, 1.08% and 1.48%, respectively, of the total issued Shares. To the best of the knowledge and belief of the Directors, none of Holding Company, Mr. Zhang Shiping, Mr. Zhang Bo, Ms. Zhang Hongxia has any associate (other than amongst themselves) who is a Shareholder.

The votes to be taken at the EGM in relation to the resolutions for approval by the Independent Shareholders of the Excess Electricity Supply Transaction (including the Annual Caps) will be taken by poll.

The relevant forms of proxy and attendance slip are enclosed. Shareholders who intend to attend the EGM are required to complete and return the attendance slip to the Company on or before 6 December 2013 (Friday).

### **F. RECOMMENDATION**

The Board, including the Independent Board Committee, is of the opinion that the terms of the Supply of Excess Electricity Agreement (including the Annual Caps) 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 the Independent Shareholders vote in favour of the resolutions set out in the notice of the EGM for the approval of the

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## LETTER FROM THE BOARD

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Supply of Excess Electricity Agreement (including the Annual Caps). The Board is also of the view that the Supply of Excess Electricity Agreement is on normal commercial terms and is in the ordinary and usual course of business of the Group.

### **G. INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising Mr. Wang Naixin, Mr. Xu Wenying and Mr. Chan Wing Yau, George, has been formed to advise the Independent Shareholders in respect of the Supply of Excess Electricity Agreement (including the Annual Caps). Crosby Securities Limited has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Supply of Excess Electricity Agreement (including the Annual Caps).

### **H. GENERAL INFORMATION**

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Holding 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. As at the Latest Practicable Date, Holding Company was owned as to 23.52% by Mr. Zhang Shiping directly, as to 37.48% by other 12 individuals (including Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong) and as to 39.00% by Shandong Weiqiao Investment Holding Company Limited, an investment holding company and in which Mr. Zhang Shiping holds 20.69% for himself and 5.17% on behalf of other 29 individuals.

### **I. ADDITIONAL INFORMATION**

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

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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魏橋紡織股份有限公司

**Weiqiao Textile Company Limited\***

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

**(Stock Code: 2698)**

12 November 2013

*To the Independent Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF EXCESS ELECTRICITY)**

We have been appointed as members of the Independent Board Committee to consider the Supply of Excess Electricity Agreement (including the Annual Caps) and the transactions contemplated thereunder, details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 12 November 2013 (the “Circular”), of which this letter forms part, and to advise you as to the fairness and reasonableness of the same. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Supply of Excess Electricity Agreement (including the Annual Caps) and the advice and opinion of Crosby Securities Limited in relation thereto as set out on pages 12 to 20 of the Circular, we are of the opinion that the Supply of Excess Electricity Agreement (including the Annual Caps) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Supply of Excess Electricity Agreement (including the Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

**Wang Naixin**

*Independent non-executive  
Director*

**Xu Wenying**

*Independent non-executive  
Director*

**Chan Wing Yau, George**

*Independent non-executive  
Director*

CROSBY

5/F, AXA Centre  
151 Gloucester Road  
Wanchai, Hong Kong

12 November 2013

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
SUPPLY OF EXCESS ELECTRICITY**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Supply of Excess Electricity Agreement between the Company and Holding Company, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 12 November 2013, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 4 November 2010 and 1 November 2013, respectively. The Old Supply of Excess Electricity Agreement will expire on 31 December 2013. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the term of the transaction and on 1 November 2013, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2014 to 31 December 2016 (both dates inclusive) pursuant to which the Group will supply excess electricity to Parent Group.

As of the Latest Practicable Date, Holding Company held 744,937,600 Domestic Shares, representing approximately 62.37% of the entire issued share capital of the Company. As Holding Company is the substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules. As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Excess Electricity Supply Transaction is on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, the same transaction is subject to the reporting, annual review, announcement and independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

According to the Listing Rules, Holding Company will abstain from voting in respect of the resolutions relating to the Excess Electricity Supply Transaction (including the Annual Caps) at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors, and Mr. Zhang Bo, the son of Mr. Zhang Shiping and the brother of Ms. Zhang Hongxia, are considered to be parties acting in concert with Holding Company and held approximately 33.61% (directly and indirectly), 7.00% and 7.00% of the equity interests in Holding Company as at the Latest Practicable Date, respectively. As such, they will also abstain from voting at the EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wang Naixin, Mr. Xu Wenying and Mr. Chan Wing Yau, George, has been formed to advise the Independent Shareholders in relation to the Supply of Excess Electricity Agreement and the Annual Caps.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company. The Directors have declared in a responsibility statement set out in Appendix I to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, Holding Company or any of their respective subsidiaries or associates.

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

In arriving at our opinion and advice in relation to the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction (including the Annual Caps), we have considered the following principal factors and reasons:

#### **A. Background and reasons for entering into the Supply of Excess Electricity Agreement**

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. As stated in the Letter from the Board, Holding 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.

As advised by the Company, the electricity produced by the Group's self-owned power plant assets oftentimes exceeds the actual electricity consumption for its own productions, and thus since 2008, the Group has continuously sold the excess electricity produced by itself to the Parent Group. As the Old Supply of Excess Electricity Agreement will expire on 31 December 2013, the parties to the Old Supply of Excess Electricity Agreement have agreed conditionally to renew the term of the transaction by entering into the Supply of Excess Electricity Agreement on 1 November 2013. Furthermore, as stated in the Letter from the Board, the excess electricity to be purchased by the Parent Group under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets and thus improving operation



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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efficiency and achieving economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional stream of income and thus enhancing the profits of the Group.

Taking into account the above, in particular, (i) the electricity produced by the Group's power plant assets oftentimes exceeds the electricity required for its own productions and the Group has been supplying excess electricity to the Parent Group since 2008; (ii) the economic benefits the Supply of Excess Electricity Agreement would bring to the Group, including, amongst others, the additional source of income to be generated from the supply of excess electricity to the Parent Group; and (iii) our analysis and view on the major terms of the Supply of Excess Electricity Agreement (as explained below), we consider the entering into of the Supply of Excess Electricity Agreement is in the interests of the Group and the Shareholders as a whole.

### **B. Major terms of the Supply of Excess Electricity Agreement**

We have reviewed the Supply of Excess Electricity Agreement and the Old Supply of Excess Electricity Agreement, and note that the terms and conditions under the Supply of Excess Electricity Agreement remain substantially the same as those under the Old Supply of Excess Electricity Agreement, which was approved by the then Independent Shareholders on 23 December 2010. Our analysis on major terms of the Supply of Excess Electricity Agreement is set out below.

#### *(i) Pricing basis*

The price of excess electricity to be supplied to the Parent Group by the Group shall be determined as followings:

- (a) RMB0.50 per kWh (inclusive of VAT at the rate of 17%); or the market price (VAT inclusive) from time to time at which power plants in Shandong Province would sell electricity produced to the relevant power grid in Shandong Province, whichever is higher (subject to adjustment as prescribed under the pricing principle (b) below). The aforesaid market price (VAT inclusive) is made with reference to the average price (VAT inclusive) to be charged by key power plants in Shandong Province for supply of electricity to the relevant local power grid according to information published on the website of Shandong Price Bureau.
- (b) According to the fluctuation of the price of coal, the Company may adjust the price of excess electricity to be supplied to the Parent Group up to the price (VAT inclusive) at which the relevant power grid in Shandong Province would sell electricity to companies and also no less than the aforesaid market price (VAT inclusive) at which key power plants in Shandong Province would sell electricity to the relevant power grid in Shandong Province upon a 10 days' prior written notice to Holding Company.
- (c) If any applicable mandatory price for supply of electricity is prescribed by the PRC government, it would be adopted instead.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As understood from the Company, to avoid any doubt, in the event that the Company decides to adjust the price of excess electricity to be supplied to the Parent Group due to the fluctuation of coal prices, the above pricing principle (b) will override the above pricing principle (a). Depending on the price of coal, according to the above pricing principle (b), the price of excess electricity to be supplied to the Parent Group may drop below RMB0.50 per kWh (VAT inclusive) (but in any case, no less than the market price (VAT inclusive) at which key power plants in Shandong Province would sell electricity to the relevant power grid in Shandong Province as prescribed under pricing principle (a) above) or go above RMB0.50 per kWh (VAT inclusive) (but in any case, not more than the price (VAT inclusive) at which the relevant power grid in Shandong Province would sell electricity to companies). We have discussed with the management of the Company in relation to the above pricing principle (b) and concur with the Company's view that such adjustment in selling price would provide more flexibility to the Company as the Company would have the discretion to adjust the price of excess electricity to be supplied to the Parent Group upwards in the event of a rise in coal price or adjust the price of excess electricity to be supplied to the Parent Group downwards in the event of a drop in coal price in order to maintain pricing competitiveness.

As further advised by the management of the Company, as at the Latest Practicable Date, there was not any applicable mandatory price for supply of electricity prescribed by the relevant PRC government and thus the above pricing principle (c) was not applicable as at the Latest Practicable Date.

In relation to the current price at which key power plants in Shandong Province sell their electricity to the relevant power grid, based on our review of the information relating to the prices (the "**Power Grid Price**") for supply of electricity to power grid by key power plants in Shandong Province published on the website of Shandong Price Bureau ([www.sdwj.gov.cn](http://www.sdwj.gov.cn)) on 16 October 2013, we note that the above price of RMB0.50 per kWh is higher than the current average Power Grid Price of approximately RMB0.46 per kWh (VAT inclusive). Furthermore, as advised by the Company, corporate users can procure electricity from the power grid in Shandong Province as well as from local power plants and thus to keep the Company at a competitive position in supply of electricity in the locality, the Company will sell its excess electricity at a price lower than the electricity price charged by the power grid in Shandong Province (for reference purpose, the electricity price charged by the power grid in Shandong Province was RMB0.6144 per kWh for large scale industry enterprises in Binzhou City (where the Company is located) with a voltage range from 35 KV to 110KV (exclusive of a total fee of RMB0.0538, including fees such as city public utilities fee) according to Shandong Price Bureau (Lu Jiage Fa(2011) No. 201)).

Taking into consideration the above factors, we are of the view that the aforesaid pricing basis is commercially justifiable, fair and reasonable and hence on normal commercial terms.

We have obtained from the Company and reviewed the sales breakdown by individual independent third party purchaser for the two years ended 31 December 2012 and the nine months ended 30 September 2013 (the "**Review Period**"), and note that apart from supplying the excess electricity generated by the Group to the Parent Group under the Old Supply of Excess Electricity Agreement, the Group also supplied excess electricity to over 200 independent third party purchasers. Upon comparison of the electricity price offered by the Group to its independent third party purchasers and to the Parent Group, we note that the price of RMB0.50 per kWh (VAT inclusive)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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charged by the Group under the Old Supply of Excess Electricity Agreement to the Parent Group was lower than those offered by the Company to its independent third party purchasers with an average price of approximately RMB0.53 per kWh (VAT inclusive). As advised by the Company, throughout the Review Period, the Parent Group was by far the largest purchaser of the excess electricity generated by the Group and the purchase pattern was relatively stable with large quantities purchased for each period. We have reviewed the sales breakdown in quantity by the Parent Group and independent third party purchasers for the Review Period, and note that the aggregate electricity quantity sold to the Parent Group was larger than that sold to the Group's independent third party purchasers for the Review Period and that the historical purchase quantity of electricity from the Parent Group was within a relatively stable range of approximately 3.3-4.6 billion kWh per year (on an annual basis for the year ending 31 December 2013) in comparison to a relatively lower and wider range of approximately 0.5-3.1 billion kWh per year (on an annual basis for the year ending 31 December 2013) sold to the Group's independent third party purchasers. Taking into consideration the significant difference in purchase size and purchase stability between the Parent Group and the Group's independent third party purchasers, and as advised by the Company, the administrative costs in providing excess electricity to the Group's independent third party purchasers are relatively higher as compared to the Parent Group due to the need to set up additional lines for electricity transmission to independent third party purchasers, we are of the view that the said relatively lower price offered to the Parent Group as compared to the Group's independent third party purchasers is commercially justifiable, fair and reasonable and hence on normal commercial terms.

*(ii) Payment*

Holding Company shall pay for the electricity supplied in arrears on a monthly basis based on the actual amount of electricity supplied by the Company. The Company will provide the amount due from Holding Company on the last business day of each month and Holding Company shall make the payment by the 10th day of the following month. We have reviewed the written contract entered into between the Group and its largest independent third party purchaser in terms of purchase quantity in relation to the supply of, among others, excess electricity by the Group during the term of the Old Supply of Excess Electricity Agreement and note that the payment terms offered by the Group to the Parent Company are on normal commercial terms.

*(iii) Termination/renewal*

During the term of the Supply of Excess Electricity Agreement, the Company has the right to terminate the agreement by giving prior written notice to Holding Company 30 days in advance.

Additionally, the Supply of Excess Electricity Agreement shall be renewed automatically for another three years upon expiry (subject to the Company's compliance with the Listing Rules), unless either party notifies the counterparty to terminate the same by giving prior written notice 30 days prior to the expiry date (that is 31 December 2016) of the Supply of Excess Electricity Agreement.

Having considered the above, in particular the fairness and reasonableness of the pricing principle, we concur with the Directors' view that the terms of the Supply of Excess Electricity Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**C. The Proposed Annual Caps**

Set out below are (i) the historical transaction amounts (excluding VAT at the rate of 17%) of the continuing connected transactions under the Old Supply of Excess Electricity Agreement; and (ii) the maximum aggregate annual value for electricity (excluding VAT at the rate of 17%) for the excess electricity supplied under the Supply of Excess Electricity Agreement which is estimated to be payable by the Parent Group to the Company for each of the three financial years ending 31 December 2016:

	Historical transaction amounts		Estimated transaction amount	Proposed Annual Caps		
	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ending 31 December 2013	For the year ending 31 December 2014	For the year ending 31 December 2015	For the year ending 31 December 2016
	RMB (audited)	RMB (audited)	RMB (Note)	RMB	RMB	RMB
Electricity purchased by the Parent Group from the Group	1,436,000,000	1,883,000,000	1,947,000,000	2,142,000,000	2,142,000,000	2,142,000,000
Historical annual caps	1,453,030,000	1,888,940,000	2,415,250,000			
Utilization % of the historical annual caps	98.8%	99.7%	80.6%			

*Note:* The transaction value for FY2013 was estimated by the Company based on the actual average monthly transaction value for the nine months ended 30 September 2013 by multiplying 12. Based on the Group's monthly sales breakdown to the Parent Group for the Review Period provided by the Company, we note that the Group's sales to the Parent Group were stable on a monthly basis and were not subject to any particular seasonality factors.

As stated in the Letter from the Board, the maximum transaction value for the excess electricity to be supplied by the Group to the Parent Group was determined with reference to the electricity purchased by the Parent Group from the Company for the year ending 31 December 2013, which was estimated to be approximately RMB1,947,000,000 (excluding VAT at the rate of 17%), with an expected growth rate of approximately 10% for the year ending 31 December 2014. The growth rate was determined with reference to the expected production growth of the Parent Group in the downstream textile industry, including printing and dyeing and home textile products. As the production capacity of the Parent Group is expected to remain stable for the two years ending 31 December 2016, the maximum transaction annual values for the two years ending 31 December 2016 are the same with that for the year ending 31 December 2014.

In assessing the fairness and reasonableness of the proposed Annual Caps, we have discussed with the Company the basis considered in determining the Annual Caps and understand that the proposed annual cap for FY2014 is mainly determined with reference to the estimated transaction value for FY2013 which in turn is arrived at based on the actual monthly transaction value for the nine months ended 30 September 2013, which we consider is an appropriate and reasonable starting reference point for determination of the annual cap for FY2014.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of the expected growth rate of approximately 10% adopted for determining the proposed annual cap for FY2014, we have obtained a development plan of the Parent Group for FY2014 (the “**Development Plan**”). From the Development Plan, we note that as a result of the Parent Group being awarded two industry licenses in 2009 and 2010, which helped substantiate the Parent Group’s foothold in the textile industry, the Parent Group has planned to continue to make investment to expand its production capacities for printing and dyeing cloth, home textile products, and fashion products by approximately 10% in 2014 as compared to that of 2013. The assumed 10% growth rate for FY2014 cap purpose is therefore in line with the Parent Group’s expansion of its relevant production capacity. For additional reference, we have reviewed a recent news report published on the website of China National Textile and Apparel Council (<http://data.ctei.gov.cn>) on 8 October 2013 and note that during the period from January to July 2013, the textile industry in the PRC grew by approximately 9.4% in terms of total value added as compared to the same period in 2012. Given the above, we are of the view that 10% is a justifiable growth rate for FY2014 cap purpose in catering for the potential increase in demand for electricity from the Parent Group. The Company further advised that, to their best knowledge, the Parent Group has no plans to further expand its production capacity in the coming FY2015 and FY2016, and thus the Company expects that the purchase of excess electricity by the Parent Group from the Group would remain at a stable level for each of FY2015 and FY2016.

Having considered the above, we consider that the basis for determining the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Notwithstanding the above, we would like to highlight that as the proposed Annual Caps relate to future events and are based upon assumptions that may or may not remain valid for the whole period of the Supply of Excess Electricity Agreement up to 31 December 2016, we express no opinion as to how closely the actual supply of excess electricity by the Group to Holding Company pursuant to the Supply of Excess Electricity Agreement shall correspond to the Annual Caps.

### **D. Requirements by the Listing Rules regarding the Excess Electricity Supply Transaction**

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Excess Electricity Supply Transaction is subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Excess Electricity Supply Transaction and confirm in the annual report and accounts that the Excess Electricity Supply Transaction has been entered into:
- in the ordinary and usual course of business of the Company;
  - either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than the terms available to or from (as appropriate) independent third parties; and
  - in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Excess Electricity Supply Transaction:
- has received the approval of the Board;
  - is in accordance with the pricing policies of the Company if the Excess Electricity Supply Transaction involves provision of goods or services by the Company;
  - has been entered into in accordance with the terms of the relevant agreement(s) governing the Excess Electricity Supply Transaction; and
  - has not exceeded the Annual Caps.
- (c) the Company shall allow, and shall procure the relevant counter-parties to the Excess Electricity Supply Transaction shall allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Excess Electricity Supply Transaction. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (b) above; and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) above respectively.

In light of the reporting requirements attached to the Excess Electricity Supply Transaction, in particular, (i) the restriction of the value of the Excess Electricity Supply Transaction by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Excess Electricity Supply Transaction and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Excess Electricity Supply Transaction and safeguard the interests of the Company and the Independent Shareholders as a whole.

### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Group and the Shareholders as a whole, and the terms thereof as well as the proposed Annual Caps are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transaction and the proposed Annual Caps.

Yours faithfully,

For and on behalf of

**Crosby Securities Limited**

**Heidi Cheng**

*Managing Director*

*Corporate Finance*

**Lily Li**

*Assistant Director*

*Corporate Finance*

## 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 of the directors, supervisors or chief executive of the Company in the shares, underlying shares or debentures of the Company and 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 or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to 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 Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the Domestic Shares of the Company:

	<b>Type of interest</b>	<b>Number of Domestic Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of total issued Domestic Share capital</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital</b> <i>(%)</i>
Zhang Hongxia ( <i>Executive Director/Chairman</i> )	Beneficial	17,700,400	2.27	1.48
Zhang Shiping ( <i>Non-executive Director</i> )	Beneficial	5,200,000	0.67	0.44

*Note 1:* Unlisted shares



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

Name of Shareholders	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital (%)
Zhang Shiping ( <i>Non-executive director</i> )	Holding Company	Beneficial interests	31.59
Zhang Hongxia ( <i>Executive director</i> )	Holding Company	Beneficial interests and spouse interests ( <i>Note 1</i> )	9.73 ( <i>Note 1</i> )
Zhang Yanhong ( <i>Executive director</i> )	Holding Company	Beneficial interests	5.63
Zhao Suwen ( <i>Executive director</i> )	Holding Company	Beneficial interests	0.38
Zhao Suhua ( <i>Non-executive director</i> )	Holding Company	Beneficial interests and spouse interests ( <i>Note 2</i> )	4.93 ( <i>Note 2</i> )

*Note 1:* These 112,000,000 shares of the Holding Company will be beneficially owned by Ms. Zhang Hongxia, who is taken to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen, under the SFO.

*Note 2:* Ms. Zhao Suhua is taken to be interested in the 78,922,000 shares directly held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the directors, supervisors or chief executive of the Company nor their associates had an interest or short position 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 are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to 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 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 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 any Directors, supervisors or the chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) have 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 under the provisions of Division 2 and 3 of Part XV of the SFO:

Interests in the Domestic Shares of the Company:

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>
Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”)	744,937,600 (Long position)	95.41	62.37
Shandong Weiqiao Investment Holdings Company Limited (“Weiqiao Investment”)	744,937,600 (Long position) <i>(Note 2)</i>	95.41	62.37

## Interests in the H Shares of the Company:

Name of Shareholders	Type of interest	Number of H Shares (Note 3)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued share capital (%)
Brandes Investment Partners, L.P.	Investment manager	70,455,862 (Long position) (Note 4)	17.03	5.90
The Bank of New York Mellon Corporation	Interest of a controlled corporation	22,676,208 (Long position)	5.48	1.90
		16,109,708 (Lending pool) (Note 5)	3.89	1.35
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 6)	9.93	3.44
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	26,279,867 (Long position)	6.35	2.20
		11,252,418 (Short position)	2.72	0.94
	Custodian corporation/ approved lending agent	13,036,351 (Lending pool) (Note 7)	3.15	1.09

Note 1: Unlisted shares.

Note 2: Weiqiao Investment holds 39% equity interests in Holding Company.

Note 3: Shares listed on the Main Board of the Stock Exchange.

Note 4: These 70,455,862 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 5: These 22,676,208 H Shares in which The Bank of New York Mellon Corporation was deemed interested under the SFO were directly held by The Bank of New York Mellon, which was a corporation 100% controlled by The Bank of New York Mellon Corporation.

Note 6: 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.

*Note 7:* These 26,279,867 H Shares (long position) and 11,252,418 shares (short position) in which Citigroup Inc. was deemed interested as the interest of corporation controlled by a substantial shareholder under the SFO were directly or indirectly held by its several subsidiaries or related companies. These 13,036,351 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.

Save as disclosed above, so far as known to the directors, supervisors and the chief executive of the Company, as at the Latest Practicable Date, there was no other person (not being a director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV 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 were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2012, being the date to which the latest 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. CONSENT AND QUALIFICATIONS

The following is the qualification of the professional adviser who has given opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Crosby Securities Limited	licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance

Crosby Securities Limited 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) Crosby Securities Limited had no interest, either direct or indirect, in any assets which have been, since 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) Crosby Securities Limited 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 legal address of the Company is at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, The People's Republic of China.
- (ii) The address of the head office of the Company is No. 1 Wei Fang Lu, Economic Development Zone, Zouping County, Shandong Province, The People's Republic of China.
- (iii) The principal place of business of the Company in Hong Kong is Suite 5109, The Center, 99th Queen's Road, 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 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, 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, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date of the circular:

- (a) the articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 11 of this circular;

- (c) the letter issued by Crosby Securities Limited, the text of which is set out on pages 12 to 20 of the circular;
- (d) the letter of consent from the Independent Financial Adviser;
- (e) the Supply of Excess Electricity Agreement and the Old Supply of Excess Electricity Agreement; and
- (f) this circular.

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## NOTICE OF THE EGM

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魏橋紡織股份有限公司

**Weiqiao Textile Company Limited\***

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

**(Stock Code: 2698)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Weiqiao Textile Company Limited (the “Company”) will be convened and held at 9:00 a.m. on 27 December 2013 (Friday) at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Lu, Economic Development Zone, Zouping County, Shandong Province, The People's Republic of China (the “PRC”), to consider and, if thought fit, approve the following ordinary resolution:

#### AS ORDINARY RESOLUTION

**“THAT:**

- (a) the Company's entering into of the supply of excess electricity agreement (the “**Supply of Excess Electricity Agreement**”) with Holding Company on 1 November 2013 be and is hereby approved and confirmed;
- (b) the estimated maximum values of the annual aggregate supply of electricity by the Group to Parent Group (as set out in the announcements of the Company dated 1 November 2013 and the circular of the Company dated 12 November 2013 of which this notice forms part) for each of the three years ending 31 December 2016 be and are hereby approved and confirmed; and
- (c) any Director of the Company be and is hereby authorised to do further acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the Supply of Excess Electricity Agreement with such changes as the Directors of the Company may consider necessary, desirable or expedient.”

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

12 November 2013  
Shandong  
The People's Republic of China

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## NOTICE OF THE EGM

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*Notes:*

- (A) **The H Share register of the Company will be closed from 27 November 2013 (Wednesday) to 27 December 2013 (Friday) (both days inclusive), during which no transfer of H Shares will be effected. Any holders of H Shares of the Company, whose names appear on the Company's register of members before 4:30 p.m. on 26 November 2013 (Tuesday), are entitled to attend and vote at the EGM after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the EGM, share transfer documents should be lodged with the Company's H Share registrar not later than 4:30 p.m. on 26 November 2013.**

**The address of the share registrar for the Company's H Shares is as follows:**

**Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong**

- (B) Holders of H Shares and Domestic Shares, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the Office of the Secretary to the Board of Directors of the Company not later than 20 days before the date of the EGM, i.e. on or before 6 December 2013 (Friday).

Details of the Office of the Secretary to the Board of Directors of the Company are as follows:

Fourth Floor  
Company Office Building  
No. 1 Wei Fang Lu  
Economic Development Zone  
Zouping County  
Shandong Province  
People's Republic of China  
Tel: 86 (543) 4162222  
Fax: 86 (543) 4162000

- (C) The resolution proposed at the EGM will be voted by way of poll.
- (D) Each holder of H Shares who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a shareholder 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.
- (E) 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.
- (F) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited, on 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.



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## NOTICE OF THE EGM

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- (G) 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 (D) to (E) 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, 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.
- (H) 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/her ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
- (I) The EGM, is expected to last not more than half a day. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.
- (J) As at the date of this announcement, the board of Directors of the Company comprises 9 Directors, namely Ms. Zhang Hongxia, Ms. Zhao Suwen, Ms. Zhang Yanhong and Mr. Zhang Jinglei as executive Directors, Mr. Zhang Shiping and Ms. Zhao Suhua as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau 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 Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).*