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

**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.



# 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)**

# (1) VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS RELATED TO THERMAL POWER ASSETS SWAP AGREEMENT AND (2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM)

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

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

**First Shanghai Capital Limited**

A letter from the Board is set out in pages 4 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Thermal Power Assets Swap Agreement, the Acquisition and the Disposal, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions thereunder is set out in pages 19 to 20 of this circular. A letter from First Shanghai Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out in pages 21 to 44 of this circular.

A notice dated 10 November 2014 convening the EGM to be convened and held on 24 December 2014 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 116 to 118 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 4 December 2014 (Thursday) in accordance with the instructions printed thereon.

24 November 2014

* *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).*

# EXPECTED TIMETABLE

| | |
|---|---|
| **Register of members of the Company closes** | from 25 November 2014 to 24 December 2014 |
| **EGM** | 24 December 2014 |
| **Register of members of the Company re-opens** | 29 December 2014 |

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*In this circular the following expressions shall have the respective meanings set opposite thereto:*

| | |
|---|---|
| "Acquisition" | the acquisition of the Holding Company No. 7 Thermal Power Plant owned by the Holding Company by the Company as contemplated under the Thermal Power Assets Swap Agreement |
| "Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps" | the annual caps for the continuing connected transactions under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement commencing on 1 January 2015 and ending on 31 December 2017 as set out in the paragraph headed "Maximum aggregate annual value" of 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) |
| "Completion" | the completion of the Acquisition and the Disposal |
| "Continuing Connected Transactions" | the continuing connected transactions under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement |
| "Director(s)" | the director(s) of the Company |
| "Disposal" | the disposal of the Weiqiao Thermal Power Plants owned by the Company to the Holding Company as contemplated under the Thermal Power Assets Swap Agreement |
| "Domestic Shares" | ordinary shares issued by the Company, with a RMB-denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB |
| "EGM" | an extraordinary general meeting of the Company proposed to be convened and held on 24 December 2014 (Wednesday) for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder, as well as the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions thereunder and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps |
| "Group" | the Company and its subsidiaries |
| "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 the controlling shareholder of the Company |
| "Holding Company No. 7 Thermal Power Plant" | the thermal power plant located in Changshan Town, Zouping County, Shandong Province, the PRC, including the thermal power facilities and the land use rights for the land underneath, owned by the Holding Company that are proposed to be acquired by the Company from the Holding Company pursuant to the Thermal Power Assets Swap Agreement |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "H Share(s)" | overseas listed foreign share(s) in the share capital of the Company, with a RMB-denominated par value of RMB1.00 each, and which are subscribed for and traded in HK$ |
| "Independent Board Committee" | an independent board committee of the Company comprising all the independent Directors |
| "Independent Financial Adviser" | First Shanghai Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps |
| "Independent Shareholders" | the shareholders of the Company other than Holding Company, Mr. Zhang Shiping and Ms. Zhang Hongxia for the purpose of the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement |
| "Latest Practicable Date" | 19 November 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before publication |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "Old Cotton Yarn/Grey Fabric and Denim Supply Agreement" | the cotton yarn/grey fabric and denim supply agreement entered into between the Company and the Holding Company on 31 October 2011 |

| | |
|---|---|
| "Parent Group" | Holding 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 cotton yarn/grey fabric and denim supply agreement entered into between the Company and the Holding Company on 21 October 2014 |
| "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 |
| "Thermal Power Assets Swap Agreement" | the agreement dated 21 October 2014 and entered into between the Company and the Holding Company relating to the Acquisition and the Disposal |
| "VAT" | value added tax |
| "Weiqiao Thermal Power Plants" | the four thermal power plants located in Weiqiao Town and Economic Development Zone of Zouping County, Shandong Province, the PRC, including the thermal power facilities owned by the Company, that are proposed to be disposed by the Company to the Holding Company pursuant to the Thermal Power Assets Swap Agreement |

*For the purpose of this circular, unless otherwise specified, conversion of RMB into HK$ is based on the exchange rate of RMB0.79 = HK$1.00*

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.

# 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. Zhao Suwen
Ms. Zhang Yanhong
Mr. Zhang Jinglei

*Non-executive Directors:*
Mr. Zhang Shiping
Ms. Zhao Suhua

*Independent non-executive Directors:*
Mr. Wang Naixin
Mr. Chen Shuwen
Mr. Chan Wing Yau, George

*Registered Office:*
No. 34 Qidong Road
Weiqiao Town
Zouping County
Shandong Province
The PRC

*Principal Place of Business in the PRC:*
No. 1, Weifang Road
Zouping Economic Development Zone
Zouping County
Shandong Province
The PRC

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

*To the Shareholders*

Dear Sir/Madam,

## (1) VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS RELATED TO THERMAL POWER ASSETS SWAP AGREEMENT AND (2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM)

### A. INTRODUCTION

As disclosed in the announcement of the Company dated 21 October 2014, on 21 October 2014, the Company entered into the Thermal Power Assets Swap Agreement with the Holding Company, pursuant to which the Company agreed to acquire the Holding Company No. 7 Thermal Power Plant owned by the

* *For identification purposes only*

Holding Company and the Company will satisfy the payment by transferring to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance by cash within five business days upon the completion of the Thermal Power Assets Swap Agreement.

As disclosed in the announcement of the Company dated 21 October 2014, on 21 October 2014, the Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement for a period of three years commencing on 1 January 2015 and ending on 31 December 2017 pursuant to which the Group will supply cotton yarn, grey fabric and denim to Parent Group.

## B. VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS

### (A) Thermal Power Assets Swap Agreement

The material terms of the Thermal Power Assets Swap Agreement are set out as follows:

***Date***

21 October 2014

***Parties***

(a) the Company; and

(b) the Holding Company.

***Connected person***

Holding Company

***Assets to be acquired and disposed by the Company***

Pursuant to the Thermal Power Assets Swap Agreement, the Company has agreed to acquire the Holding Company No. 7 Thermal Power Plant owned by the Holding Company and the Company will satisfy the payment by transferring to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance by cash within five business days upon the completion of the Thermal Power Assets Swap Agreement.

The Holding Company No. 7 Thermal Power Plant to be acquired by the Company from the Holding Company comprise principally the thermal power facilities, such as the buildings, machinery and equipment and construction works in process, and the land use rights for the land underneath that are owned by the Holding Company. The construction in progress includes 10 civil works with a net book value of approximately RMB19,634,000 (equivalent to approximately HK$24,853,000), comprising of approximately RMB2,669,000 (equivalent to approximately HK$3,378,000) of construction fees paid and approximately RMB16,965,000 (equivalent to approximately HK$21,475,000) of estimated costs to be incurred. Such civil works mainly include desulphurisation system renovation, anticorrosion/insulation and aluminum doors and windows, the construction of which was started in March 2013 and is expected to be completed in the second half of 2014. Equipment installation works: The 13 works with a total book value of RMB135,619,000 (equivalent to approximately HK$171,670,000) mainly include denitrification equipment installation, air preheater renovation, IG-541 inert gas fire extinguishing equipment installation, overall fluoro vulcanised rubber expansion joint installation, cargo lifting platform installation, flue gas online monitoring equipment, etc. The framework agreements on individual equipment of constructions in progress were entered into during the period from July 2013 to December 2013, which are expected to complete in the second half of 2014 to the first half of 2015. Such development costs incurred or estimated to be incurred for the construction of the 10 civil works and the 13 equipment installation works have been taken into account of when determining the consideration of the Acquisition as set out in the sub-paragraph headed "Consideration" below. Details of the Holding Company No. 7 Thermal Power Plant are set out in paragraph C below.

The Weiqiao Thermal Power Plants to be disposed of by the Company to the Holding Company comprise the thermal power facilities, such as the buildings, machinery and equipment and construction works in process, that are owned by the Company. The construction in progress includes 6 civil works with a net book value of approximately RMB99,090,000 (equivalent to approximately HK$125,430,000), comprising of approximately RMB27,130,000 (equivalent to approximately HK$34,342,000) of costs paid and RMB71,960,000 (equivalent to approximately HK$91,089,000) of estimated costs to be incurred. Such civil works mainly include flue gas desulphurisation and denitrification of the Weiqiao Town No. 3 Thermal Power Plant as well as flue gas desulphurisation system renovation and fringe renovation works of the Zouping No. 2 Thermal Power Plant, the construction of which was started in November 2013 and is expected to be completed by the end of 2014. The 5 works with a total book value of RMB67,630,000 (equivalent to approximately HK$85,608,000) include desulphurisation, denitrification and electrostatic precipitator system renovation of Weiqiao No. 3 Power Plant as well as desulphurization and electrostatic precipitator system renovation of Zouping No. 2 Power Plant, which started in November to December 2013 and are expected to complete by the end of 2014. Such development costs incurred or estimated to be incurred for the construction of the 6 civil works and the 5 equipment installation works have been taken into account of when determining the consideration of the Acquisition as set out in the sub-paragraph headed "Consideration" below. Details of the Weiqiao Thermal Power Plants are set out in paragraph D below.

Pursuant to the Thermal Power Assets Swap Agreement, the Company and the Holding Company shall transfer the machinery and equipment together with all the relevant financial and legal materials within three business days, and shall complete legal procedures regarding transfer of buildings and land use rights (where is applicable), to the other party within 30 business days upon the completion of the Acquisition and Disposal.

***Consideration***

According to the appraisal reports issued by independent property valuers, the value of Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants amounted to approximately RMB4,368,062,200 (equivalent to approximately HK$5,529,192,700) and approximately RMB3,836,369,200 (equivalent to approximately HK$4,856,163,500), respectively, as at 31 August 2014.

The valuation reports for physical assets of the Company and the Holding Company were prepared for the reasons that such physical assets were objects under the Acquisition and the Disposal and they were prepared to provide the material information of the subject matters of each of the Acquisition and Disposal for the Shareholders' reference/consideration. Valuation report regarding properties was prepared separately for the purposes of compliance with requirements under the Listing Rules. Wanlong (Shanghai) Assets Appraisal Co., Ltd confirmed that the valuation report on properties has complied with the requirements under Chapter 5 of the Listing Rules. In addition, Wanlong (Shanghai) Assets Appraisal Co., Ltd also confirmed that the values of buildings and construction in progress disclosed in the valuation reports on physical assets of the Company and the Holding Company as set out in Appendices I and II to this circular remain unchanged in the valuation report on properties as set out in Appendices III to this circular.

The machinery and equipment, buildings and the construction works in process are valued by replacement cost approach. The replacement cost considers the current cost of replacement (reproduction) of a property. Where there exists an obvious and significant deterioration, such depreciation shall be deducted. The land use rights of the Holding Company No. 7 Thermal Power Plant is valued by market comparison approach, which considers prices recently paid for similar land use rights, with adjustments made to the indicated market prices to reflect condition and utility of the appraised land use rights.

The Directors consider that since all of the valuation report on the properties and the valuation reports on physical assets attributable to the Acquisition and the Disposal are prepared by the same qualified valuer who is a certified public valuer in the PRC, such values of buildings and construction in progress are considered to be fair and reasonable.

The consideration of the Acquisition is approximately RMB4,368,062,200 (equivalent to approximately HK$5,529,192,700), equivalent to the value of the Holding Company No. 7 Thermal Power Plant in the appraisal report. The Company will satisfy the payment of the Acquisition by disposing to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance between the respective value of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants, i.e. approximately RMB531,693,000 (equivalent to approximately HK$673,029,200), by cash within five business days upon the completion of the Thermal Power Assets Swap Agreement.

***Completion***

The completion of the Acquisition and Disposal is subject to the following conditions precedent:

(a) the Thermal Power Assets Swap Agreement being duly executed by the Company and the Holding Company;

(b) the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder being approved by the Shareholders of the Company; and

(c) the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder being approved by the board of directors of the Holding Company.

Completion is scheduled to take place on the date (or a later date as mutually agreed between the Holding Company and the Company) when the last of the above conditions are satisfied. If all the above conditions are not satisfied by 31 March 2015, each of the Company and the Holding Company is entitled to terminate the Thermal Power Assets Swap Agreement by giving written notice to the other party starting from 1 April 2015.

Upon Completion:

(a) the Company would hold all the rights and obligations in relation to the Holding Company No. 7 Thermal Power Plant previously owned and operated by the Holding Company; and

(b) the Holding Company would hold all the rights and obligations in relation to the Weiqiao Thermal Power Plants previously owned and operated by the Company.

In relation to the obligations mentioned above for the Company, the Directors confirm that such obligations are mainly relating to the tax payable by the Company under the PRC laws for the Acquisition under the Thermal Power Assets Swap Agreement and the obligations relating to ancillary facilities of the Holding Company No. 7 Thermal Power Plant which are under construction.

***Other significant terms***

(a) Where it becomes impossible for a party to perform the Thermal Power Assets Swap Agreement due to a force majeure event, which includes but is not limited to earthquake, fire, tidal wave and war, such party shall notify the other party in writing, together with supporting written evidence of such force majeure event. If the force majeure delays or prevents the performance of the obligations of such party for a continuous period of three months, any party may give notice to the other party to terminate the Thermal Power Assets Swap Agreement at the end of this period.

(b) Considering that the operation of the Holding Company No. 7 Thermal Power Plant by the Holding Company may be affected by the PRC national and local laws, regulations and government policies, as well as the operation status of the Company, including but not limited to possible energy shortages in the future, the Holding Company has granted the Company a put option in relation to the Holding Company No. 7 Thermal Power Plant, i.e. the Company has the right which entitles it to require the Holding Company to purchase all or part of the Holding Company No. 7 Thermal Power Plant according to the related laws, regulations and government policies of the PRC or the Company's reasonable business judgment and the value determined by an independent third party valuer at the relevant time. The Holding Company has undertaken to obtain all necessary permits and approvals for the transfer of all or part of the Holding Company No. 7 Thermal Power Plant to the Company by it. There is no expiry date for such put option. The Directors confirm that if the Company exercises or transfers the put option in the future, it will comply with relevant Listing Rules requirements. The Directors expect that, the thermal power supply by the Holding Company No. 7 Thermal Power Plant will be sufficient for the Group's future operating and production requirements following completion of the Acquisition, and the Directors do not foresee there will be any possible energy shortages in the near future that may affect the Company in exercising the put option.

**(B) Reasons for and Benefit of Entering into the Thermal Power Assets Swap Agreement**

The reasons for entering into the Thermal Power Assets Swap Agreement are set out below:

(a) The Weiqiao Thermal Power Plants under the Thermal Power Assets Swap Agreement have been operated over eight years while the Holding Company No. 7 Thermal Power Plant was put into operation gradually from the fourth quarter of 2013, with higher operation efficiency and lower repair and maintenance costs.

(b) The installed power generation capacity per unit for the Weiqiao Thermal Power Plants ranged from 30 MW to 60 MW while the installed power generation capacity per unit for the Holding Company No. 7 Thermal Power Plant is 330 MW, with equipment more environmentally friendly. The current generation cost per KW for the Holding Company No. 7 Thermal Power Plant is around 30% lower than the current generation cost per KW for the Weiqiao Thermal Power Plants. The power generation cost of the Group is expected to be reduced after the completion of the Acquisition.

(c) The acquisition of large thermal power units would avoid potential investment in construction of large thermal power assets of the Group. The Directors are of the view that the construction work for such a similar scale of large thermal power assets to the Holding Company No. 7 Thermal Power Plant is estimated to take at least 2.5 years for completion. It would be very cost-ineffective and time-consuming for the Group itself to construct such a large thermal power assets. The Group may need to incur large amount of bank or other borrowings and interest cost burden. In addition, the Directors confirm that there was no alternative purchaser for the Weiqiao Thermal Power Plants or any sellers for any larger thermal power asset than the Holding Company No. 7 Thermal

Power Plant. Under the Thermal Power Assets Swap Agreement, the Group only needs to pay the net cash consideration of approximately RMB531,693,000 (equivalent to approximately HK$673,029,200), whilst the more efficient and powerful thermal power infrastructure attributable to the Holding Company No. 7 Thermal Power Plant can be put in use immediately following the Completion.

As the Group's existing power grid can be used to transport the power generated by the Holding Company No. 7 Thermal Power Plant, the production and operation will not be adversely affected by the Acquisition and Disposal.

Based on the above, the Board believes that the terms of the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder are fair and reasonable and beneficial to the Group and are in the interests of the Shareholders as a whole. To the best knowledge of and as confirmed by the Directors, there is no disadvantage of the transactions under the Thermal Power Assets Swap Agreement.

**(C) Information regarding the Holding Company No. 7 Thermal Power Plant**

| **Name of the plant** | **Assets location** | **Installed capacity at completion (MW)** |
|---|---|---|
| Holding Company No. 7 Thermal Power Plant | Changshan Town, Zouping County, Shandong Province, the PRC | 1320 MW |

The construction of Holding Company No. 7 Thermal Power Plant was started in May 2010 and put into operation gradually in the fourth quarter of 2013.

The original purchase cost (construction cost) of the Holding Company No. 7 Thermal Power Plant to the Holding Company was approximately RMB4,491,318,300 (equivalent to approximately HK$5,685,213,000). The power and steam generated by the Holding Company No. 7 Thermal Power Plant was used for the production and operation of the Holding Company and its relevant subsidiaries. The power and steam generated by the Holding Company No. 7 Thermal Power Plant is expected to be used for the production and operation of the Group after the completion of the Acquisition.

The book value of the Holding Company No. 7 Thermal Power Plant on the books of the Holding Company as at 31 August 2014 was approximately RMB3,991,091,700 (equivalent to approximately HK$5,052,014,800).

The Holding Company No. 7 Thermal Power Plant does not itself alone constitute a business or a company. As such, the information regarding the net profit attributable to the Holding Company No. 7 Thermal Power Plant is not available.

**(D) Information regarding the Weiqiao Thermal Power Plants**

| Name of the plant | Assets location | Installed capacity at completion (MW) |
|---|---|---|
| Weiqiao Town No. 2 Thermal Power Plant | Weiqiao Town, Zouping County, Shandong Province, the PRC | 180 MW |
| Weiqiao Town No. 3 Thermal Power Plant | Weiqiao Town, Zouping County, Shandong Province, the PRC | 420 MW |
| Zouping No. 1 Thermal Power Plant | Economic Development Zone, Zouping County, Shandong Province, the PRC | 210 MW |
| Zouping No. 2 Thermal Power Plant | Economic Development Zone, Zouping County, Shandong Province, the PRC | 480 MW |

The Net book value of the Weiqiao Thermal Power Plants on the books of the Company as at 31 August 2014 was approximately RMB3,750,839,200 (equivalent to approximately HK$4,747,897,700) while the valuation of the Weiqiao Thermal Power Plants (as the basis for the consideration) as at 31 August 2014 was approximately RMB3,836,369,200 (equivalent to approximately HK$4,856,163,500) and therefore, the excess of the consideration over the net book value was approximately RMB85,530,000 (equivalent to approximately HK$108,266,000). It is expected that, after the deduction of relevant tax of approximately RMB73,629,800 (equivalent to approximately HK$93,203,000), the net profit in relation to the Disposal is approximately RMB11,900,200 (equivalent to approximately HK$15,063,000). The power and steam generated by the Weiqiao Thermal Power Plants was used for the production and operation of the Group. The power and steam generated by the Weiqiao Thermal Power Plants is expected to be used for the production and operation of the Holding Company after the completion of the Disposal.

Similar to the Holding Company No. 7 Thermal Power Plant above, Weiqiao Thermal Power Plants do not themselves alone constitute a business or a company. As such, the information regarding the net profit attributable to the Weiqiao Thermal Power Plants is not available.

As the Weiqiao Thermal Power Plants are proposed to be disposed of to the Holding Company as part of the payment for the Acquisition, no sale proceeds will be received from the Disposal.

**C. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

**(A) Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement**

***Date***

21 October 2014

***Parties***

(a) the Company as the seller; and

(b) Holding Company as the buyer.

***Connected person***

Holding Company

***Transaction nature***

The Company and Holding Company entered into the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement on 31 October 2011, pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn/grey fabric and denim to Parent Group for the production of downstream cotton textile products. The Company and Holding Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement on 21 October 2014 with a term commencing on 1 January 2015 and ending on 31 December 2017.

Pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, the Company will continue to supply or will procure its subsidiaries to supply cotton yarn/grey fabric and denim to Parent Group.

***Pricing basis and payment terms***

The prices of cotton yarn/grey fabric and denim supplied by the Group to Parent Group are determined by reference to the prevailing selling prices in the market at which comparable types of relevant products are supplied by the Group to independent third parties under normal commercial terms and in the ordinary course of its business in the PRC.

The Directors have confirmed that the pricing basis agreed between the Company and Holding 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 an indicative price range for different textile products that is charged on a cost-plus basis and depending on factors, including but not limited to, the prevailing market conditions, sales volume and delivery requirements. The ex-factory price for a single product category was nation-wide uniform. The Directors confirm that the selling prices of comparable types of relevant products sold to the Parent Group shall be made with reference to those to the independent third party customers at the same time. The Group usually reviews, adjusts and approves these price lists from time to time, whenever it considers necessary, taking into account of the prevailing market conditions and other relevant factors at that time. Since the ex-factory price for a single product category of the Company was nation-wide uniform, the Director consider that such method shall be able to ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

The Company would, on the last business day of each calendar month, prepare a book of account receivable for the relevant costs/expenses that shall be paid by Holding Company to the Group for that month. Holding Company shall, within the first 10 business days of the following month, pay the amount due in full in cash.

***Maximum aggregate annual value***

For each of the two years ended 31 December 2013 and the first eight months of the year 2014, the values of the aggregate supply of the cotton yarn/grey fabric and denim by the Group to Parent Group amounted to approximately RMB1,049,040,000 (equivalent to approximately HK$1,327,898,700), approximately RMB885,887,000 (equivalent to approximately HK$1,121,375,900) and approximately RMB852,167,000 (equivalent to approximately HK$1,078,692,400), respectively (exclusive of VAT). The Directors currently estimate that the values of the aggregate supply of the cotton yarn/grey fabric and denim for the year 2014 will be RMB1,278,250,000 (equivalent to approximately HK$1,618,038,000) (exclusive of VAT).

The Directors currently estimate that Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for each of the three years ending on 31 December 2017 would not exceed RMB1,917,380,000 (equivalent to approximately HK$2,427,063,300), RMB2,876,060,000 (equivalent to approximately HK$3,640,582,300) and RMB3,163,670,000 (equivalent to approximately HK$4,004,645,600), respectively (exclusive of VAT).

The Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for each of the two years ending on 31 December 2016 represent an average growth rate of 50% each year from the year ended 31 December 2015 to the year ended 31 December 2016 based on (i) the estimated annual average growth rate of 44% from the year ended 31 December 2013 to the year ended 31 December 2014, which was calculated by annualising the actual transaction value for the first eight months ended 31 August 2014; (ii) the expected increase of orders from Parent Group resulted by improvement in capacity utilization rate of Parent Group which would increase its scale of production, and in turn, the demand for the Group's textile products of cotton yarn/grey fabric and denim; and (iii) the recovering market condition of textile market in China due to the positive influence of the cotton direct subsidy policies promulgated since September 2014 which narrows down difference between international and domestic cotton prices. The Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for the year ending on 31 December 2017 represents an growth rate of 10% as compared to the year ending 31 December 2016 based on the expected stabilized growth of production capacity of Parent Group after development in the past few years.

**(B) Reasons for and Benefit of Entering into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement**

Parent Group has a substantial and stable demand for cotton yarn/grey fabric and denim for further processing into downstream cotton textile products for sale to independent third parties. Parent Group is one of the Group’s major customers for cotton yarn/grey fabric and denim. The provision of cotton yarn/grey fabric and denim to Parent Group at prices no more favourable than those available to independent third parties falls within the ordinary and usual course of the Group's business. The Directors believe that the establishment of long-term cooperation with Holding Company will stabilize the Company's operation, ensure a broaden stream of revenue source and a relatively stable profits rate and is of commercial benefit to the Group as a whole.

## D. IMPLICATIONS UNDER THE LISTING RULES

Holding Company is the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules.

As certain applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition and the Disposal exceeds 100% and 75%, respectively, each of the Acquisition and the Disposal constitutes a very substantial acquisition and a very substantial disposal for the Company under Chapter 14 of the Listing Rules, respectively, and both of them constitute connected transactions under Chapter 14A of the Listing Rules. Therefore, the Acquisition and the Disposal are subject to the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14 and Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are more than 5% and the total consideration is more than HK$10,000,000, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

The Directors consider that the terms and conditions of the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement have been negotiated on an arm's length basis, and are normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## E. POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION AND DISPOSAL

### (a) Earnings

As disclosed in the 2013 annual report of the Company (the "**2013 Annual Report**"), the Group recorded a net profit attributable to owners of the parent of approximately RMB629 million for the year ended 31 December 2013. It is expected that, after the deduction of relevant tax of approximately RMB67,746,500 (equivalent to approximately HK$85,755,000), the gain accrued for the disposal of such asset is approximately RMB17,783,000 (equivalent to approximately HK$22,510,100). The expected net profit in relation to the Disposal is approximately RMB11,900,200 (equivalent to approximately HK$15,063,000).The Completion of the Acquisition and Disposal is expected to help to improve the Group's operation efficiency and lower repair and maintenance costs as well as its generation cost.

**(b) Net assets and liabilities**

As disclosed in the interim report of the Company for the six months ended 30 June 2014, the Group had a net assets of approximately RMB16,112.54 million as at 30 June 2014. The assets in relation to the Acquisition will be consolidated into the accounts of the Group, where the consideration for the Acquisition will be primarily offset by the assets in relation to the Disposal and will set off the balance of approximately RMB531,693,000 (equivalent to approximately HK$673,029,200) by cash.

**(c) Accounting treatment for the Acquisition and Disposal**

After Completion of the Acquisition and Disposal, the impacts of the transaction on the statement of financial position of the Company are as follows:

| | **Increase/ (decrease)** *RMB'000* |
|---|---|
| **NON-CURRENT ASSETS** | |
| Property, plant and equipment | 129,181 |
| Prepaid land lease payments | 88,017 |
| **CURRENT ASSETS** | |
| Prepayments, deposits and other receivables *(Note 1)* | 339,840 |
| Due from the immediate holding company *(Note 2)* | 116,380 |
| Cash and cash equivalents | (531,693) |
| **CURRENT LIABILITIES** | |
| Other payables and accruals *(Note 3)* | 125,858 |
| Tax payable | 3,967 |
| **EQUITY** | |
| Reserves | 11,900 |

*Note 1:* An increase in prepayments, deposits and other receivables by approximately RMB340,000,000 (equivalent to approximately HK$430,380,000) represents the deductible value-added tax ("VAT") arising from the transactions under the Acquisition and the Disposal, net by the in-put VAT of RMB396,000,000 (equivalent to approximately HK$501,266,000) generated from the purchased machinery from the Holding Company, and the out- put VAT of RMB 56,000,000 (equivalent to approximately HK$70,886,000) will be paid by the Company for transferring its machinery out.

*Note 2:* A change in due from immediate Holding Company by approximately RMB116,000,000 (equivalent to approximately HK$146,835,000) represents the unpaid settlement related to the acquired construction in progress, which will be paid by the Holding Company in future, according to the progress of the related projects, pursuant to the terms of the contract.

*Note 3:* An increase in balance of other payables and accruals by approximately RMB126,000,000 (equivalent to approximately HK$159,494,000), which mainly comprises the unpaid settlement related to the disposed construction in progress of the Company, amounting to RMB109,000,000 (equivalent to approximately HK$137,975,000), to be paid by the Company, according to the progress of the related projects and other tax payables amounting to RMB16,000,000 (equivalent to approximately HK$20,253,000), such as the business tax, deed tax and stamp tax arising from the transactions under the Acquisition and the Disposal.

In addition, in the statement of profit or loss and other comprehensive income of the Company, the gain accrued for the disposal of such asset is approximately RMB17,783,000 (equivalent to approximately HK$22,510,100), which will be included in other income and gains, other tax expense is approximately RMB1,916,000 (equivalent to approximately HK$2,425,000), which will be included in administrative expenses, the effect of the Disposal on income tax expense is approximately RMB3,967,000 (equivalent to approximately HK$5,022,000), which will be included in income tax expense, and the expected increase in net profit is approximately RMB11,900,200 (equivalent to approximately HK$15,063,000), which will be included in profit and total comprehensive income.

## F. EGM

The Company will convene the EGM as soon as possible for the purpose of seeking the approval by the Independent Shareholders of:

(a) the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder;

(b) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions thereunder; and

(c) the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for each of the three years ending on 31 December 2017.

Holding Company will abstain from voting at the EGM for the approval of the relevant agreements and annual caps in aforesaid sub-paragraphs (a), (b) and (c) in the circular. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors, who hold 31.59% (including the indirect equity interests held by Mr. Zhang Shiping) and 9.73% (including the indirect equity interests held by Ms. Zhang Hongxia through her husband, Mr. Yang Congsen) of the equity interests in Holding Company, respectively, will also abstain from voting at the EGM for the approval of the relevant agreements and annual caps in aforesaid sub-paragraphs (a), (b) and (c) in the circular.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholder has a material interest in the Acquisition, Disposal or the Continuing Connected Transactions, and no Shareholder is required to abstain from voting to approve the Thermal Power Assets Swap Agreement or the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement or the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps at the EGM.

The votes to be taken at the EGM in relation to the above proposed resolution(s) will be taken by poll.

The Independent Board Committee will advise the Independent Shareholders in relation to their voting on the resolutions relating to the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps.

First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps.

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 4 December 2014.

The holders of H Shares of the Company should note that the register of members of the Company will be closed from 25 November, 2014 to 24 December, 2014 (both days inclusive), during which period no transfer of H Shares can be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Shares registrar in Hong Kong (in respect of H Shares), or the Company's principal place business in the PRC (in respect of Domestic Shares), no later than 4:30 p.m. on 24 November 2014 (Monday).

## G. RECOMMENDATION

The Board is of the view that the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and the Directors recommend that the Shareholders vote in favour of the resolutions set out in the notice of EGM. Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong, being Directors having material interest in the transactions under the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, have abstained from voting in the board resolutions in relation to the resolutions set out in the notice of EGM.

## H. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Wang Naixin, Mr. Chan Wing Yau, George and Mr. Chen Shuwen has been formed to advise the Independent Shareholders in respect of the Thermal Power Assets Swap Agreement and the Acquisition and Disposal contemplated thereunder, and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps). First Shanghai Capital 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 Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps).

## I. GENERAL INFORMATION

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

The Holding Company is a company incorporated in the PRC on 14 April 1998 with limited liability. The 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.

## J. ADDITIONAL INFORMATION

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

Yours faithfully,
**Weiqiao Textile Company Limited**
**Zhang Hongxia**
*Chairman*

# 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)**

24 November 2014

*To the Independent Shareholders*

Dear Sir or Madam,

## (1) VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS RELATED TO THERMAL POWER ASSETS SWAP AGREEMENT AND (2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM)

We have been appointed as members of the Independent Board Committee to consider the Thermal Power Assets Swap Agreement and the Acquisition and Disposal contemplated thereunder, and Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the Continuing Connected 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 24 November 2014 (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 Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the advice and opinion of First Shanghai Capital Limited in relation thereto as set out on pages 21 to 44 of the Circular, we are of the opinion that (i) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement were entered into in the ordinary and usual course of business and both the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement were entered into with normal commercial terms; and (ii) the Thermal Power Assets Swap Agreement and the Acquisition and Disposal contemplated thereunder, and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the Continuing Connected 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

* *For identification purposes only*

approve the Thermal Power Assets Swap Agreement and the Acquisition and Disposal contemplated thereunder, and the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the Continuing Connected Transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

| | | |
|---|---|---|
| **Wang Naixin** | **Chan Wing Yau, George** | **Chen Shuwen** |
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

*The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser, First Shanghai Capital Limited, setting out its opinion regarding the transactions contemplated under (i) the Acquisition and the Disposal pursuant to the Thermal Power Assets Swap Agreement (collectively the "**Assets Swap**"); and (ii) the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps), for the purpose of inclusion in this circular.*

**First Shanghai Capital Limited**
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

24 November 2014

*To the Independent Board Committee and*
*the Independent Shareholders*

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

Dear Sirs,

**(1) VERY SUBSTANTIAL ACQUISITION, VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTIONS RELATED TO THE THERMAL POWER ASSETS SWAP AGREEMENT AND (2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS (SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM)**

## INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Acquisition and the Disposal pursuant to, among others, the Thermal Power Assets Swap Agreement; and (ii) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement with the Holding Company (including the renewal of Annual Parent Cotton

Yarn/Grey Fabric and Denim Supply Caps), details of which are set out in a circular of the Company dated 24 November 2014 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 21 October 2014, the Company entered into the Thermal Power Assets Swap Agreement with the Holding Company, pursuant to which the Company has agreed to acquire the Holding Company No. 7 Thermal Power Plant owned by the Holding Company and the Company will satisfy the payment by transferring to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance by cash within 5 business days upon the completion of the Thermal Power Assets Swap Agreement.

On the same day, the Company also entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) for a period of three years commencing on 1 January 2015 and ending on 31 December 2017, pursuant to which the Group will supply cotton yarn, grey fabric and denim to the Parent Group, the terms and conditions of which are basically the same as those of the Old Cotton Yarn/Grey Fabric Agreement.

**LISTING RULES IMPLICATION**

The Holding Company is the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules.

As certain applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition and the Disposal exceeds 100% and 75%, respectively, each of the Acquisition and the Disposal constitutes a very substantial acquisition and a very substantial disposal for the Company under Chapter 14 of the Listing Rules, respectively, and both of them constitute connected transactions under Chapter 14A of the Listing Rules. Therefore, the Acquisition and the Disposal are subject to the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14 and Chapter 14A of the Listing Rules.

In addition, as certain applicable percentage ratios (as defined under the Listing Rules) in respect of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) are more than 5% and the total consideration is more than HK$10,000,000, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

An EGM will be convened to consider and, if thought fit, approve, among other things, the Thermal Power Assets Swap Agreement and the Acquisition and the Disposal thereunder, as well as the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the Continuing Connected Transactions thereunder.

The Holding Company will abstain from voting at the EGM for the approval of the Thermal Power Assets Swap Agreement and the Acquisition and Disposal thereunder, as well as the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the Continuing Connected Transactions thereunder. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors, who hold 31.59% (including the indirect equity interests held by Mr. Zhang Shiping); and 9.73% (including the indirect equity interests held by Ms. Zhang Hongxia through her husband, Mr. Yang Congsen) of the equity interests in the Holding Company, respectively, will also abstain from voting at the EGM for the approval of each of the said relevant agreements and the transactions contemplated thereunder.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholder has a material interest in the Acquisition, Disposal or the Continuing Connected Transactions; and no Shareholder is required to abstain from voting to approve the Thermal Power Assets Swap Agreement or the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the transactions contemplated thereunder at the EGM.

The votes to be taken at the EGM in relation to the proposed resolution(s) at the EGM will be taken by poll.

**INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Wang Naixin, Mr. George Chan Wing Yau and Mr. Chen Shuwen, has been established to consider the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the transactions contemplated thereunder and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Assets Swap pursuant to the Thermal Power Assets Swap Agreement, the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the transactions contemplated thereunder, and if the Assets Swap and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Assets Swap pursuant to the Thermal Power Assets Swap Agreement and the Renewed Cotton Yarn/Grey Fabric and Demin Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolutions to be proposed for approving the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps) and the transactions contemplated respectively thereunder at the EGM.

## BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and the management of the Group (the "**Management**"). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

We consider that we have (i) obtained all information and documents of the Group, the Holding Company and the Parent Group relevant to an assessment of the fairness and reasonableness of the terms of the Assets Swap and the Continuing Connected Transactions; (ii) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the Assets Swap and the Continuing Connected Transactions; and (iii) reviewed the opinion and valuation/appraisal relevant to the Assets Swap (the "**Appraisal(s)**") provided by the expert, namely 萬隆(上海)資產評估有限公司 (Wan Long (Shanghai) Assets Evaluation Co., Ltd.) (being a registered and qualified independent PRC asset appraisal firm and valuer in the PRC (the "**Independent Valuer**"), as at 31 August 2014 of the appraised asset value attributable to the respective assets and properties grouped under the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants (the "**Appraised Asset Value**"), including reviewing the terms of engagement of the Independent Valuer (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the expert's reports, hence the Appraisal Reports (as defined below), opinion or statement). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Assets Swap and the Continuing Connected Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

We consider that we have reviewed sufficient information, including financial information on the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants to be dealt with pursuant to the Thermal Power Assets Swap Agreement that are to be acquired/disposed of by the Group, to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and the Management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group, the Holding Company and the Parent Group.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Assets Swap pursuant to the Thermal Power Assets Swap Agreement, we have considered the following principal factors and reasons:

### (1) Very substantial acquisition, very substantial disposal and connected transactions pursuant to the Thermal Power Assets Swap Agreement

#### *1. Background of the Group*

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

#### *2. Background of the Holding Company*

The Holding Company (i.e. being the counter party to the Thermal Power Assets Swap Agreement) is a company incorporated in the PRC on 14 April 1998 with limited liability, and 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.

#### *3. Reasons for and benefits of entering into the Thermal Power Assets Swap Agreement*

As mentioned in the "Letter from the Board" of the Circular, the reasons for entering into the Thermal Power Assets Swap Agreement are set out below:

(a) The Weiqiao Thermal Power Plants under the Thermal Power Assets Swap Agreement have been operated for over eight years while the Holding Company No. 7 Thermal Power Plant was put into operation gradually from the fourth quarter of 2013, with higher operational efficiency and lower repair and maintenance costs. The Directors have considered that there is no open market of large thermal power assets available in Zouping County, Shandong Province, the PRC to be acquired by the Group.

(b) The installed power generation capacity per unit for the Weiqiao Thermal Power Plants ranged from 30 MW to 60 MW while the installed power generation capacity per unit for the Holding Company No. 7 Thermal Power Plant is 330 MW, with equipment more environmentally friendly. The current generation cost per KW for the Holding Company No. 7 Thermal Power Plant is around 30% lower than the current generation cost per KW for the Weiqiao Thermal Power Plants. The power generation cost of the Group is expected to be reduced after the completion of the Acquisition.

(c) The acquisition of large thermal power units would avoid potential investment in construction of large thermal power assets of the Group. The Directors are of the view that the construction work for such similar scale of large thermal power assets attributable to the Holding Company No. 7 Thermal Power Plant is estimated to take at least 2.5 years for completion. It would be very cost-ineffective and time-consuming for the Group itself to construct such large thermal power assets, since the Group may need to incur large amount of bank or other borrowings and interest cost burden. In addition, the Directors confirm that there was no alternative purchaser for the Weiqiao Thermal Power Plants or any sellers for any larger thermal power assets than the Holding Company No. 7 Thermal Power Plant. Under the Thermal Power Assets Swap Agreement, the Group only needs to pay the net cash consideration of approximately RMB531.7 million, whilst the more efficient and powerful thermal power infrastructure attributable to the Holding Company No. 7 Thermal Power Plant can be put into use immediately following the Completion.

As the Group's existing power grid can be used to transport the power generated by the Holding Company No. 7 Thermal Power Plant, the production and operation will not be adversely affected by the Acquisition and the Disposal.

Based on the above, the Board believes that the terms of the Thermal Power Assets Swap Agreement and the Acquisition and the Disposal thereunder are fair and reasonable, beneficial to the Group, and in the interests of the Shareholders as a whole. To the best knowledge of and as confirmed by the Directors, there is no disadvantage of the transactions under the Thermal Power Assets Swap Agreement.

In view of the above consideration, we consider that the Assets Swap pursuant to the Thermal Power Assets Swap Agreement shall be regarded as the Group's capital re-formation in nature for enhancement of its long-term operating efficiency and business development, so it is not conducted in the ordinary and usual course of business of the Group; while the Assets Swap represents a good opportunity for the Group to enhance its operating capability and positioning the Group for better growth in the future which, in the long run, is expected to benefit the Company and the Shareholders as a whole.

***4. Principal terms of the Thermal Power Assets Swap Agreement***

On 21 October 2014, the Company and the Holding Company entered into the Thermal Power Assets Swap Agreement, pursuant to which the Company has agreed to acquire the Holding Company No. 7 Thermal Power Plant owned by the Holding Company and the Company will satisfy the payment by transferring to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance by cash within five business days upon the completion of the Thermal Power Assets Swap Agreement.

*Assets to be acquired by the Company*

The Holding Company No. 7 Thermal Power Plant to be acquired by the Company from the Holding Company comprise principally the thermal power facilities, such as the buildings, machinery and equipment, construction works in process and the land use rights for the land underneath that are owned by the Holding Company, details of which are set out below:

| **Name of the plant** | **Assets location** | **Installed capacity at completion (MW)** |
|---|---|---|
| Holding Company No. 7 Thermal Power Plant | Changshan Town, Zouping County, Shandong Province, the PRC | 1,320 MW |

The construction in progress includes 10 civil works with a net book value of approximately RMB19.6 million, comprising of approximately RMB2.7 million of construction fees paid and RMB16.9 million of estimated costs to be incurred. Such civil works mainly include de-sulphurisation system renovation, anti-corrosion/insulation and aluminum doors and windows, the construction of which was started in March 2013 and is expected to be completed in the second half of 2014. Such development costs incurred or estimated to be incurred for the construction of the 10 civil works and 13 equipment installation works have been taken into account when determining the consideration for the Acquisition. The construction of the Holding Company No. 7 Thermal Power Plant was started in May 2010 and put into operation gradually in the fourth quarter of 2013.

The original purchase cost (i.e. being the construction cost) of the Holding Company No. 7 Thermal Power Plant to the Holding Company was approximately RMB4,491.3 million. The power and steam generated by the Holding Company No. 7 Thermal Power Plant was used for the production and operation of the Holding Company and its relevant subsidiaries, while the same generated thereby is expected to be used for the production and operation of the Group after the completion of the Acquisition.

The book value of the Holding Company No. 7 Thermal Power Plant on the books of the Holding Company as at 31 August 2014 was approximately RMB3,991.1 million.

The Holding Company No. 7 Thermal Power Plant does not itself alone constitute a business or a company. As such, the information regarding the net profit attributable to the Holding Company No. 7 Thermal Power Plant is not available.

*Assets to be disposed of by the Company*

The Weiqiao Thermal Power Plants to be disposed of by the Company to the Holding Company comprise the thermal power facilities, such as the buildings, machinery and equipment and construction works in process, that are owned by the Company, details of which are set out below:

| Name of the plant | Assets location | Installed capacity at completion (MW) |
|---|---|---|
| Weiqiao Town No. 2 Thermal Power Plant | Weiqiao Town, Zouping County, Shandong Province, the PRC | 180 MW |
| Weiqiao Town No. 3 Thermal Power Plant | Weiqiao Town, Zouping County, Shandong Province, the PRC | 420 MW |
| Zouping No. 1 Thermal Power Plant | Economic Development Zone, Zouping County, Shandong Province, the PRC | 210 MW |
| Zouping No. 2 Thermal Power Plant | Economic Development Zone, Zouping County, Shandong Province, the PRC | 480 MW |

The construction in progress include six civil works with a net book value of approximately RMB99.1 million, comprising of approximately RMB27.1 million of costs paid and RMB72.0 million of estimated costs to be incurred. Such civil works mainly include flue gas de-sulphurisation and de-nitrification of the Weiqiao Town No. 3 Thermal Power Plant as well as flue gas de-sulphurisation system renovation and fringe renovation works of the Zouping No. 2 Thermal Power Plant, the construction of which was started in November 2013 and is expected to be completed by the end of 2014. Such development costs incurred or estimated to be incurred for the construction of the six civil works and five equipment installation works have been taken into account when determining the consideration for the Disposal.

The net book value of the Weiqiao Thermal Power Plants on the books of the Company as at 31 August 2014 was approximately RMB3,750.8 million; while the valuation of the Weiqiao Thermal Power Plants (as the basis for the consideration) as at 31 August 2014 was approximately RMB3,836.4 million and therefore, the excess of the consideration over the net book value was approximately RMB85.5 million. It is expected that, after the deduction of relevant tax of approximately RMB73.6 million, the net gain in relation to the Disposal is approximately RMB11.9 million. The power and steam generated by the Weiqiao Thermal Power Plants was used for the production and operation of the Group, while the same generated thereby is expected to be used for the production and operation of the Holding Company after the Completion.

Similar to the Holding Company No. 7 Thermal Power Plant above, Weiqiao Thermal Power Plants do not themselves alone constitute a business or a company. As such, the information regarding the net profit attributable to the Weiqiao Thermal Power Plants is not available.

As the Weiqiao Thermal Power Plants are proposed to be disposed of to the Holding Company as part of the payment for the Acquisition, no sale proceeds will be received from the Disposal.

Pursuant to the Thermal Power Assets Swap Agreement, the Company and the Holding Company shall transfer the machinery and equipment together with all the relevant financial and legal materials within three business days, and shall complete legal procedures regarding transfer of buildings and land use rights (where is applicable), to the other party within 30 business days upon the Completion.

*Basis for determination of the consideration for the Assets Swap*

According to the Appraisal Reports issued by the Independent Valuer, the value of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants amounted to approximately RMB4,368.1 million and RMB3,836.4 million, respectively, as at 31 August 2014.

The machinery and equipment, buildings and the construction works in process are valued by replacement cost approach. The replacement cost approach considers the current cost of replacement (reproduction) of a property or an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization. Under the replacement cost approach, the full replacement value is determined according to the sum of the relevant asset purchase prices prevailing in the market, reasonable freight and miscellaneous expenses, installation and testing charges and associated cost of capital, which is then multiplied by the determined newness rate based on their economic useful life and actual condition to arrive at the valuation. Where there exists an obvious and significant deterioration, such depreciation shall be deducted. Since there are not sufficient comparables in the open market for making direct comparison with the assets and properties attributable to the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants, market approach was not considered by the Independent Valuer to be an appropriate valuation approach for appraising such assets and properties attributable thereto.

The land use rights of the Holding Company No. 7 Thermal Power Plant is valued by market comparison approach, which considers prices recently paid in the open market for similar land use rights in the same locality or adjacent areas, with adjustments made to the indicated market prices to reflect condition and utility of the appraised land use rights. Since the information of the comparables is publicly available from an official website regarding sale and purchase of land and properties in the PRC and sufficient number of samples with same industrial usage in the similar locality had been obtained for making a meaningful comparison according to the general industry practice, the Independent Valuer considered that such comparables are a fair and representative sample for appraising the land use rights attributable to the Holding Company No. 7 Thermal Power Plant. We have reviewed the comparables and concur with the selection criteria, bases for compiling such comparables and the slight adjustment for dissimilarities on transportation and other public facilities made by the Independent Valuer, which we consider to be a fair and representative sample.

The Independent Valuer did not adopt the income approach for evaluating the Appraised Value of each of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants by projecting the discounted cash flow to be generated therefrom in the future, in view of the facts that such assets and properties attributable to the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants are not revenue/profit generating in nature and will be used for their own operating and production purposes by the Holding Company and the Company, respectively, following the Completion.

The consideration for the Acquisition is approximately RMB4,368.1 million, equivalent to the Appraised Asset Value of the Holding Company No. 7 Thermal Power Plant concluded in the Appraisal Report. The Company will satisfy the payment of the Acquisition by disposing to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance between the respective Appraised Asset Value of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants (i.e. approximately RMB531.7 million), by cash within five business days upon the Completion.

The net cash consideration for the Assets Swap of approximately RMB531.7 million, comprising the consideration for the Acquisition and the Disposal of approximately RMB4,368.1 million and RMB3,836.4 million, respectively, was determined by the Company and the Holding Company to the Thermal Power Assets Swap Agreement after arm-length's negotiations with reference to, inter alia, the respective Appraised Asset Value as at 31 August 2014 as shown in the valuation reports on physical assets of the Company and the Holding Company attributable to the respective Weiqiao Thermal Power Plants and Holding Company No. 7 Thermal Power Plant (including the valuation report on properties) (collectively the "**Appraisal Reports**") and included in the Appendices I to III to the Circular and issued by the Independent Valuer, which is a PRC appraisal firm independent from each of the Company and the Holding Company. The valuation report on properties of the Company and the Holding Company as included in the Appendix III to the Circular have complied with the requirements under Chapter 5 of the Listing Rules on the basis that (i) the Independent Valuer has adopted the Chinese Valuation Standards published by the China Appraisal Society and complied with the International Valuation Standards issued by the International Valuation Standards Council as there is no substantial difference between the Chinese Valuation Standards and International Valuation Standards in relation to that property valuation report; and (ii) the Independent Valuer is a PRC certified public valuer having the appropriate professional qualifications and experience of valuing properties in the same location and category to carry out the valuation, and therefore a qualified valuer under Rule 5.08(2) of the Listing Rules. Based on the website of 中國證券監督管理委員會 (China Securities Regulatory Commission of the PRC) (the "**CSRC**") at http://www.csrc.gov.cn, the Independent Valuer is one of the 70 qualified asset appraisal firms authorised by the CSRC and 中華人民共和國財政部 (the Ministry of Finance of the PRC) to perform asset appraisal works in the PRC. It has possessed sufficient qualifications and experience in appraising assets similar to that of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants for a number of listed companies in the PRC over the years. The Appraised Asset Value was mainly calculated and arrived at based on (i) the replacement cost approach for the machinery and equipment, buildings and the construction works in process in conjunction with (ii) the market comparison approach for land use rights, which are the general industry standards recognised and adopted nationally.

We have reviewed the Appraisal Reports and discussed with the Independent Valuer regarding, among other things, the bases and assumptions made and the approaches or methodologies adopted by the Independent Valuer in conducting the appraisal works for the Assets Swap. We understand the reasons behind and appropriateness for the Independent Valuer adopting the combined valuation approaches (i.e. replacement cost approach plus market comparison approach, as the case maybe) for the Appraisal of the both thermal power plants' infrastructure and their ancillary facilities. As advised by the Independent Valuer, other than the usual assumptions in the industry practice generally adopted for property and asset appraisals, there is no key assumption that is specific and on which its opinion is based.

During the course of our review of the Appraisal Reports, we noted the difference in the Appraised Asset Value of buildings and construction in progress of approximately RMB67.6 million between the valuation report on physical assets of the Company (approximately RMB2,088.4 million) and valuation report on properties (approximately RMB2,020.8 million) as included in the Appendices I and III to the Circular respectively. As advised by the Independent Valuer, the sole reason for the difference in value was due to the value of equipment installation of approximately RMB67.6 million being included in construction in progress in the valuation report on physical assets of the Company in the Appendix I to the Circular, and hence excluded from the valuation report on properties in the Appendix III to the Circular. The five equipment installation works mainly comprises de-sulphurisation, de-nitrification and electrostatic precipitator system renovation of the Weiqiao No. 3 Power Plant and the Zouping No. 2 Power Plant, which are expected to be completed by the end of 2014.

Similarly, we also noted the difference in Appraised Asset Value of land, buildings and construction in progress of approximately RMB135.6 million between the valuation report on physical assets of the Holding Company (approximately RMB1,775.0 million) and valuation report on properties (approximately RMB1,639.4 million) as included in the Appendices II and III to the Circular respectively. As advised by the Independent Valuer, the sole reason for the difference in value was due to the value of equipment installation of approximately RMB135.6 million being included in construction in progress in the valuation report on physical assets of the Holding Company in the Appendix II to the Circular, and hence excluded from the valuation report on properties in the Appendix III to the Circular. The 13 equipment installation works mainly comprised de-nitrification equipment installation, air pre-heater renovation, gas fire extinguishing equipment installation, overall fluoro vulcanised rubber expansion joint installation, cargo lifting platform installation, flue gas online monitoring equipment, etc., which are expected to be completed in the second half of 2014 to the first half of 2015.

Despite of the above differences in the Appraised Asset Value of buildings and construction in progress among the Appraisal Reports mainly attributable to the Appraised Asset Value of equipment installation of approximately RMB67.6 million and RMB135.6 million in the Appendices I and II to the Circular respectively when making cross reference to the Appendix III to the Circular, we do not consider such presentation would adversely affect the fairness and reasonableness for determining the consideration under the Thermal Power Assets Swap Agreement.

During the course of our discussion with the Independent Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Appraisal Reports. In light of the above, we are of the view that the Appraisal Reports have been reasonably prepared and are normal in nature without any unusual assumptions and the bases of the Appraisal Reports are fair and reasonable. On such basis, we consider that the combined valuation approaches are appropriate methodologies adopted for the Appraisals, and also the Independent Valuer has the requisite experience and expertise to conduct the Appraisals for the Assets Swap.

We also noted that the respective consideration for the Assets Swap was determined after arm-length's negotiations between the Company and the Holding Company pursuant to the Thermal Power Assets Swap Agreement on exactly the same bases and valuation approaches/methodologies (i) with reference to the Appraised Asset Value as at the same valuation base date as at 31 August 2014 pursuant to the Appraisal Reports which have been prepared and concluded by the same Independent Valuer; and (ii) irrespective of whether the appraisal target is the Group itself or the Holding Group as the counter contracting party. On such basis, we are of the view that the basis of determination for the consideration for the Acquisition and the Disposal, including the net cash consideration, under the Thermal Power Assets Swap Agreement is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

*Consideration of other valuation parameters*

As mentioned in the "Letter from the Board" of the Circular, the assets and properties attributable to each of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants does/do not itself/themselves alone constitute a business(es) or a company(ies), the information regarding the net profit attributable to them is not available. In addition, we have noted that comparable listed companies being engaged in thermal power plant industry are normally having their full scale of business operation and a variety of assets and liabilities in their balance sheets, which therefore are not directly comparable with that of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants. On such basis, neither the price-to-earning ratio nor price-to-book ratio has been considered as a valuation parameter for the Assets Swap. On the other hand, we consider that the Appraised Asset Value is an appropriate valuation of the consideration for the Acquisition and the Disposal, and hence the net cash consideration for the Assets Swap.

*Completion*

The completion of the Acquisition and the Disposal is subject to the following conditions precedent:

(a) the Thermal Power Assets Swap Agreement being duly executed by the Company and the Holding Company;

(b) the Thermal Power Assets Swap Agreement and the Acquisition and the Disposal thereunder being approved by the Shareholders of the Company; and

(c) the Thermal Power Assets Swap Agreement and the Acquisition and the Disposal thereunder being approved by the board of directors of the Holding Company.

Completion is scheduled to take place on the date (or a later date as mutually agreed between the Holding Company and the Company) when the last of the above conditions are satisfied. If all the above conditions are not satisfied by 31 March 2015, each of the Company and the Holding Company is entitled to terminate the Thermal Power Assets Swap Agreement by giving written notice to the other party starting from 1 April 2015.

Upon Completion:

(a) the Company would hold all the rights and obligations in relation to the Holding Company No. 7 Thermal Power Plant previously owned and operated by the Holding Company; and

(b) the Holding Company would hold all the rights and obligations in relation to the Weiqiao Thermal Power Plants previously owned and operated by the Company.

In relation to the obligations mentioned above for the Company, the Directors confirm that such obligations are mainly relating to the tax payable by the Company under the PRC laws for the Acquisition under the Thermal Power Assets Swap Agreement and the obligations relating to ancillary facilities of the Holding Company No. 7 Thermal Power Plant which are under construction.

*Other significant terms*

(a) Where it becomes impossible for a party to perform the Thermal Power Assets Swap Agreement due to a force majeure event, which includes but is not limited to earthquake, fire, tidal wave and war, such party shall notify the other party in writing, together with supporting written evidence of such force majeure event. If the force majeure delays or prevents the performance of the obligations of such party for a continuous period of three months, any party may give notice to the other party to terminate the Thermal Power Assets Swap Agreement at the end of this period.

(b) Considering that the operation of the Holding Company No. 7 Thermal Power Plant by the Holding Company may be affected by the PRC national and local laws, regulations and government policies, as well as the operation status of the Company, including but not limited to possible energy shortages in the future, the Holding Company has granted the Company a put option in relation to the Holding Company No. 7 Thermal Power Plant, i.e. the Company has the right which entitles it to require the Holding Company to purchase all or part of the Holding Company No. 7 Thermal Power Plant according to the related laws, regulations and government policies of the PRC or the Company's reasonable business judgment and the value determined by an independent third party valuer at the relevant time. The Holding Company has undertaken to obtain all necessary permits and approvals for the transfer of all or part of the Holding Company No. 7 Thermal Power Plant by the Company to it. There is no expiry date for such put option. The Directors confirm that if the Company exercises or transfers the put option in the future, it will comply with relevant Listing Rules requirements. The Directors expect that the thermal power supply by the Holding Company No. 7 Thermal Power Plant will be sufficient for the Group's future operating and production requirements following the Completion, and they do not foresee there will be possible energy shortages in the near future that may affect the Company in exercising the put option.

We consider that the above terms are basically protecting the Group itself in case of any probable unusual events that might affect the future normal operation of the Holding Company No. 7 Thermal Power Plant to be acquired by the Company after, and ensuring proper completion of the necessary transfer/registration procedures for, the Completion, which we consider to be favourable to the Group, in the interests of the Company and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned.

***5. Possible financial effects on the Assets Swap of the Group***

*Earnings*

Upon the Completion, it is expected that a net gain on the Disposal of approximately RMB11.9 million can be recognized in the statement of profit or loss and other comprehensive income of the Group; while the Directors also expect that the Assets Swap will enhance the existing operating efficiency and capability and future business development of the Group, and then further contribute to its earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the Group thereafter.

*Working capital*

Based on the interim report of the Company for the six months ended 30 June 2014 (the "**2014 Interim Report**"), the working capital position (i.e. total current assets of approximately RMB16,173.3 million, less total current liabilities of approximately RMB5,732.3 million) and cash balances (including non-pledged time deposits but excluding pledged time deposits) of the Group as at 30 June 2014 amounted to approximately RMB10,441.0 million and RMB9,627.5 million respectively, representing a current ratio of approximately 2.8 times. In view of such position, payment of the net cash consideration for the difference between the Acquisition and the Disposal of approximately RMB531.7 million would not exert considerable pressure on the working capital of the Group.

Based on our review of the annual report of the Company for the year ended 31 December 2013 (the "**2013 Annual Report**"), we noted that the Group had net cash inflows generated from its operating activities of approximately RMB4,437.4 million and RMB1,508.3 million over the past two years ended 31 December 2013, respectively, which had demonstrated that the Group has strong capability to generate sufficient operating cash inflow to finance its operations. On such basis, we concur with the Directors' confirmation that the Group would have sufficient cash resources to satisfy the financing need for settlement of the net cash consideration between the Acquisition and the Disposal under the Assets Swap. As such, there would not be material adverse effect on the working capital position of the Group after the Completion.

*Net asset value*

According to the 2014 Interim Report, the unaudited net asset value (excluding non-controlling interests) of the Group was approximately RMB16,039.8 million as at 30 June 2014. It is currently expected that there will not be any material impact on the net asset position of the Group following the Completion, as the decrease in the net assets attributable to the Disposal and the cash outflow for settlement of the net cash consideration of approximately RMB531.7 million will be offset by the increase in the net assets attributable to the Acquisition. There will also be no material adverse impact on the income statement and reserves of the Group.

*Gearing*

Based on the 2014 Interim Report, the gearing ratio of the Group was approximately 56.3%, which is calculated based on the interest-bearing bank and other borrowings of approximately RMB9,031.2 million over net asset value of the Group (excluding non-controlling interests) of approximately RMB16,039.8 million as at 30 June 2014. It is currently expected that there will not be any significant adverse impact on the gearing position of the Group following the Completion, because the Assets Swap itself would not involve obtaining any new interest-bearing borrowings for financing the transactions thereunder.

*Conclusion*

In light of the foregoing financial effects of the Assets Swap on the earnings, working capital, net asset value and gearing position of the Group, we are of the view that the Assets Swap would have no significant adverse impact on the Group's earnings and financial position; while the Assets Swap is an appropriate, efficient and effective capital re-formation for the Group which is aimed at enhancing its operating efficiency and capability and positioning itself for better growth in the future which, in the long run, is expected to benefit the Company and the Shareholders as a whole.

**RECOMMENDATION**

Having taken into account the above principal factors and reasons, in particular, (i) the long-term benefits of the Assets Swap to the Group; (ii) the basis for determination of the consideration for the Assets Swap; and (iii) the financial effects of the Assets Swap to the Group, we are of the view that though the Assets Swap is not conducted in the ordinary and usual course of business of the Group, which we otherwise consider to be capital re-formation in nature for enhancement of long-term operating efficiency and business development of the Group, the terms and conditions of the Assets Swap pursuant to the Thermal Power Assets Swap Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, the entering into of the Thermal Power Assets Swap Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the Assets Swap and the transactions contemplated under or in connection with the Thermal Power Assets Swap Agreement at the EGM.

**(2) Renewal of Continuing Connected Transactions (Supply of cotton yarn, grey fabric and denim)**

In arriving at our opinion and recommendation, we have considered the following principal factors and reasons:

***1. Background and reasons for entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement***

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

The Holding Company is a company incorporated in the PRC on 14 April 1998 with limited liability, and 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.

On 31 October 2011, the Company and the Holding Company entered into the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement to regulate the continuing connected transactions in respect of supply by the Group of cotton yarn, grey fabric and denim to the Parent Group. As the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement will expire on 31 December 2014, the Company and the Holding Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement on 21 October 2014 with a term of three years commencing on 1 January 2015 to 31 December 2017. Details of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are set out in the "Letter from the Board" of the Circular.

As mentioned in the "Letter from the Board" of the Circular, the Parent Group has a substantial and stable demand for cotton yarn/grey fabric and denim for further processing into downstream cotton textile products for sale to independent third parties. The Parent Group has been one of the Group's major and stable customers for cotton yarn/grey fabric and denim. Based on the 2013 Annual Report and the 2014 Interim Report, sales to the Parent Group accounted for approximately 6.9%, 6.4% and 13.2% of the Group's total sales revenue for each of the two years ended 31 December 2013 and the six months ended 30 June 2014, respectively.

Given that the provision of cotton yarn/grey fabric and denim by the Group to the Parent Group has been conducted, and will continue to be conducted, at prices no more favourable than those available to independent third parties (as analysed below), we concur with the Directors' belief that the establishment of long-term co-operation with the Holding Company will stabilize the Group's operation, ensure a broaden stream of revenue source and a relatively stable profit rate, and is of commercial benefit to the Group as a whole.

In view of the above, we consider that the entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

### *2. Major terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement*

The Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement stipulates that the prices of cotton yarn/grey fabric and denim supplied by the Group to the Parent Group are determined by reference to the prevailing selling prices in the market at which comparable types of relevant products are supplied by the Group to independent third parties under normal commercial terms and in the ordinary course of its business in the PRC.

The Group has a wide variety of textile products to be sold to its customers according to an indicative price range for different textile products that is charged on a cost-plus (i.e. with a reasonable mark-up) basis and depending on factors, including but not limited to, the prevailing market condition, sales volume and delivery requirements etc. The ex-factory price for a single product category was nation-wide uniform. However, the Directors confirm that the selling prices of comparable types of relevant products sold to the Parent Group shall be made with reference to those to the independent third party customers at the same time. The Group usually reviews, adjusts and approves these prices lists from time to time, whenever it considers necessary, taking into account of the prevailing market condition and other relevant factors at that time. We have discussed with the Management in relation to the pricing principle and understand that the pricing principle agreed between the Group and the Holding Company has been determined on an arm's length negotiation basis based on normal commercial terms.

We have reviewed the sales invoices/contracts between the Group and (i) members of the Parent Group under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement; and (ii) independent third party customers of the Group, on a sampling basis for each of the three years in 2012 to 2014, and noted that the unit prices of cotton yarn/grey fabric and denim charged by the Group to the Parent Group had been comparable to those charged by the Group to its independent third party customers. Based on our review, we concur with the view of the Management that the pricing principle under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement is fair and reasonable notwithstanding the connected relationship between the Group and the Parent Group.

In respect of the payment terms, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement provides that the Group would, on the last business day of each calendar month, prepare a book of account receivable for the relevant costs/expenses that shall be paid by the Holding Company to the Group for that month. The Holding Company shall, within the first 10 business days of the following month, pay the amount due in full in cash. Based on our review of the 2013 Annual Report and the 2014 Interim Report, we have noted that the Group normally allows a credit period of not more than 45 days to its customers, which may reveal that the credit terms offered by the Group to the Parent Group shall be no more favourable than those offered to its independent third party customers. Taking into account factors such as the long-term business relationship between the Group and the Parent Group, the Parent Group being one of the Group's major and stable customers for cotton yarn/grey fabric and denim, the Group's better credit understanding on the Parent Group and the payment terms granted by the Group to the Holding Company under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement being normal business practice in the industry, we concur with the view of the Management that the payment terms granted by the Group to the Parent Group are fair and reasonable.

Given the above facts, we consider that the major terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

### *3. Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps*

For each of the two years ended 31 December 2013 and the first eight months ended 31 August 2014, the values of the aggregate supply of the cotton yarn/grey fabric and denim by the Group to the Parent Group amounted to approximately RMB1,049.0 million, RMB885.9 million and RMB852.2 million, respectively (exclusive of VAT). The Directors currently estimate that the values of the aggregate supply of the cotton yarn/grey fabric and denim for the full year ending 31 December 2014 will amount to approximately RMB1,278.3 million (exclusive of VAT). The historical actual transaction amounts of the aggregate supply of the cotton yarn/grey fabric and denim by the Group to the Parent Group for each of the three years ended/ending 31 December 2012 to 2014 accounted for an utilisation rate of approximately 69.4%, 41.0% and 41.4%, respectively, when compared to the annual caps previously set under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for the same period.

Set out below are the details of (i) the historical transaction amounts (exclusive of VAT) of the continuing connected transactions under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement; and (ii) the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps (exclusive of VAT) for each of the coming three years ending on 31 December 2017.

| | For the year ending 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Actual/ expected transaction amount of 2014** | **Increase from 2013** | **Annual cap for 2015** | **Increase from 2014** | **Annual cap for 2016** | **Increase from 2015** | **Annual cap for 2017** | **Increase from 2016** |
| | *RMB'million* | *%* | *RMB'million* | *%* | *RMB'million* | *%* | *RMB'million* | *%* |
| Historical transaction amount/ the annual caps for supply of cotton yarn/grey fabric and denim *(See note below)* | | | | | | | | |
| – 1 January to 31 August | 852.2 | | | | | | | |
| – 1 January to 31 December | 1,278.3 | 44.3 | 1,917.4 | 50.0 | 2,876.1 | 50.0 | 3,163.7 | 10.0 |

*Note:* The transaction amount for the whole year of 2014 of approximately RMB1,278.3 million is computed on an annualized basis based on the historical amount of RMB852.2 million occurred between the Group and the Parent Group for the eight months ended 31 August 2014.

We note that the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps represent considerable increases as compared to the historical transaction amounts for each of the two years ended 31 December 2013 and the eight months ended 31 August 2014.

As mentioned in the "Letter from the Board" of the Circular, the Annual Parent Cotton Yarn/ Grey Fabric and Denim Supply Caps for each of the two years ending on 31 December 2016 represent an average growth rate of 50% each year from the year ending 31 December 2015 to the year ending 31 December 2016 based on (i) the estimated annual average growth rate of approximately 44.3% from the year ended 31 December 2013 to the year ending 31 December 2014, which was calculated by annualising the actual transaction value for the first eight months ended 31 August 2014; (ii) the expected increase of orders from the Parent Group resulted by improvement in capacity utilization rate of the Parent Group, which would increase its scale of production, and in turn, the demand for the Group's textile products of cotton yarn/grey fabric and denim; and (iii) the recovering market condition of textile market in China due to the positive influence of the Central Government's cotton direct subsidy policies promulgated since September 2014, which narrows down the difference between international and domestic cotton prices and in turn would stimulate the market demand for textile end-products and increase the demand for the Group's cotton yarn/grey fabric and denim. The Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for the year ending 31 December 2017 represents a growth rate of 10% as compared to the year ending 31 December 2016 based on the expected stabilized growth of production capacity of the Parent Group after expansion in the past few years.

In assessing the reasonableness of the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps, we have discussed with the Management and understand that the annual caps are mainly determined based on: (i) the Group's estimated annualised transaction amount at approximately RMB1,278.3 million (RMB852.2 million for the eight months ended 31 August 2014 x 12/8 months) for the whole year of 2014; (ii) an expected annual growth rate of approximately 50.0% in the coming two years ending 31 December 2016, which was made reference to the aforementioned estimated annualised growth rate of approximately 44.3% of the values of supply of cotton yarn/grey fabric and denim by the Group to the Parent Group for the year ending 31 December 2014 and the expected demand from the Holding Company in the coming three years; and (iii) an additional growth rate of approximately 5.7% as a reasonable buffer which was made reference to the growth rate for the household consumption expenditure of the PRC of approximately 10.5% for the nine months ended 30 September 2014, which is based on information published by National Bureau of Statistics of China ("**NBSC**"), for the nine months ended 30 September 2014.

The Company further advised that the Company basically has not taken into account the actual transaction amounts under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for each of Year 2012 and Year 2013 for determination of the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for the coming three years ending 31 December 2017, as the transaction activities between the Group and the Parent Group during this past period were negatively affected by the global financial crisis and the wide spread unfavourable economic environment in the western countries; and therefore did not fairly reflect the demand of the Parent Group under normal market conditions. Based on our review of the Group's past records in such respects, we have noted that the historical transaction amounts for the Group's sales of cotton yarn/grey fabric and denim to the Parent Group had been fluctuating significantly from approximately RMB417.0 million in Year 2005 to the record high of RMB1,419.2 million in Year 2008, but subsequently dropped to approximately RMB885.9 million in Year 2013. However, the Directors are confident that the Group's operating performance will likely be able to attain, or even exceed, such record high in the coming years in view of the very favourable factor that the recovering market condition of textile market in China due to the positive influence of the Central Government's cotton direct subsidy policies, which narrows down the difference between international and domestic cotton prices, and hence may lead to the Chinese cotton textile companies regaining their competitiveness in the international market in the coming years and ultimately increase the Group's revenue from sale of cotton yarn/grey fabric and denim to its domestic customers, including the Parent Group. Based on our independent research for the price information published by the China Cotton Association, the average cotton price in China has been persistently decreasing over the period from RMB19,523 per ton in December 2013 to RMB14,848 per ton in October 2014 and a decreasing trend is generally anticipated in the market, which has been/will be reducing the cost of production of Chinese textile enterprises (i.e. like the Parent Group), and hence stimulating much greater demand for the Group's cotton yarn/grey fabric and denim by the Parent Group during the period and in the coming years. Evidently, the Group's sales of cotton yarn/grey fabric and denim to the Parent Group had reached RMB852.2 million for the eight months ended 31 August 2014, which almost attained to that of the full-year level of Year 2013 at approximately RMB885.9 million. Based on our review of the 2014 Interim Report, we noted that the Group's sales of textile products to the Parent Group accounted for approximately 13.2% of the total revenue of the Group for the six months ended 30 June 2014 when compared to that of approximately 6.9% and 6.4% for each of the two years ended 31 December 2013, respectively; whilst the Group's total revenue from the sales of textile products for the six months ended 30 June

2014 had conversely dropped by approximately 10.9% when compared to that of the corresponding period in Year 2013, which may demonstrate that the sales to the Parent Group had been out-performing when compared to that of the other customers of the Group during the same period. Based on our review of the 2014 Interim Report, the Group's sales of textile products to the Parent Group for the six months ended 30 June 2014 had significantly increased by approximately 2.4 times over that of the corresponding period in Year 2013. The Directors are very optimistic about the sales revenue growth between the Group and the Parent Group in the coming years, in view of the drastic decrease in domestic cotton price over the past year as a consequence of the Central Government's direct subsidy policies for the domestic cotton market, which could enable the Chinese textile enterprises (i.e. like the Parent Group) to lower their cost of production, regain their international competitiveness and ultimately to increase end-customers' demand for their textile products and sales volume and revenue. The Group's supply of cotton yarn/grey fabric and denim to the Parent Group is expected to be correspondingly increased to cope with the increasing demand from the Parent Group's end-customers for its textile products in the coming years. On such basis, we concur with the Directors' estimate of a continuous annual growth rate of 50% per annum in the Years 2015 and 2016, which is basically comparable to the expected annualised growth rate of approximately 44.3% in Year 2014 with a reasonable buffer of 5.7%.

Based on the Directors' above consideration and their latest best estimate, the Group has adopted a relatively higher growth rate of 50% as, to the best knowledge and estimate of the Company, the business expansion of the Parent Group in the coming three years is expected to speed up as compared to that during the recession period from 2011 to 2013. We note from a news article with heading of "Total Retail Sales of Consumer Goods in September 2014" released by NBSC on 21 October 2014 that income of retail sales of goods of the enterprises above-designated-size (which refer to wholesale enterprises with annual revenue from primary activities above RMB20 million, retail enterprises with annual revenue from primary activities above RMB5 million and lodging and catering enterprises with annual revenue from primary activities above RMB2 million) in respect of garments, footwear, hats and knitwear recorded a year-on-year growth of approximately 10.5% for the first nine months of Year 2014 and approximately 11.1% in September 2014. With reference to such statistical information and in consideration of the aforementioned estimated annualised growth rate of approximately 44.3% of the values of supply of cotton yarn/grey fabric and denim by the Group to the Parent Group for the year ending 31 December 2014, we thus consider the above annual growth rate of 50% in the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps for Years 2015 and 2016 is justifiable. We also consider the relatively stable growth rate of 10% for the Year 2017, after the Parent Group's higher growth rate of 50% in Years 2015 and 2016, is prudent and justifiable.

Having considered the above, we are of the view that the basis adopted by the Management in determining the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps is justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

However, the Independent Shareholders should note that the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of the Continuing Connected Transactions correspond with the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps as discussed above.

***4. Requirement by the Listing Rules regarding the Continuing Connected Transactions***

Based on our discussion with the Management, we understand that the Company has established internal control measures to ensure effective management and monitoring of the transactions contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and strict compliance with laws and regulations (including the requirements under Chapter 14A of the Listing Rules).

As required by the Listing Rules, for each financial year of the Company over the term of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, the Continuing Connected Transactions shall be subject to the annual review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.37 and 14A.38 of the Listing Rules, respectively. In particular, each year, the independent non-executive Directors must confirm that the Continuing Connected Transactions have 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 favourable to the Company than 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.

Furthermore, each year, the Company's auditors must provide a letter to the Board confirming that the Continuing Connected Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the cap disclosed in the previous announcement(s).

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing

Connected Transactions and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

Given the above, we consider that there exist appropriate procedures and arrangements to confirm that the Continuing Connected Transactions will be conducted on terms pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement. According to the 2013 Annual Report, the Company had confirmed that an annual review of the Continuing Connected Transactions for the year ended 31 December 2013 had been conducted by the independent non-executive Directors, and the auditors of the Company in accordance with the requirements as set out in Rules 14A.37 to 14A.41 of the Listing Rules.

**RECOMMENDATION**

Having considered the principal factors and reasons referred to in the above, in particular,

- the purpose of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement is to continue to regulate the ongoing transactions between the Group and the Parent Group for the three years ending 31 December 2017;

- the Continuing Connected Transactions fall within the ordinary and usual course of business of the Group;

- the major terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are fair and reasonable;

- the basis for determination of the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps is fair and reasonable; and

- there exist appropriate procedures and arrangements to confirm that the Continuing Connected Transactions will be conducted on terms pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement,

we consider that (i) the entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement is in the ordinary and usual course of business of the Group and the terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are on normal commercial terms, and hence the entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement is in the interests of the Group and the Shareholders as a whole; and (ii) the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps.

Yours faithfully,
For and on behalf of
**First Shanghai Capital Limited**

| | |
|---|---|
| **Eric Lee** | **Fanny Lee** |
| *Managing Director* | *Managing Director* |

*Note:* Mr. Eric Lee and Ms. Fanny Lee have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006. Both of them have been participating in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

# VALUATION REPORT ON PHYSICAL ASSETS OF WEIQIAO TEXTILE COMPANY LIMITED IN RELATION TO ASSET SWAP OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED

**Wanlong Ping Bao Zi (2014) No. 1303**

**Wanlong (Shanghai) Assets Appraisal Co., Ltd.**
**8 October 2014**

## STATEMENT OF CERTIFIED PUBLIC VALUERS

I. We have conducted this valuation engagement in accordance with relevant laws, regulations and asset valuation standards and in the principle of independency, objectiveness and impartiality. We confirm that the content herein is objective based on the information collected in our practices, and we accept legal responsibility for the reasonableness of the valuation conclusion.

II. The lists of assets related to the valuation target are submitted by the principal and the asset owner, as confirmed by their signatures and corporate seals. The principal and relevant parties shall be responsible for the truthfulness, legitimacy and completeness of the information provided and proper use of this report.

III. We have no existing or prospective interest in the valuation target hereunder. We have neither existing or prospective interest in nor any bias to the relevant parties.

IV. We have conducted site survey to the valuation target hereunder. We have given necessary attention to the legal status of the valuation target, and conducted inspection on its title documents. With the identified problems disclosed truthfully, we have requested the principal and relevant parties to improve the ownership in order to meet the requirement for issuing this report.

V. Our analysis, judgment and conclusion in the valuation report issued are subject to the assumptions and constraints herein. Users of this report should pay full attention to the assumptions, constraints and special explanations set out herein and their impact on the valuation conclusion.

# VALUATION REPORT ON PHYSICAL ASSETS OF WEIQIAO TEXTILE COMPANY LIMITED IN RELATION TO ASSET SWAP OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED

## EXECUTIVE SUMMARY

We, Wanlong (Shanghai) Assets Appraisal Co., Ltd., refer to the engagement for valuation of buildings, machinery equipment and construction in progress of Weiqiao Textile Company Limited in relation to the proposed asset swap with Shandong Weiqiao Chuangye Group Company Limited.

| | |
|---|---|
| Valuation purpose: | The proposed asset swap |
| Valuation target and scope: | The valuation target is the value of physical assets of Weiqiao Textile Company Limited in relation to the asset swap. The valuation scope comprises physical assets of Weiqiao Textile Company Limited in relation to the asset swap, including buildings, machinery equipment and construction in progress. |
| Type of value: | Market value |
| Valuation base date: | 31 August 2014 |
| Valuation methodology: | Replacement cost approach |
| Valuation conclusion and its validity: | The buildings, machinery equipment and construction in progress of Weiqiao Textile Company Limited in relation to the asset swap of Shandong Weiqiao Chuangye Group Company Limited are valued at RMB3,836,369,200. |

The valuation conclusion above shall only be valid within one year from the valuation base date, which shall lapse thereafter.

**IMPORTANT NOTICE: The information above is extracted from the text of the valuation report (Wanlong Ping Bao Zi (2014) No. 1303). Please carefully read the full text of the valuation report for details of the valuation process and reasonable understanding of the valuation conclusion. This summary should not be used alone.**

**Wanlong Ping Bao Zi (2014) No. 1303**

# VALUATION REPORT ON PHYSICAL ASSETS OF WEIQIAO TEXTILE COMPANY LIMITED IN RELATION TO ASSET SWAP OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED

**To Shandong Weiqiao Chuangye Group Company Limited:**

We, Wanlong (Shanghai) Assets Appraisal Co., Ltd., refer to your engagement for valuation of buildings, machinery equipment and construction in progress of Weiqiao Textile Company Limited in relation to the proposed asset swap with Shandong Weiqiao Chuangye Group Company Limited to arrive at their market value as of 31 August 2014 using the replacement cost approach through necessary valuation procedures in accordance with laws, regulations, asset valuation standards and principles. The valuation details are presented as follows:

## I. PRINCIPAL, ASSET OWNER AND REPORT USERS OTHER THAN THE PRINCIPAL

### (I) Principal and Report Users other than the Principal

***1. Principal***

*(1) Overview of the Principal*

| | |
|---|---|
| Name: | Shandong Weiqiao Chuangye Group Company Limited |
| Legal domicile: | No. 1, Gongye Yi Road, Zouping Economic Development Zone, Zouping County |
| Place of business: | No. 1, Gongye Yi Road, Zouping Economic Development Zone, Zouping County |
| Legal representative: | Zhang Shiping |
| Registered capital: | RMB1.6 billion |
| Main business scope: | Processing, production and sale of cotton, cotton yarn, dyed yarn, cotton fabric, yarn-dyed fabric, dyed fabric, knitwear, apparel and home textile; trading and processing of aluminium ore (bauxite), and production and sale of alumina and aluminium ingots, sheets, foils, strips and fabrications; export of self-manufactured products as well as import of self-used raw materials, machinery equipment. |

*(2) History, Shareholdings and Management Structure*

Shandong Weiqiao Chuangye Group Company Limited, formerly known as Zouping County Weiqiao Cotton Spinning Factory, was established by the Zouping United Supply and Marketing Cooperatives in 1951 as a collective enterprise principally engaged in cotton procurement and lint cotton operation. In April 1998, Zouping County Weiqiao Cotton Spinning Factory was reorganised into Shandong Weiqiao Textile Group Co., Ltd., with registered capital of RMB200 million jointly contributed by Zouping Supply and Marketing Cooperative and 22 natural persons. The de facto controller was Zouping United Supply and Marketing Cooperatives. After a series of shareholding changes, the current shareholding structure is as follow: 39% shareholdings held by Shandong Weiqiao Investment Holdings Company Limited and 61% shareholdings held by the management. As at the date hereof, its registered capital is RMB1.6 billion.

The company has been operated by the management under general meeting, the board of directors and supervisory committee with sound and rapid development.

*(3) Assets for the Latest Three Years*

The Company is principally engaged in the production and sale of cotton textiles. As at 31 December 2011, 31 December 2012, 31 December 2013 and 31 August 2014, the total assets of Shandong Weiqiao Chuangye Group Company Limited amounted to RMB52,239,094,000, RMB54,485,835,000, RMB61,750,635,000 and RMB60,814,919,000, respectively.

***2. Report Users other than the Principal***

Users of this report other than the principal are the parties in relation to the underlying transaction and those prescribed by laws and regulations.

**(II) Profile of Asset Owner**

***(1) Overview of Asset Owner***

| | |
|---|---|
| Name: | Weiqiao Textile Company Limited |
| Legal domicile: | No. 34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province |
| Place of business: | No. 1, Weifang Road, Zouping Economic Development Zone, Zouping County, Shandong Province |
| Legal representative: | Zhang Hongxia |
| Registered capital: | RMB1,194,389,000 |

| | |
|---|---|
| Main business scope: | Cotton spinning, weaving, dyeing and production, processing and sale of knitwear and apparel; import and export businesses within the authorised scope; sale of cotton. Operation subject to permit: cotton processing. |

*(2) History, Shareholdings and Management Structure*

Weiqiao Textile Company Limited (the "Company", formerly known as Shandong Weiqiao Textile Company Limited) was jointly established by five companies including Shandong Weiqiao Chuangye Group Company Limited (the "Group Company") and Zouping No. 2 Oil and Cotton Co., Ltd. as well as natural person Zhang Shiping on 6 December 1999 pursuant to the approval of Shandong Provincial People's Government (Lu Zheng Gu Zi [1999] No. 48), with initial registered capital of RMB202.04 million as 96.15% owned by the Group Company. On 19 February 2003, the Company was renamed as "Weiqiao Textile Company Limited", as authorised by the State Administration for Industry and Commerce.

In September 2003, the Company was listed on The Stock Exchange of Hong Kong Limited through a global public offering of overseas listed foreign ordinary shares (stock code: 2698.HK). On 13 August 2005, the Company entered into an asset acquisition and capital increase agreement with the Group Company, pursuant to which the Group Company agreed to transfer buildings, machinery equipment and other physical assets valued at RMB3 billion of certain thermal power plants owned by it to the Company. The consideration was financed by 250,000,000 domestic consideration shares of the Company issued to the Group Company with issue price totalling RMB2.71 billion. Accordingly, the Company's registered capital was increased to RMB1,125,452,500, as 58.67% owned by the Group Company.

As a result of the subsequent new issuances and shareholding changes, the Company's current registered capital is RMB1,194,389,000, which is owned as to 63.45% by the Group Company, 1.48% and 0.44% respectively by natural persons Zhang Shiping and Zhang Hongxia, and the remaining by overseas foreign shareholders. The Group Company is the largest shareholder of the Company.

The Company's shareholding structure is as follow:

| **Shareholder** | **Number of shares** | **Shareholding (%)** |
|---|---|---|
| Shandong Weiqiao Chuangye Group Company Limited | 757,869,600 | 63.45 |
| Management and natural person shareholders | 22,900,400 | 1.92 |
| Holders of H Shares | 413,619,000 | 34.63 |
| Total | 1,194,389,000 | 100.00 |

The Company has been operated by the management under the general meeting, the board of directors and supervisory committee with sound and rapid development.

***(3) Assets and Business Operations for the Latest Three Years***

Business operations:

The Company is principally engaged in the production and sale of cotton yarn, grey fabric and denim, and is an integrated cotton textile manufacturer with more than 2,000 products. In 2013, the Company manufactured 488,000 tonnes of cotton yarn, 1,021,000,000 metres of grey fabric and 73,000,000 metres of denim. Its revenues for 2011, 2012 and 2013 were RMB15,232,034,000, RMB15,247,956,000 and RMB13,880,642,000, respectively.

Through rapid development over a few years, the Company has evolved into China's largest and the world's leading integrated cotton textile manufacturer. The Company has ranked first among domestic peers for 14 consecutive years in terms of revenue from principal operations and export. With products sold to more than 20 provinces and municipalities as well as over 20 overseas countries and regions, the Company has established a broad international customer base.

Assets for the latest three years

As at 31 December 2011, 31 December 2012 and 31 December 2013, the total assets of Weiqiao Textile Company Limited amounted to RMB29,356,819,000, RMB28,373,669,000 and RMB30,310,462,000, respectively.

## II. VALUATION PURPOSE

The valuation is designed to provide a reference to the market value of buildings, machinery equipment and construction in progress of Weiqiao Textile Company Limited in relation to the proposed asset swap between the Principal and Weiqiao Textile Company Limited.

## III. VALUATION TARGET AND SCOPE

### (I) Valuation Target and Scope

The valuation target is the value of assets of Weiqiao Textile Company Limited in relation to the proposed asset swap. The valuation scope comprises physical assets of Weiqiao Textile Company Limited in relation to the asset swap, including buildings, machinery equipment and construction in progress. The reported book value of the target assets is RMB3,750,839,213.13, comprising original book value of RMB5,595,110,776.85 for fixed assets (net book value of fixed assets: RMB3,584,118,461.13), and book value of RMB166,720,752.00 for construction in progress.

As at the valuation base date, the target assets reported were not taken as collateral or guarantee for any loan. The land occupied by the target properties for valuation is leased from and belongs to Shandong Weiqiao Chuangye Group Company Limited and Zouping Gaoxin Power Co., Ltd., and is not included in the scope of the valuation. The valuation target and scope are consistent with those in respect of the underlying transaction.

**(II) Profile of Valuation Target**

The physical assets of Weiqiao Textile Company Limited in relation to the proposed asset swap mainly include buildings, machinery equipment and construction in progress as detailed below:

***1. Location***

The assets reported by Weiqiao Textile Company Limited are located in Zouping No. 1 Power Plant, Zouping No. 2 Power Plant, Weiqiao No. 3 Power Plant and Weiqiao No. 2 Power Plant, respectively.

Zouping No. 1 Power Plant and Zouping No. 2 Power Plant are situated in Zouping High-tech Economic Development Zone, a major area for economic development of Zouping County. Ideally located for transportation, they have significant regional advantages with Jinan-Qingdao Expressway in the proximity, less than one-hour ride by car westbound to Jinan International Airport, two-hour ride eastbound to Qingdao Port, and 8 kilometres away from Jinan-Qingdao Railway and National Highway 309.

Weiqiao No. 3 Power Plant and Weiqiao No. 2 Power Plant are situated in Weiqiao Town, Zouping County, with Matou Town on the west, the centre of Zouping County approximately 30km on the southeast and Jinan-Qingdao Expressway approximately 20km away to provide a close access to convenient transportation.

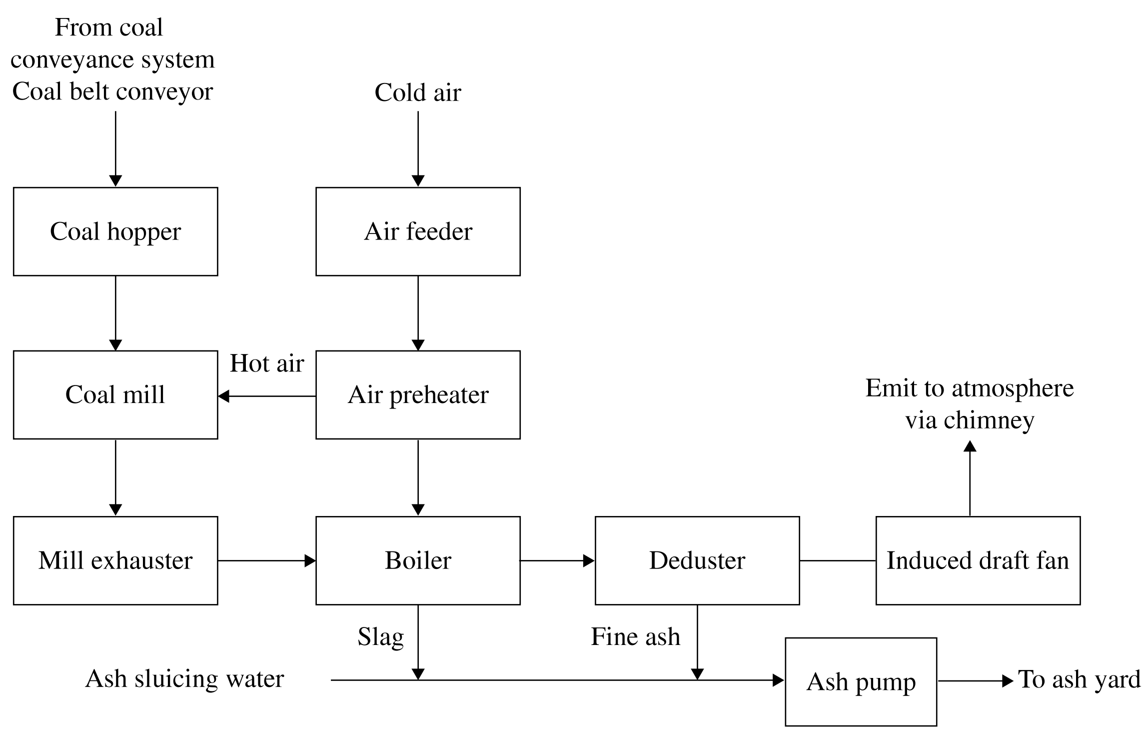
***2. Technological Process***

Pulverised coal-fired boilers and steam turbine generators are adopted for the target power plants. Coal conveyed by belt conveyor is grinded by medium speed coal mills, and screened by classifier and cyclone separator before combustion in sub-critical pulverised coal-fired boiler. The steam generated is used for power generation by steam turbine and heating purpose in production, and the power output is mainly used for production and domestic purposes of the Group Company. The residual heat provides a low cost heating source for production and domestic purposes of the plant. Fans are used in the ash and slag handling system to collect ash and slag, with electrostatic precipitators in the dust removal system and dewatering bin thickener in the slag handling system to ensure sound dust and slag removal effect.

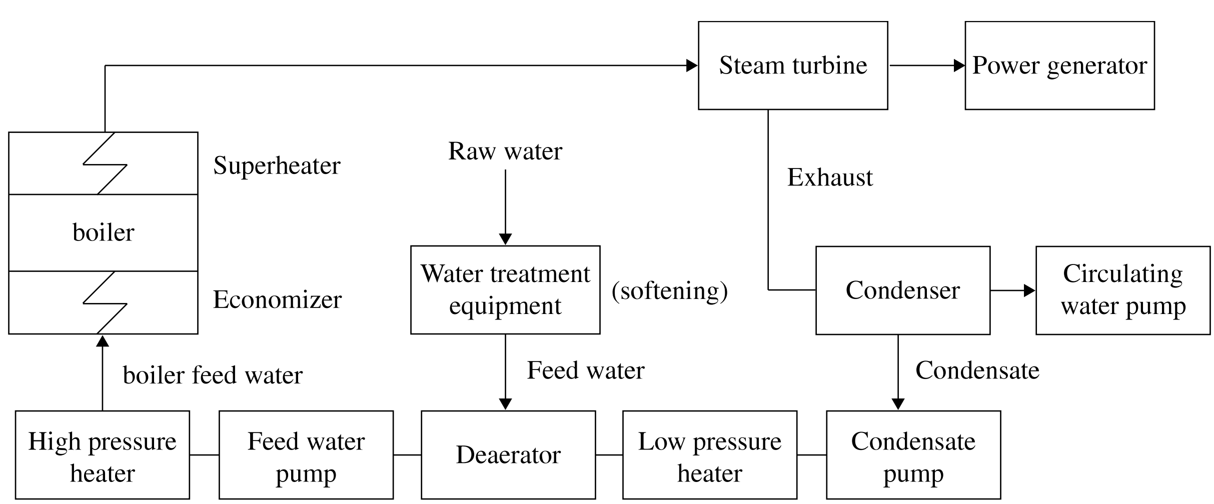
The coal-fired power plant consists of three systems, namely combustion system, steam/water system and electrical system. The main equipment includes boiler, turbine and generator as well as ancillary facilities. Water is heated in the boiler to generate high temperature, high pressure and superheated steam, and piped to the turbine for constantly expanding to force the rotor to rotate at high speed, driving the generator to generate power. Dead steam with low temperature and pressure is cooled to condensate at the condenser. Condensate is fed by the booster pump to the heater and deaerator for heating and removing oxygen, before being pumped to the boiler for the next cycle of heating to generate power. Electricity from the generator is boosted by the transformer and transmitted to the power grid of the Group Company.

The process flow diagrams for the three systems of the power plant are set out below:

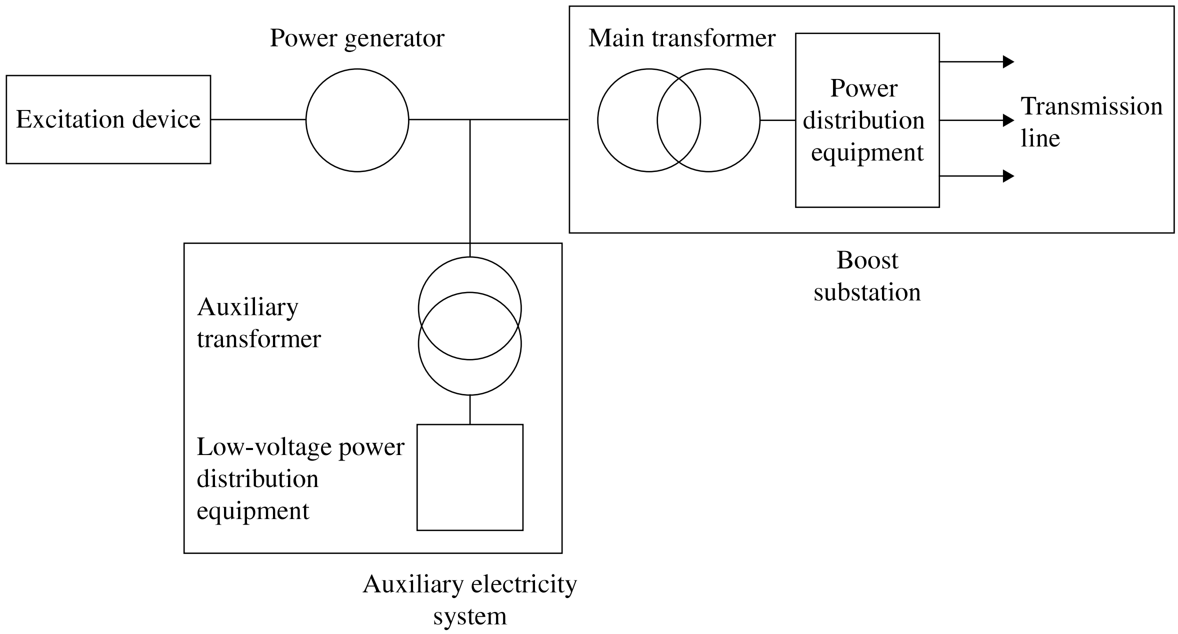
(1) *Combustion system: Coal conveyance and grinding, boiler and combustion, flue gas system, ash and slag handling system, etc.*




(2) *Steam/water system: including boiler, steam turbine, condenser, deaerator, heater, etc.*



*(3) Electrical system*




***3. Major Assets***

*(1) Buildings and Structures*

1) Book value and titles:

Buildings and structures were reported at original value of RMB2,248,030,027.85 and net value of RMB1,505,292,448.02, including 113 buildings and 184 structures. The building ownership certificates of the above properties have been obtained, the details of which are shown in the following table:

| **Location** | **Number of buildings** | **Building Ownership Certificate Number** | **Number of structures** |
|---|---|---|---|
| Zouping No. 1 Power Plant | 23 | Cheng Qu Gong Zi No. CQG00091 | 43 |
| Zouping No. 2 Power Plant | 35 | Cheng Qu Gong Zi No. CQG00626 | 54 |
| Weiqiao No. 3 Power Plant | 33 | Wei Qiao Si Zi No. WQS00071, Wei Qiao Zhen Zi No. 000357, Wei Qiao Zhen Zi No. 000358 | 45 |
| Weiqiao No. 2 Power Plant | 22 | Wei Qiao Gong Zi No. WQG00009 | 42 |
| Total | 113 | | 184 |

2) Profile of design and construction of buildings and structures

The 113 buildings with a gross floor area of 316,542.68 square metres include the main plants of the four power plants, master control building, electrostatic precipitator room, 110KV power distribution room, coal conveyance control building, coal crusher room, chemical water workshop, circulating water pump room, fire pump room, wastewater treatment building, power distribution room and other rooms for production, auxiliary and power purposes. The buildings of the four plants have a common design, mainly one- to two-story plants in reinforced concrete structure with wall tiles. Zouping No. 1 Power Plant and Zouping No. 2 Power Plant situated in Zouping High-tech Economic Development Zone and Weiqiao No. 2 Power Plant and Weiqiao No. 3 Power Plant situated in Weiqiao Town have 184 structure assets in total, including chimney, cooling tower, slag warehouse, dewatering bin foundation, thickener pool foundation and coal belt conveyor gallery

3) Plant layout:

Zouping No. 1 Power Plant and Zouping No. 2 Power Plant adopt a south-to-north layout. Zouping No. 1 Power Plant is located at the south side, with main plant in the southeast of the plant area where boiler room, electrostatic precipitator, flue gas treatment system, ash silo, chimney and water supply system are arranged northward. There are two cooling towers at the west side of the plant area and a coal shed at the north, with a coal channel to convey coal to the combustion chamber.

The main plant of Zouping No. 2 Power Plant is also at the south side, where 8 boilers, electrostatic precipitator, flue gas treatment system, ash silo and chimney are arranged northward. The circulating water system includes chemical water workshop, clean water tank, water feeder, circulating water pump room and neutralised water pump room at the west side as well as 4 cooling towers in the centre of the plant area. The dry coal shed is at the north end of the plant area, with a coal channel at the east end to convey coal to the combustion chamber.

Weiqiao No. 3 Power Plant adopts a layout similar to that of Zouping No. 2 Power Plant. Weiqiao No. 2 Power Plant, situated at the west side of Qidong Liu Road with its main plant in the east of the plant area, adopts a south-to-north linear layout. At the west side are electrostatic precipitator room, flue gas treatment system, ash silo and chimney, and the circulating water system and dry coal shed are located respectively at the northwest and southwest corner of the plant area.

Underground rainwater drainage pipes are used in the four plants. Rainwater is conducted to roads, collected at gullies and drained to rainwater pipes before being pumped by the drainage pump room away from the plants.

*(2) Equipment*

1) Book value

The reported equipment fixed assets have original book value of RMB3,347,080,749.00 and net book value of RMB2,078,826,013.11, including dedicated equipment of power plants and support and ancillary equipment.

2) Profile of equipment:

The reported equipment fixed assets mainly include dedicated equipment of Weiqiao No. 3 Power Plant, Weiqiao No. 2 Power Plant, Zouping No. 1 Power Plant and Zouping No. 2 Power Plant, and their ancillary equipment such as power transmission and transformation, coal conveyance, chemical water and cooling equipment as well as office equipment and motor vehicles. The dedicated equipment mainly includes pulverised coal-fired steam boilers, steam turbines, generators, transformers and heat exchangers as well as various fans, pumps, lifting appliances, etc. Motor vehicles include loaders, dump trucks and trucks. The main equipment of the power plants is manufactured domestically. Set out below is the information on installed capacity and year of build of the target power plants:

| No. | Power plant | Installed capacity | Year of build |
|---|---|---|---|
| 1 | Weiqiao No. 3 Power Plant | 420MW (7*60MW) | 2004-2006 |
| 2 | Weiqiao No. 2 Power Plant | 180MW (6*30MW) | 2001-2003 |
| 3 | Zouping No. 1 Power Plant | 210MW (7*30MW) | 2003-2005 |
| 4 | Zouping No. 2 Power Plant | 480MW (8*60MW) | 2004-2006 |

3) Equipment operation as of the valuation base date

Since commencing operation by phases from 2001 to 2006, the target equipment has been managed under a well-established routine maintenance system. Except for minor repairs and routine replacement with spare parts, there is no accident of abnormal quality and the equipment is in sound operation.

Dedicated equipment managers are staffed at the power plants to strictly implement the equipment management standards of the power industry. Standardised management is achieved based on complete basic information and detailed equipment archive and operational log.

*(3) Construction in Progress – Civil works*

The 6 works with a net book value RMB99,090,752.00 mainly include flue gas desulphurisation and denitrification of Weiqiao No. 3 Power Plant as well as flue gas desulphurisation system renovation and fringe renovation works of Zouping No. 2 Power Plant, which started in November 2013 and are expected to complete by the end of 2014.

*(4) Construction in progress – Equipment installation*

The 5 works with a total book value of RMB67,630,000.00 include desulphurisation, denitrification and electrostatic precipitator system renovation of Weiqiao No. 3 Power Plant as well as desulphurisation and electrostatic precipitator system renovation of Zouping No. 2 Power Plant, which started in November to December 2013 and are expected to complete by the end of 2014.

## IV. TYPE OF VALUE AND DEFINITION

The type of value of this valuation conclusion is market value.

Market value represents the estimated amount for which the valuation target is exchanged on the valuation base date between a willing buyer and a willing seller in an arm's-length transaction wherein the parties have each acted knowledgeably, prudently and without compulsion.

## V. VALUATION BASE DATE

The valuation base date is 31 August 2014.

The valuation base date above is chosen on the ground that:

It is determined based on negotiation with the principal according to the valuation purpose, mainly to minimise the gap between the valuation base date and the date on which the valuation purpose is achieved so that the valuation conclusion could serve the valuation purpose more reasonably.

The pricing basis adopted during the valuation is the effective price as at the valuation base date.

## VI. BASIS OF VALUATION

### (I) Basis of Engagement

1. The letter of engagement.

### (II) Laws and Regulations Basis

1. Company Law of the People's Republic of China (Order of the President of the People's Republic of China No. 42, 2005);

2. Administrative Measures on Valuation of State-owned Assets (Decree No. 91 of the State Council, 1991);

3. Provisional Administrative Measures on Valuation of State-owned Assets in Enterprises (Decree No. 12 of SASAC of the State Council, 2005);

4. Provisions on Certain Issues concerning the Regulation over Major Assets Reorganisations by Listed Companies (Announcement [2008] No. 14 of China Securities Regulatory Commission); and

5. Other relevant laws, regulations and rules.

**(III) Standards Basis**

1. Asset Valuation Standards – Basic Standards;

2. Code of Ethics on Asset Valuation – Basic Standards;

3. Asset Valuation Standards – Valuation Report;

4. Asset Valuation Standards – Valuation Procedures;

5. Asset Valuation Standards – Working Papers;

6. Asset Valuation Standards – Letter of Engagement;

7. Asset Valuation Standards – Real Estate;

8. Asset Valuation Standards – Machinery Equipment;

9. Guidance on Type of Value in Asset Valuation; and

10. Guidance to Certified Public Valuers on Legal Ownership of Valuation Targets.

**(IV) Ownership Basis**

1. Building ownership certificate;

2. Equipment purchase contracts and invoices;

3. Contracts, accounting vouchers and books and other materials relating to acquisition of the valuation target; and

4. Other documentary proof of ownership.

**(V) Pricing Basis**

1. Handbook of Frequently-used Data in Asset Valuation, by Beijing Science and Technology Press (1998);

2. Statistics and technical standards published by national authorities;

3. Notice on Publishing the "National Unified Basic Quota for Construction Projects (Civil Works)" and the "National Unified Work Volume Budgeting Rules for Construction Projects" (Jian Biao [1995] No. 736), by the Ministry of Construction;

4. Basic Quota for Construction Projects and Supplementary Budgetary Quota for Construction Projects prevailing in Binzhou region;

5. Fee Rates for Construction and Installation Projects prevailing in Binzhou region;

6. Cost indicators for representative construction projects in Binzhou region;

7. Construction materials price information in Binzhou region;

8. Open bid information in local market;

9. Market price information as at the valuation base date;

10. Price information available on China Used Equipment Online;

11. Contracts, accounting vouchers and books and other accounting materials relating to acquisition and use of the valuation target;

12. Valuation statements for the target assets;

13. Other materials relevant to the valuation as provided by the principal and the asset owner;

14. Asset inventory list completed based on onsite inventory taking and verification; and

15. Various supporting information relevant to the valuation as collected by appraisers.

## VII. VALUATION METHODOLOGY

Based on the valuation purpose and conditions of the valuation target, the market value of target assets is determined through the following approaches.

### 1. Buildings are valued using the replacement cost approach.

The replacement value of buildings is arrived at, as the case may be, using analogy method, index adjustment method or pre-settlement adjustment method. Newness rate of buildings is rated based on the weighted average of outcomes under the useful life method and the sum-of-the-parts scoring method.

### 2. Equipment assets are valued using the replacement cost approach.

Under the replacement cost approach, the full replacement value is determined according to the sum of equipment purchase price prevailing on the market, reasonable freight and miscellaneous expenses, installation and testing charges and cost of capital, which is then multiplied by the newness rate determined based on its useful life and actual condition to arrive at the valuation.

**3. Construction in progress is valued using the replacement cost approach.**

The replacement value is determined based on all costs of work volume required for rebuilding the construction in progress completed as at the valuation base date, including direct costs (comprising preliminary expenses), indirect relevant costs and other expenditures, cost of capital, etc. Physical depreciation, functional depreciation and economic depreciation, if material as observed, are deducted to arrive at the valuation; or are otherwise taken as zero.

## VIII. IMPLEMENTATION OF VALUATION PROCEDURES

### (I) Acceptance of Engagement

The valuation purpose, target and scope were determined and the valuation base date was chosen based on our negotiation with the principal and the asset owner. Based on the introduction by personnel of the asset owner (or asset management or user entities) to the history and existing state of the target assets, we prepared the valuation plan and established a valuation team.

### (II) Field Survey

On 15 September 2014, the valuation team started field survey on the asset valuation statements completed by the principal (or the asset owner). Basic information for the valuation engagement was collected through enquiry, cross-checking, physical inspection, exploration and inspection, to understand the existing state and pay attention to legal ownership of the valuation target. The field survey was completed on 19 September 2014.

### (III) Appraisal and Estimation

The valuation team conducted independent market surveys required by the valuation engagement, collected relevant information, and conducted necessary screening, analysis, summarisation and compilation. Appropriate valuation approaches were chosen according to the valuation target, type of value, valuation information gathered and relevant conditions. Based on the valuation approaches adopted, the valuation team conducted analysis, computation and judgment using applicable formulas and parameters to arrive at the initial valuation results.

### (IV) Formation of Report

Combining the initial valuation results, the final valuation conclusion was generated by the certified public valuers. A draft valuation report was prepared by the certified public valuers based on the aforesaid work. After three levels of internal review as well as necessary communications on relevant issues therein with the principal and the parties permitted by the principal, the formal valuation report was submitted to the principal.

## IX. VALUATION ASSUMPTIONS

1. Market assumption: Open market assumption is adopted as the market transaction basis for the valuation target.

2. Usage assumption: The assets within the valuation scope are to be continuously used at the existing venue.

3. External environment assumption: There will be no material change in the prevailing laws, regulations and policies. There will be no material change in the political, economic and social environment in the locations where the parties to the transaction reside. There will be no material change in interest rates, foreign currency exchange rates, taxation base and tax rate, and governmental surcharges.

4. Materials relevant to the valuation as provided by the principal (or the asset owner) and relevant parties are authentic, complete, legitimate and effective.

5. It is assumed that the asset owner has exercised effective management on the target assets. The use of the valuation target is not in violation of any national laws or regulations.

6. The impacts on the valuation conclusion from potential charge, guarantee and the possibly appended price through special transaction modes are not taken into account.

## X. VALUATION CONCLUSION

### 1. Valuation Conclusion

**Summary of valuation conclusion**

*Unit: RMB10,000*

| Item | | Book value A | Appraised value B | Appreciation/ Depreciation C=B-A | Appreciation ratio (%) D=C/A×100% |
|---|---|---|---|---|---|
| 1 | Buildings | 150,529.24 | 192,167.77 | 41,638.52 | 27.66 |
| 2 | Machinery equipment | 207,882.60 | 174,797.07 | -33,085.53 | -15.92 |
| 3 | Construction in progress | 16,672.08 | 16,672.08 | 0.00 | 0.00 |
| | Total | 375,083.92 | 383,636.92 | 8,553.00 | 2.28 |

The physical assets of Weiqiao Textile Company Limited in relation to the asset swap of Shandong Weiqiao Chuangye Group Company Limited are valued at RMB3,836,369,200. The value of the construction in progress set out in the above table included the appraised value of equipment installation of RMB67,630,000.

**2. Reasons for Value Appreciation/Depreciation:**

(1) The valuation of buildings and structures of Weiqiao Textile Company Limited completed in 2001-2006 appreciated by 27.66%, which is mainly attributable to the increase in replacement cost of buildings arising from the increase in unit price of labour and unit price of materials on the valuation base date as compared with that of 2001-2006.

(2) The depreciation of equipment assets is mainly attributable to:

1) Comparison of appraised original value and original book value of fixed assets

For certain equipment stated at appraised value, the replacement value is higher than its original book value. In particular, the hiking labour cost in recent years resulted in higher replacement value for certain equipment that was purchased earlier. As a result, there is an appreciation in the appraised original value.

2) Comparison of appraised value and net book value of fixed assets

As the lower prices of main parts of certain equipment in recent years have led to lower replacement value. In addition, the majority of equipment owned by Weiqiao Textile was purchased before 2009 and its original book value has included value-added tax. Although the replacement value of equipment is slightly higher than its original book value taking into consideration the capital costs and other factors, the accounting depreciation life of the equipment is longer than its useful life, and therefore the book rate of newness is higher than the newness rate calculated during valuation. Due to the greater impact of newness rate on valuation, the value of equipment of Weiqiao Textile depreciates.

Against the overall depreciation of equipment of Weiqiao Textile, equipment that appreciates in value includes boilers, chemical water equipment and transformer equipment. As the above equipment was purchased between 2001 and 2006 during which labour cost was lower, the price was lower, and the replacement costs on the valuation base date increased as a result of the increase in equipment prices arising from the significant increase in labour cost. Steam turbines and thermal equipment were the main equipment that depreciate in value, as the replacement cost of equipment decreased due to the reduction in price of heat supply and power generation equipment with relatively smaller industrial scale given that economic growth and fixed assets investment have moderated, which resulted in the reduction in the net appraised value of equipment; and the relatively longer accounting depreciation life led to higher net book value of equipment, and the economic life was shorter than the accounting life, resulting in lower net appraised value of equipment as compared with its net book value.

## XI. SPECIAL EXPLANATIONS

1. The valuation conclusion herein represents the total value of the target buildings, machinery equipment and construction in progress as at the valuation base date (the valuation of construction in progress is on the full completion basis), including outstanding construction costs and other payables related to the valuation target which include but is not limited to temporary estimated amounts of the valuation target within the scope of evaluation, and the valuation conclusion is made on the premise that the amount will be paid by Weiqiao Textile Company Limited in future.

2. In view of the fact that the valuation purpose is for asset swap, the valuation of equipment assets has included value-added tax.

3. The reported book value of the target assets as at the valuation base date was unaudited.

4. Save for the foregoing, there is no subsequent event of material importance between the end of the field survey and the date hereof to which a special explanation has been made by the principal or the asset owner or which would affect the valuation conclusion based on the general experience of the appraisers.

5. Users of this report are advised to pay attentions to the aforesaid matters.

## XII. LIMITATION ON USE OF VALUATION REPORT

1. This valuation report is only for the purpose and use specified herein.

2. This valuation report may only be used by the users specified herein.

3. Without our prior consent, the content of this report shall not be copied, quoted or made public, save as provided by the laws and regulations or otherwise agreed upon by the relevant parties.

4. The validity period for use of this valuation report is from 31 August 2014 up to 30 August 2015.

## XIII. DATE OF VALUATION REPORT

This valuation report is issued on 8 October 2014.

**Wanlong (Shanghai) Assets Appraisal Co., Ltd.**
**Legal representative:**
**Address: 16/F, No. 168 Yingxun Road, Shanghai, China**
**Postal code: 200011**
**Fax: 021-63766556**
**Tel: 021-63788398**

**PRC Certified Public Valuer:**
**PRC Certified Public Valuer:**

**8 October 2014**

# VALUATION REPORT ON PHYSICAL ASSETS OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED IN RELATION TO ASSET SWAP OF WEIQIAO TEXTILE COMPANY LIMITED

**Wanlong Ping Bao Zi (2014) No. 1302**

**Wanlong (Shanghai) Assets Appraisal Co., Ltd.**
**8 October 2014**

## STATEMENT OF CERTIFIED PUBLIC VALUERS

I. We have conducted this valuation engagement in accordance with relevant laws, regulations and asset valuation standards and in the principle of independency, objectiveness and impartiality. We confirm that the content herein is objective based on the information collected in our practices, and we accept legal responsibility for the reasonableness of the valuation conclusion.

II. The lists of assets related to the valuation target are submitted by the principal and the asset owner, as confirmed by their signatures and corporate seals. The principal and relevant parties shall be responsible for the truthfulness, legitimacy and completeness of the information provided and proper use of this report.

III. We have no existing or prospective interest in the valuation target hereunder. We have neither existing or prospective interest in nor any bias to the relevant parties.

IV. We have conducted site survey to the valuation target hereunder. We have given necessary attention to the legal status of the valuation target, and conducted inspection on its title documents. With the identified problems disclosed truthfully, we have requested the principal and relevant parties to improve the ownership in order to meet the requirement for issuing this report.

V. Our analysis, judgment and conclusion in the valuation report issued are subject to the assumptions and constraints herein. Users of this report should pay full attention to the assumptions, constraints and special explanations set out herein and their impact on the valuation conclusion.

# VALUATION REPORT ON PHYSICAL ASSETS OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED IN RELATION TO ASSET SWAP OF WEIQIAO TEXTILE COMPANY LIMITED

## EXECUTIVE SUMMARY

We, Wanlong (Shanghai) Assets Appraisal Co., Ltd., refer to the engagement for valuation of buildings, machinery equipment, construction in progress and intangible assets (land) of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed asset swap with Weiqiao Textile Company Limited.

| | |
|---|---|
| Valuation purpose: | The proposed asset swap |
| Valuation target and scope: | The valuation target is the value of physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the asset swap. The valuation scope comprises physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the asset swap, including buildings, machinery equipment, construction in progress and intangible assets (land). |
| Type of value: | Market value |
| Valuation base date: | 31 August 2014 |
| Valuation methodology: | Replacement cost approach (for buildings, machinery equipment and construction in progress); market approach (for land) |
| Valuation conclusion and its validity: | The buildings, machinery equipment, construction in progress and intangible assets (land) of Shandong Weiqiao Chuangye Group Company Limited in relation to the asset swap of Weiqiao Textile Company Limited are valued at RMB4,368,062,200. |

The valuation conclusion above shall only be valid within one year from the valuation base date, which shall lapse thereafter.

**IMPORTANT NOTICE: The information above is extracted from the text of the valuation report (Wanlong Ping Bao Zi (2014) No. 1302). Please carefully read the full text of the valuation report for details of the valuation process and reasonable understanding of the valuation conclusion. This summary should not be used alone.**

**Wanlong Ping Bao Zi (2014) No. 1302**

# VALUATION REPORT ON PHYSICAL ASSETS OF SHANDONG WEIQIAO CHUANGYE GROUP COMPANY LIMITED IN RELATION TO ASSET SWAP OF WEIQIAO TEXTILE COMPANY LIMITED

**To Weiqiao Textile Company Limited:**

We, Wanlong (Shanghai) Assets Appraisal Co., Ltd., refer to your engagement for valuation of buildings, machinery equipment, construction in progress and intangible assets (land) of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed asset swap with Weiqiao Textile Company Limited, to arrive at their market value as of 31 August 2014 using the replacement cost approach and market approach through necessary valuation procedures in accordance with laws, regulations, asset valuation standards and principles. The valuation details are presented as follows:

## I. PRINCIPAL, ASSET OWNER AND REPORT USERS OTHER THAN THE PRINCIPAL

### (I) Principal and Report Users other than the Principal

#### *1. Principal*

*(1) Overview of the Principal*

| | |
|---|---|
| Name: | Weiqiao Textile Company Limited |
| Legal domicile: | No. 34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province |
| Place of business: | No. 1, Weifang Road, Zouping Economic Development Zone, Zouping County, Shandong Province |
| Legal representative: | Zhang Hongxia |
| Registered capital: | RMB1,194,389,000 |
| Main business scope: | Cotton spinning, weaving, dyeing and production, processing and sale of knitwear and apparel; import and export businesses within the authorised scope; sale of cotton. Operation subject to permit: cotton processing. |

*(2) History, Shareholdings and Management Structure*

Weiqiao Textile Company Limited (the "Company", formerly known as Shandong Weiqiao Textile Company Limited) was jointly established by five companies including Shandong Weiqiao Chuangye Group Company Limited (the "Group Company") and Zouping No. 2 Oil and Cotton Co., Ltd. as well as natural person Zhang Shiping on 6 December 1999 pursuant to the approval of Shandong Provincial People's Government (Lu Zheng Gu Zi [1999] No. 48), with initial registered capital of RMB202.04 million as 96.15% owned by the Group Company. On 19 February 2003, the Company was renamed as "Weiqiao Textile Company Limited", as authorised by the State Administration for Industry and Commerce.

In September 2003, the Company was listed on The Stock Exchange of Hong Kong Limited through a global public offering of overseas listed foreign ordinary shares (stock code: 2698.HK). On 13 August 2005, the Company entered into an asset acquisition and capital increase agreement with the Group Company, pursuant to which the Group Company agreed to transfer buildings, machinery equipment and other physical assets valued at RMB3 billion of certain thermal power plants owned by it to the Company. The consideration was financed by 250,000,000 domestic consideration shares of the Company issued to the Group Company with issue price totalling RMB2.71 billion. Accordingly, the Company's registered capital was increased to RMB1,125,452,500, as 58.67% owned by the Group Company.

As a result of the subsequent new issuances and shareholding changes, the Company's current registered capital is RMB1,194,389,000, which is owned as to 63.45% by the Group Company, 1.48% and 0.44% respectively by natural persons Zhang Shiping and Zhang Hongxia, and the remaining by overseas foreign shareholders. The Group Company is the largest shareholder of the Company.

The Company's shareholding structure is as follow:

| **Shareholder** | **Number of shares** | **Shareholding (%)** |
|---|---|---|
| Shandong Weiqiao Chuangye Group Company Limited | 757,869,600 | 63.45 |
| Management and natural person shareholders | 22,900,400 | 1.92 |
| Holders of H Shares | 413,619,000 | 34.63 |
| Total | 1,194,389,000 | 100.00 |

The Company has been operated by the management under the general meeting, the board of directors and supervisory committee with sound and rapid development.

*(3) Assets and Business Operations for the Latest Three Years*

Business operations:

The Company is principally engaged in the production and sale of cotton yarn, grey fabric and denim, and is an integrated cotton textile manufacturer with more than 2,000 products. In 2013, the Company manufactured 488,000 tonnes of cotton yarn, 1,021,000,000 metres of grey fabric and 73,000,000 metres of denim. Its revenues for 2011, 2012 and 2013 were RMB15,232,034,000, RMB15,247,956,000 and RMB13,880,642,000, respectively.

Through rapid development over a few years, the Company has evolved into China's largest and the world's leading integrated cotton textile manufacturer. The Company has ranked first among domestic peers for 14 consecutive years in terms of revenue from principal operations and export. With products sold to more than 20 provinces and municipalities as well as over 20 overseas countries and regions, the Company has established a broad international customer base.

Assets for the latest three years

As at 31 December 2011, 31 December 2012 and 31 December 2013, the total assets of Weiqiao Textile Company Limited amounted to RMB29,356,819,000, RMB28,373,669,000 and RMB30,310,462,000, respectively.

***2. Report Users other than the Principal***

Users of this report other than the principal are the parties in relation to the underlying transaction and those prescribed by laws and regulations.

**(II) Profile of Asset Owner**

***(1) Overview of Asset Owner***

| | |
|---|---|
| Name: | Shandong Weiqiao Chuangye Group Company Limited |
| Legal domicile: | No. 1, Gongye Yi Road, Zouping Economic Development Zone, Zouping County |
| Place of business: | No. 1, Gongye Yi Road, Zouping Economic Development Zone, Zouping County |
| Legal representative: | Zhang Shiping |
| Registered capital: | RMB1.6 billion |
| Main business scope: | Processing, production and sale of cotton, cotton yarn, dyed yarn, cotton fabric, yarn-dyed fabric, dyed fabric, knitwear, apparel and home textile; trading and processing of aluminum ore (bauxite), and production and sale of alumina and aluminum ingots, sheets, foils, strips and fabrications; export of self-manufactured products as well as import of self-used raw materials and machinery equipment. |

***(2) History, Shareholdings and Management Structure***

Shandong Weiqiao Chuangye Group Company Limited, formerly known as Zouping County Weiqiao Cotton Spinning Factory, was established by the Zouping United Supply and Marketing Cooperatives in 1951 as a collective enterprise principally engaged in cotton procurement and lint cotton operation. In April

1998, Zouping County Weiqiao Cotton Spinning Factory was reorganised into Shandong Weiqiao Textile Group Co., Ltd., with registered capital of RMB200 million jointly contributed by Zouping Supply and Marketing Cooperative and 22 natural persons. The de facto controller was Zouping United Supply and Marketing Cooperatives. After a series of shareholding changes, the current shareholding structure is as follows: 39% shareholdings held by Shandong Weiqiao Investment Holdings Company Limited and 61% shareholdings held by the management. As at the date hereof, its registered capital is RMB1.6 billion.

The company has been operated by the management under the general meeting, the board of directors and supervisory committee with sound and rapid development.

***(3) Assets for the Latest Three Years***

The company is principally engaged in the production and sale of cotton textiles. As at 31 December 2011, 31 December 2012, 31 December 2013 and 31 August 2014, the total assets of Shandong Weiqiao Chuangye Group Company Limited amounted to RMB52,239,094,000, RMB54,485,835,000, RMB61,750,635,000 and RMB60,814,919,000, respectively.

## II. VALUATION PURPOSE

The valuation is designed to provide a reference to the market value of buildings, machinery equipment, construction in progress and land of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed thermal power asset swap with Weiqiao Textile Company Limited.

## III. VALUATION TARGET AND SCOPE

### (I) Valuation Target and Scope

The valuation target is the value of assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed asset swap. The valuation scope comprises physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the asset swap, including buildings, machinery equipment, construction in progress and intangible assets (land). The reported book value of the target assets is RMB3,991,091,731.89, comprising net book value of RMB3,751,833,327.28 for fixed assets (original book value of fixed assets: RMB3,855,102,096.40), book value of RMB155,253,722.41 for construction in progress, and RMB84,004,682.20 for intangible assets (land).

As at the valuation base date, the target assets reported were not taken as collateral or guarantee for any loan. The valuation target and scope are consistent with those in respect of the underlying transaction.

**(II) Profile of Valuation Target**

The physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed asset swap mainly include assets of Holding Company No. 7 Thermal Power Plant, comprising buildings, machinery equipment, construction in progress and intangible assets (land) as detailed below:

***1. Location***

Holding Company No. 7 Thermal Power Plant is located in Changshan Town, which is in the east of Zouping County, 12.5 kilometres to its centre. Huantai County is on the east, Zhoucun District is on the south, Zouping Town is on the west, and Jiaoqiao Town is on the north. Ideally located for transportation, it has significant regional advantages with Jinan-Qingdao Expressway running across the town, less than one-hour ride by car westbound to Jinan International Airport, two-hour ride eastbound to Qingdao Port, and 8 kilometres away from Jinan-Qingdao Railway and National Highway 309.

***2. Technological Process***

The coal-fired power plant consists of three systems, namely combustion system, steam/water system and electrical system.

Bituminous coal conveyed by conveyor belt from the coal yard to boiler is grinded by the coal mill into pulverised coal, before blown into the combustion chamber. Water is heated through combustion of pulverised coal to generate steam at high temperature and high pressure, which is fed to the steam turbine to drive turbine blades. Dead steam is cooled by circulating water at the condenser, and then fed to the booster pump, low-pressure heater, deaerator and high pressure heater before heating and recycling at the boiler. Mechanical energy converted from kinetic energy enables the turbine to rotate at 3,000 rpm along with the coaxial generator rotor, allowing it to generate three-phase alternating current via electromagnetic induction. A small portion of the power output is consumed by in-plant ancillary facilities, and the remaining power is boosted to 220KV via the transformer and transmitted to a substation before being fed into the power grid.

Water from the reservoir after sedimentation and filtration is fed to the water cooling tower, from which demineralised water with better quality is pumped to the condenser to supplement steam/water loss in the production process. Waste water from the production process is recycled by treatment equipment through sedimentation, filtration, PH value adjustment and other processes.

Flue gas from combustion of pulverised coal in the furnace is treated by denitrification, electrostatic precipitator and desulphurisation devices and, upon meeting the criteria, exhausted via the chimney. Slag is collected by the ash and slag handling system for desiccation at the dewatering bin, and then conveyed to the slag warehouse before the transported by motor vehicles away from the plant.

***3. Major Assets***

*(1) Buildings and Structures*

1) Book value and titles:

Buildings and structures were reported at original book value of RMB1,525,340,970.00 and net book value of RMB1,501,188,721.32, including 99 buildings, 95 structures and 7 pipe and ditch assets. The building ownership certificates are not available as the final acceptance for the related constructions has not been completed as at the valuation base date.

2) Profile of buildings and structures

The 99 buildings with a gross floor area of 148,555.72 square metres include steam engine room, boiler room, electrostatic precipitator room, central control building, production and administrative building, dormitory, coal conveyance control building, coal crusher room, chemical water workshop, circulating water pump room, fire pump room, wastewater treatment building, power distribution room and other rooms for production, auxiliary and power purposes. Such buildings are mainly one- to two-story plants in reinforced concrete structure with wall tiles, with construction started in May 2010 and completed in March to October 2013 (designer: East China Electric Power Design Institute of China Power Engineering Consulting Group; supervisor: Heilongjiang Antai Power Engineering Construction Supervision Co., Ltd.; main constructors: Heilongjiang Provincial Thermal Power No. 1 Engineering Co., Ltd., Inner Mongolia Guodian Power Construction Engineering Co., Ltd. and Shandong Xinguo Foundation Engineering Co., Ltd.). The 95 structure assets include chimney, cooling tower, slag warehouse, dewatering bin, thickener pool foundation and coal belt conveyor gallery, mainly constructed by Jiangxi Provincial No. 2 Construction Engineering Co., Ltd. and Nantong Sanjian Chimney and Cooling Tower Engineering Co., Ltd. The 7 pipe and ditch assets include drainage and pipe facilities in the plant, mainly constructed by Jiangsu Huaneng Construction Engineering Group Co., Ltd.

3) Plant layout:

With a "three-column" site layout, the plant area mainly includes civil constructions for production such as coal crusher room, transfer station and coal belt conveyor gallery, cooling tower, main plant, central control building, chimney, flues, power distribution room, etc.

The main plant area in central by north is arranged in the north to south direction, including steam engine room, deaerator room, coal storage room, boiler room, deduster control room for deduster and air compressor room, induced draft fan, desulphurisation tower, flues, chimney, electrical control building, slurry preparation building and dehydration building.

The dry coal shed is situated in the south of the main plant area. The truck scale and control room are located in the west of the plant area, near the freight entrance and convenient for weighing the trucks and inspection. The coal belt conveyor gallery extends from south to north, connecting a fixed end of the main plant with the boiler room and surrounded by coal bulldozer house, coal water clarification tank, slag warehouse, dewatering bin and clarification tank.

The natural ventilation cooling tower is in the north of the main plant area, and the circulating water pump room is on the west side of the nature ventilation cooling tower.

The 220KVGIS substation is in the north of the main plant area, and the main transformer is located outside building Row A in the north of the main plant.

The auxiliary and ancillary facilities in the east of the plant area are arranged in the north to south direction, including singleton dormitory, canteen, apartments, recreational area, chemical workshop, office building, warehouse, maintenance building, coal conveyance control building, ignition oil pump room, liquid ammonia tank area, coal supervision building, vehicle inspection team and outdoor facilities. The drainage pump room and sewage treatment facilities are on the west of the recreational area.

Underground rainwater drainage pipes are used in the plant area. Rainwater is conducted to roads, collected at gullies and drained to rainwater pipes before being pumped by the drainage pump room away from the plant.

*(2) Equipment*

1) Book value

The equipment fixed assets reported has original book value of RMB2,329,761,126.40 and net book value of RMB2,250,644,605.96, including dedicated equipment of Holding Company No. 7 Thermal Power Plant and its ancillary equipment such as power transmission and transformation, coal conveyance, chemical water and cooling equipment as well as office equipment and motor vehicles. The main equipment of the power plant is manufactured domestically.

2) Profile of equipment:

The coal-fired power plant consists of three systems, namely combustion system, steam/water system and electrical system.

Thermal coal is transported via off-site roads and unloaded by slotted coal chute. The dry coal shed is equipped with cantilevered bucket wheel stacker-reclaimer and coal belt conveyor. The screening and crushing equipment mainly includes roller screen and ring hammer coal crusher. When grinding coal, 4 coal mills are in operation and 1 mill is in stand-by. Each coal mill corresponds to a pressure weighing coal feeder. Each boiler is fed by 5 medium speed coal mills, where positive-pressure direct-blow cold primary air fan milling system is adopted.

4×330MW boilers (type: HX1190/18.4-II3) are equipped with intermediate reheating steam drum natural circulation coal-fired furnaces manufactured by China Western Power Industrial Co., Ltd. to cooperate with 4 turbines (type: C330/N350-17.75/0.981/540/540) manufactured by Nanjing Turbine Works. Balanced smoke ventilation system is adopted, equipped with Ljungstrom tri-sector rotary air preheater manufactured by Howden China; and hot air recirculation blower fan is equipped at the outlet of the air feeder.

The water treatment system mainly includes the systems for plant water supply, raw water pretreatment, boiler feed water treatment, condensate refined processing, vapour sampling and dosing, circulating water treatment, industrial wastewater treatment, sewage treatment and rainwater drainage.

The limestone-gypsum wet flue gas desulphurisation process is adopted, with a common system for four boilers and an absorption tower for each generator which are supported by booster fans connected to flues for entire flue gas desulphurisation. The common system mainly includes absorption agent (limestone slurry) preparation system, gypsum dewatering system and electrical control system.

Generators, boilers and electrical equipment of the power plant are managed by DCS centralised monitoring system, supplemented by MACS distributed control system provided by Beijing Hollysys. The plant's common ancillary facilities are managed by an integrated control system, with monitoring points set up for coal conveyance, chemical water and ash and slag handling systems.

3) Equipment operation as of the valuation base date

The plant commenced operation by three phases, with one generator commencing operation respectively in May 2012 and September 2012 and full operation commencing in October 2013. As at the date hereof, the 4 generators are in normal operation, without any unplanned shutdown and overhaul.

*(3) Construction in Progress*

The construction in progress was reported at book value of RMB155,253,722.41, including civil works and equipment installation works.

1) Civil works: The 10 works with a total book value of RMB19,634,376.41 mainly include desulphurisation system renovation, anticorrosion/insulation and aluminum doors and windows, which started in March 2013 with expected completion in the second half of 2014. The main constructor is Fujian Longking Co., Ltd.

2) Equipment installation works: The 13 works with a total book value of RMB135,619,346.00 mainly include denitrification equipment installation, air preheater renovation, IG-541 inert gas fire extinguishing equipment installation, overall fluoro vulcanised rubber expansion joint installation, cargo lifting platform installation, flue gas online monitoring equipment, etc. The framework agreements on individual equipment of constructions in progress were entered into during the period from July 2013 to December 2013, which are expected to complete in the second half of 2014 to the first half of 2015.

*(4) Land Use Right*

The land use right represents one land parcel for Holding Company No. 7 Thermal Power Plant, which is situated at the east side of Changyuan Road, Changshan Town, Zouping County, Binzhou City, Shandong Province. The land parcel with a site area of 271,256.00 square metres has a land use right certificate in place (numbering: Zou Guo Yong (2010) No. 020142; usage: industrial purpose; expiry date: 15 June 2058), and its net book value is RMB84,004,682.20.

## IV. TYPE OF VALUE AND DEFINITION

The type of value of this valuation conclusion is market value.

Market value represents the estimated amount for which the valuation target is exchanged on the valuation base date between a willing buyer and a willing seller in an arm's-length transaction wherein the parties have each acted knowledgeably, prudently and without compulsion.

## V. VALUATION BASE DATE

The valuation base date is 31 August 2014.

The valuation base date above is chosen on the ground that:

It is determined based on negotiation with the principal according to the valuation purpose, mainly to minimise the gap between the valuation base date and the date on which the valuation purpose is achieved so that the valuation conclusion could serve the valuation purpose more reasonably.

The pricing basis adopted during the valuation is the effective price as at the valuation base date.

## VI. BASIS OF VALUATION

### (I) Basis of Engagement

1. The letter of engagement.

### (II) Laws and Regulations Basis

1. Company Law of the People's Republic of China (Order of the President of the People's Republic of China No. 42, 2005);
2. Administrative Measures on Valuation of State-owned Assets (Decree No. 91 of the State Council, 1991);
3. Provisional Administrative Measures on Valuation of State-owned Assets in Enterprises (Decree No. 12 of SASAC of the State Council, 2005);
4. Provisions on Certain Issues concerning the Regulation over Major Assets Reorganisations by Listed Companies (Announcement [2008] No. 14 of China Securities Regulatory Commission); and
5. Other relevant laws, regulations and rules.

**(III) Standards Basis**

1. Asset Valuation Standards – Basic Standards;

2. Code of Ethics on Asset Valuation – Basic Standards;

3. Asset Valuation Standards – Valuation Report;

4. Asset Valuation Standards – Valuation Procedures;

5. Asset Valuation Standards – Working Papers;

6. Asset Valuation Standards – Letter of Engagement;

7. Asset Valuation Standards – Real Estate;

8. Asset Valuation Standards – Machinery Equipment;

9. Guidance on Type of Value in Asset Valuation; and

10. Guidance to Certified Public Valuers on Legal Ownership of Valuation Targets.

**(IV) Ownership Basis**

1. State-owned land use right certificate;

2. Equipment purchase contracts and invoices;

3. Contracts, accounting vouchers and books and other materials relating to acquisition of the valuation target; and

4. Other documentary proof of ownership.

**(V) Pricing Basis**

1. Handbook of Frequently-used Data in Asset Valuation, by Beijing Science and Technology Press (1998);

2. Statistics and technical standards published by national authorities;

3. Notice on Publishing the "National Unified Basic Quota for Construction Projects (Civil Works)" and the "National Unified Work Volume Budgeting Rules for Construction Projects" (Jian Biao [1995] No. 736), by the Ministry of Construction;

4. Basic Quota for Construction Projects and Supplementary Budgetary Quota for Construction Projects prevailing in Binzhou region;

5. Fee Rates for Construction and Installation Projects prevailing in Binzhou region;

6. Cost indicators for representative construction projects in Binzhou region;

7. Construction materials price information in Binzhou region;

8. Open bid information in local market;

9. Market price information as at the valuation base date;

10. Price information available on China Used Equipment Online;

11. Contracts, accounting vouchers and books and other accounting materials relating to acquisition and use of the valuation target;

12. Valuation statements for the target assets;

13. Other materials relevant to the valuation as provided by the principal and the asset owner;

14. Asset inventory list completed based on onsite inventory taking and verification; and

15. Various supporting information relevant to the valuation as collected by appraisers.

## VII. VALUATION METHODOLOGY

Based on the valuation purpose and conditions of the valuation target, the market value of target assets is determined through the following approaches.

### 1. Buildings are valued using the replacement cost approach.

The replacement value of buildings is arrived at, as the case may be, using analogy method, index adjustment method or pre-settlement adjustment method. Newness rate of buildings is rated based on the weighted average of outcomes under the useful life method and the sum-of-the-parts scoring method.

### 2. Equipment assets are valued using the replacement cost approach.

Under the replacement cost approach, the full replacement value is determined according to the sum of equipment purchase price prevailing on the market, reasonable freight and miscellaneous expenses, installation and testing charges and cost of capital, which is then multiplied by the newness rate determined based on its useful life and actual condition to arrive at the valuation.

**3. Construction in progress is valued using the replacement cost approach.**

The replacement value is determined based on all costs of work volume required for rebuilding the construction in progress completed as at the valuation base date, including direct costs (comprising preliminary expenses), indirect relevant costs and other expenditures, cost of capital, etc. Physical depreciation, functional depreciation and economic depreciation, if material as observed, are deducted to arrive at the valuation; or are otherwise taken as zero.

**4. Land Use Right**

Market comparison approach: Based on the substitution principle, the target land is compared with substitutive similar properties transacted on the market near the valuation base date in order to arrive at the valuation of the target land use right after appropriate corrections to the transaction prices of the similar properties.

## VIII. IMPLEMENTATION OF VALUATION PROCEDURES

### (I) Acceptance of Engagement

The valuation purpose, target and scope were determined and the valuation base date was chosen based on our negotiation with the principal and the asset owner. Based on the introduction by personnel of the asset owner (or asset management or user entities) to the history and existing state of the target assets, we prepared the valuation plan and established a valuation team.

### (II) Field Survey

On 15 September 2014, the valuation team started field survey on the asset valuation statements completed by the principal (or the asset owner). Basic information for the valuation engagement was collected through enquiry, cross-checking, physical inspection, exploration and inspection, to understand the existing state and pay attention to legal ownership of the valuation target. The field survey was completed on 19 September 2014.

### (III) Appraisal and Estimation

The valuation team conducted independent market surveys required by the valuation engagement, collected relevant information, and conducted necessary screening, analysis, summarisation and compilation. Appropriate valuation approaches were chosen according to the valuation target, type of value, valuation information gathered and relevant conditions. Based on the valuation approaches adopted, the valuation team conducted analysis, computation and judgment using applicable formulas and parameters to arrive at the initial valuation results.

**(IV) Formation of Report**

Combining the initial valuation results, the final valuation conclusion was generated by the certified public valuers. A draft valuation report was prepared by the certified public valuers based on the aforesaid work. After three levels of internal review as well as necessary communications on relevant issues therein with the principal and the parties permitted by the principal, the formal valuation report was submitted to the principal.

## IX. VALUATION ASSUMPTIONS

1. Market assumption: Open market assumption is adopted as the market transaction basis for the valuation target.

2. Usage assumption: The assets within the valuation scope are to be continuously used at the existing venue.

3. External environment assumption: There will be no material change in the prevailing laws, regulations and policies. There will be no material change in the political, economic and social environment in the locations where the parties to the transaction reside. There will be no material change in interest rates, foreign currency exchange rates, taxation base and tax rate, and governmental surcharges.

4. Materials relevant to the valuation as provided by the principal (or the asset owner) and relevant parties are authentic, complete, legitimate and effective.

5. It is assumed that the asset owner has exercised effective management on the target assets. The use of the valuation target is not in violation of any national laws or regulations.

6. The impacts on the valuation conclusion from potential charge, guarantee and the possibly appended price through special transaction modes are not taken into account.

## X. VALUATION CONCLUSION

### 1. Valuation Conclusion

**Summary of valuation conclusion**

*Unit: RMB10,000*

| Item | | Book value A | Appraised value B | Appreciation/ Depreciation C=B-A | Appreciation ratio (%) D=C/A×100% |
|---|---|---|---|---|---|
| 1 | Buildings | 150,118.87 | 153,512.60 | 3,393.73 | 2.26 |
| 2 | Machinery equipment | 225,064.46 | 259,305.06 | 34,240.60 | 15.21 |
| 3 | Construction in progress | 15,525.37 | 15,525.37 | – | – |
| 4 | Intangible assets – land | 8,400.47 | 8,463.19 | 62.72 | 0.75 |
| | Total | 399,109.17 | 436,806.22 | 37,697.05 | 9.45 |

The physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the asset swap are valued at RMB4,368,062,200. The value of the construction in progress set out in the above table included the appraised value of equipment installation of RMB135,619,346.

### 2. Reasons for Value Appreciation/Depreciation:

(1) The slight appreciation of building assets is mainly attributable to the capital costs arising from the reasonable construction period required for assets including buildings;

(2) The appreciation of equipment assets is mainly attributable to the following reasons:

Following the changes in value-added tax policies in China, value-added tax is deductible on obtaining the designated invoice for value-added tax upon purchase of fixed assets since 1 January 2009, whereby only the amount net of tax is included in the original value of fixed assets. Fixed assets purchased before 31 December 2008 are not tax deductible, and the invoice amount shall be included in the original value of fixed assets in full upon purchasing of equipment by an enterprise. All equipment of Shandong Weiqiao Chuangye Group was purchased after 2009, and the original book values of equipment under the fixed assets category excluded tax. Upon valuation, taking into account that the valuation purpose is for asset swap the appraised values of equipment under the fixed assets category have taken into account value-added tax, and hence an appreciation in the original value of asset replacement will occur as a result of the difference arising from the inclusion of value-added tax or otherwise.

Equipment of the power plant such as power generators and boilers require installation and commissioning and a reasonable period is required for the installation process, and hence the total value and working period of the equipment are included in the capital cost during valuation. There is no need to differentiate between whether the source of capital for purchasing the equipment comes from self-owned capital or borrowings when calculating the capital cost. In accounting, interest from borrowings can be included in the original value of a fixed asset only when it is qualified for capitalisation, and the original value of equipment under the fixed assets category of an enterprise does not include interest expenses. To conclude, as capital cost during the reasonable period required for such projects has been taken into account during valuation, there is appreciation upon valuation.

## XI. SPECIAL EXPLANATIONS

1. The land parcel included in the physical assets of Shandong Weiqiao Chuangye Group Company Limited in relation to the proposed asset swap has a land use right certificate in place (numbering: Zou Guo Yong (2010) No. 020142), but the corresponding building ownership certificates are not available as the final acceptance for the related constructions has not been completed as at the valuation base date, and the gross floor area was calculated and reported by the enterprise based on the construction plans.

2. The valuation conclusion herein represents the total value of the target physical assets as at the valuation base date (the valuation of construction in progress is on the full completion basis), including outstanding construction costs and other payables related to the valuation target.

3. In view of the fact that the valuation purpose is for asset swap, the valuation of equipment assets has included value-added tax.

4. The reported book value of the target assets as at the valuation base date was unaudited.

5. Save for the foregoing, there is no subsequent event of material importance between the end of the field survey and the date hereof to which a special explanation has been made by the principal or the asset owner or which would affect the valuation conclusion based on the general experience of the appraisers.

6. Users of this report are advised to pay attentions to the aforesaid matters.

## XII. LIMITATION ON USE OF VALUATION REPORT

1. This valuation report is only for the purpose and use specified herein.

2. This valuation report may only be used by the users specified herein.

3. Without our prior consent, the content of this report shall not be copied, quoted or made public, save as provided by the laws and regulations or otherwise agreed upon by the relevant parties.

4. The validity period for use of this valuation report is from 31 August 2014 up to 30 August 2015.

## XIII. DATE OF VALUATION REPORT

This valuation report was issued on 8 October 2014.

**Wanlong (Shanghai) Assets Appraisal Co., Ltd.**
**Legal representative:**
**Address: 16/F, No. 168 Yingxun Road, Shanghai, China**
**Postal code: 200011**
**Fax: 021-63766556**
**Tel: 021-63788398**

**PRC Certified Public Valuer:**
**PRC Certified Public Valuer:**

**8 October 2014**

*The following is the text of a letter and valuation certificates, prepared for the purpose of incorporation in this circular received from Wanlong (Shanghai) Assets Appraisal Co., Ltd., an independent valuer and consultant, in connection with its valuation as at 31 August 2014 of the property interests to be acquired and disposed by the Company.*

24 November 2014

The Board of Directors
**Weiqiao Textile Company Limited**
No. 34 Qidong Road
Weiqiao Town
Zouping County
Shandong Province
The People's Republic of China

Dear Sirs,

Pursuant to the Thermal Power Assets Swap Agreement between Shandong Weiqiao Chuangye Group Company Limited (the "**Holding Company**") and Weiqiao Textile Company Limited (the "**Company**"), the Company has agreed to acquire the Holding Company No. 7 Thermal Power Plant, and the Company will satisfy the payment by transferring to the Holding Company the four thermal power plants owned by the Company and setting off the balance by cash. Wanlong (Shanghai) Assets Appraisal Co., Ltd. ("**Wanlong (Shanghai)**" or "**we**") is instructed by the Company to provide valuation service on the property interests of acquired and disposed properties for disclosure purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 31 August 2014 (the "**valuation date**").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings and structures of the properties and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the relevant property interests have been valued by the Cost Approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the fair value for the existing use of the land, plus the current cost of replacement of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the Chinese Valuation Standards published by the China Appraisal Society and the International Valuation Standards issued by the International Valuation Standards Council as there is no substantial difference between the Chinese Valuation Standards and International Valuation Standards in relation to this valuation report.

We have relied to a very considerable extent on the information given by the Company and the Holding Company, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including the State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Zong Heng Law Firm, concerning the validity of the property interests in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and the Holding Company. We have also sought confirmation from the Company and the Holding Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 15 to 19 September 2014 by Ms Li Xuan and Mr. Dong Zhao who are Certified Public Valuer and has 10 years and 13 years' experience in the property valuation in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached. The appraised value of buildings and construction in progress in this valuation report did not include the value of equipment installation of RMB67,630,000 and RMB135,619,346, being included in each of the construction in process in the valuation reports on physical assets of the Company and the Holding Company, respectively.

Yours faithfully,
for and on behalf of
**Wanlong (Shanghai) Assets Appraisal Co., Ltd.**

| | | |
|---|---|---|
| **Li Xuan** | **Li Yuelan** | **Dong Zhao** |
| *Certified Public Valuer* | *Certified Public Valuer* | *Certified Public Valuer* |
| *Department Head* | *Senior project manager* | *senior project manager* |

*Note:*

1. Li Xuan is a Certified Public Valuer who has 10 years' experience in the valuation of assets in the PRC.

2. Li Yuelan is a Certified Public Valuer who has 9 years' experience in the valuation of assets in the PRC.

3. Dong Zhao is a Certified Public Valuer, Certified Real Estate Appraiser, and Certified Land Valuer who has 13 year's experience in the valuation of assets in the PRC.

## SUMMARY OF VALUES

**Group I – Property interest to be acquired by the Company in the PRC**

| No. | Property | Market value in existing state as at 31 August 2014 *RMB* |
|---|---|---|
| 1. | Holding Company No. 7 Thermal Power Plant located at west side, the north end of Fangong Road Changshan Town Zouping County Binzhou City Shandong Province The PRC (Postal Code: 256207) | 1,639,392,300 |
| | **Sub-total:** | **1,639,392,300** |

**Group II – Property interests to be disposed by the Company in the PRC**

| No. | Property | Market value in existing state as at 31 August 2014 *RMB* |
|---|---|---|
| 2. | Weiqiao Town No. 2 and No. 3 Thermal Power Plant located at No. 335, the Sixth Qidong Road and No. 2726, the First Qinghe Road Weiqiao Town Zouping County Binzhou City Shandong Province The PRC (Postal Code: 256212) | 964,870,800 |
| 3. | Zouping No. 1 and No. 2 Thermal Power Plant located at 100 meters of west from the intersection of the Third Yuehe Road and the Sixth Industrial Road (north of the Sixth Industrial Road), and 400 meters of north from the intersection of the Third Huixian Road and the Third Yuehe Road (North of the Third Huixian Road), respectively, Economic Development Zone Zouping County Binzhou City Shandong Province The PRC (Postal Code: 256200) | 1,055,897,600 |
| | **Sub-total:** | **2,020,768,400** |

## VALUATION CERTIFICATE

**Group I – Property interest to be acquired by the Company in the PRC**

| **No.** | **Property** | **Description and tenure** | **Particulars of occupancy** | **Market value in existing state as at 31 August 2014** *RMB* |
|---|---|---|---|---|
| 1. | Holding Company No. 7 Thermal Power Plant located at west side, the north end of Fangong Road Changshan Town Zouping County Binzhou City Shandong Province The PRC (Postal Code: 256207) | The property comprises a parcel of land with a site area of approximately 271,256 sq.m. and 99 buildings and various ancillary structures erected thereon which were completed in various stages between 2012 and 2013.<br><br>The buildings have a total gross floor area of approximately 148,555.72 sq.m.<br><br>The buildings mainly include manufactory buildings, dormitory buildings and ancillary buildings.<br><br>The structures mainly include cooling towers, slag warehouses, dewatering bins and so on.<br><br>The property also comprises 10 civil works which are still under construction as at the valuation date (the "CIP"). The CIP is scheduled to be completed between October 2014 and May 2015.<br><br>The CIP mainly include desulphurization system renovation, anticorrosion/ insulation and aluminum doors and windows. As advised by the Holding Company (refer to note 1), the total construction cost of the CIP is estimated to be approximately RMB19,634,000 of which approximately RMB2,668,823 has been paid as at the valuation date.<br><br>The land use rights of the property have been granted for a term expiring on 15 June 2058 for industrial use. | The property is currently occupied by the Holding Company for production purpose, except for the CIP which is under construction. | 1,639,392,300 |

*Notes:*

1. Pursuant to a Stated-owned Land Use Rights Certificate – Zou Guo Yong (2010) Di No. 020142, the land use rights of a parcel of land with a site area of approximately 271,256 sq.m. have been granted to Shandong Weiqiao Chuangye Group Company Limited (the "Holding Company", the controlling shareholder of the Company) for a term expiring on 15 June 2058 for industrial use.

2. Pursuant to a Construction Work Planning Permit – No. 2010-7, in favour of the Holding Company, the buildings of the property with a total gross floor area of approximately 233,280 sq.m. has been approved for construction.

3. Pursuant to a Construction Work Commencement Permit – No. 2010-011, in favour of the Holding Company, permission by the relevant local authority was given to commence the construction of the buildings of the property with a total gross floor area of approximately 233,280 sq.m.

4. As advised by the Holding Company, the Building Ownership Certificates of the property are currently under application.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. The Holding Company has legally obtained the Land Use Rights Certificate of the property and is entitled to legally use, transfer, lease and mortgage the land use rights in the valid term;

   b. There will be no material legal impediment for the Holding Company to obtain the Building Ownership Certificates of the buildings of the property; and

   c. The property is not subject to mortgage or any other encumbrances.

6. The property contributes a significant portion of revenue to the Company, we are of the view that the property is the material property held by the Company:

   Details of the material property

| | | | |
|---|---|---|---|
| (a) | General description of location of the property | : | The property is located in Changshan Town, Zouping County, Shandong Province, PRC, which is in the east of Zouping County, 12.5 kilometres to its centre. Huantai County is on the east, Zhoucun District is on the south, Zouping County is on the west, and Jiaoqiao Town is on the north. It has significant regional advantages with Jinan-Qingdao Expressway running across the town, less than one-hour ride by car westbound to Jinan International Airport, two-hour ride eastbound to Qingdao Port, and 8 kilometres away from Jinan-Qingdao Railway and National Highway 309. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | The property is not subject to any mortgage or pledges. |
| (c) | Environmental Issue | : | No environmental impact assessment has been carried out. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | As advised by the Holding Company, the Building Ownership Certificates of the property are currently under application. |
| (e) | Future plans for construction, renovation, improvement or development of the property | : | The CIP is scheduled to be completed between October 2014 and May 2015, the total construction cost of the CIP is estimated to be approximately RMB19,634,000. |

# VALUATION CERTIFICATE

**Group II – Property interests to be disposed by the Company in the PRC**

| No. | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 August 2014 *RMB* |
|---|---|---|---|---|
| 2. | Weiqiao Town No. 2 and No. 3 Thermal Power Plant located at No. 335, the Sixth Qidong Road and No. 2726, the First Qinghe Road Weiqiao Town Zouping County Binzhou City Shandong Province The PRC (Postal Code: 256212) | The property comprises 55 buildings and various ancillary structures which were completed in various stages between 2001 and 2006.<br><br>The buildings have a total gross floor area of approximately 138,438.43 sq.m.<br><br>The buildings mainly include manufactory buildings, an office building and ancillary buildings.<br><br>The structures mainly include cooling towers, slag warehouses, dewatering bins and so on.<br><br>The property also comprises 3 civil works which are still under construction as at the valuation date (the "CIP"). The CIP is scheduled to be completed in December 2014.<br><br>The CIP mainly include flue gas desulphurization and denitrification. As advised by the Company, the total construction cost of the CIP is estimated to be approximately RMB68,950,000 of which approximately RMB17,534,764 has been paid as at the valuation date.<br><br>The land use rights of the property are rented (refer to notes 2 and 3). | The property is currently occupied by the Company for production purpose, except for the CIP which is under construction. | 964,870,800 |

*Notes:*

1. Pursuant to 4 Building Ownership Certificates – Wei Qiao Si Zi Di No. WQS00071, Wei Qiao Gong Zi Di No. WQG00009 and Wei Qiao Zhen Zi Di Nos. 000357 and 000358, 55 buildings of the property with a total gross floor area of approximately 138,438.43 sq.m. are owned by the Company.

2. Pursuant to a Tenancy Agreement, the land use rights of a parcel of land with a site area of approximately 104,119 sq.m. were rented to the Company from Shandong Weiqiao Chuangye Group Company Limited. (the "Holding Company", the controlling shareholder of the Company) for a term of 20 years expiring on 31 October 2025 at a total current annual rental of RMB625,000 for production use.

3. Pursuant to a Tenancy Agreement, the land use rights of a parcel of land with a site area of approximately 243,311.5 sq.m. were rented to the Company from Zouping Gaoxin Power Co., Ltd., an independent third party, for a term of 20 years expiring on 20 September 2028 at a current annual rental of RMB1,460,000 for production use.

4. As advised by the Company, the buildings of the Property (refer to note 1) were erected on these land.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. The Company legally owns the buildings ownership rights of the property and is entitled to legally occupy, use, transfer, lease, mortgage and otherwise legally dispose of the buildings; and

   b. The property is not found to be subject to mortgage, compulsory acquisition, litigation, dispute or major adverse effect on the Company.

6. The property contributes a significant portion of revenue to the Company, we are of the view that the property is the material property held by the Company:

   Details of the material property

| | | | |
|---|---|---|---|
| (a) | General description of location of the property | : | Weiqiao No. 3 Power Plant and Weiqiao No. 2 Power Plant are situated in Weiqiao Town, Zouping County, Shandong Province, PRC, with Matou Town on the west, the centre of Zouping County approximately 30 km on the southeast and Jinan-Qingdao Expressway approximately 20 km away to provide a close access to convenient transportation. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | The property is not subject to any mortgage or pledges. |
| (c) | Environmental Issue | : | No environmental impact assessment has been carried out. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | No |
| (e) | Future plans for construction, renovation, improvement or development of the property | : | The CIP is scheduled to be completed in December 2014, the total construction cost of the CIP is estimated to be approximately RMB68,950,000. |

## VALUATION CERTIFICATE

| No. | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 August 2014 *RMB* |
|---|---|---|---|---|
| 3. | Zouping No. 1 and No. 2 Thermal Power Plant located at 100 meters of west from the intersection of the Third Yuehe Road and the Sixth Industrial Road (north of the Sixth Industrial Road), and 400 meters of north from the intersection of the Third Huixian Road and the Third Yuehe Road (North of the Third Huixian Road), respectively, Economic Development Zone Zouping Binzhou City County Shandong Province The PRC | The property comprises 58 buildings and various ancillary structures which were completed in various stages between 2003 and 2011.<br><br>The buildings have a total gross floor area of approximately 150,807.08 sq.m.<br><br>The buildings mainly include manufactory buildings, an office building and ancillary buildings.<br><br>The structures mainly include cooling towers, slag warehouses, dewatering bins and so on.<br><br>The property also comprises 3 civil works which are still under construction as at the valuation date (the "CIP"). The CIP is scheduled to be completed in December 2014.<br><br>The CIP mainly include flue gas desulphurization system renovation and fringe renovation works. As advised by the Company, the total construction cost of the CIP is estimated to be approximately RMB30,140,752 of which approximately RMB9,596,164 has been paid as at the valuation date.<br><br>The land use rights of the property are rented (refer to note 2). | The property is currently occupied by the Company for production purpose, except for the CIP which is under construction. | 1,055,897,600 |

*Notes:*

1. Pursuant to 2 Building Ownership Certificates – Cheng Qu Gong Zi Di Nos. CQG00091 and CQG00626, 58 buildings of the property with a total gross floor area of approximately 150,807.08 sq.m. are owned by the Company.

2. Pursuant to 2 Tenancy Agreements, the land use rights of 2 parcels of land with a total site area of approximately 423,334.06 sq.m. were rented to the Company from Shandong Weiqiao Chuangye Group Company Limited. (the "Holding Company", the controlling shareholder of the Company) for a term of 20 years expiring on 31 October 2025 and 18 March 2028 respectively at a total current annual rental of RMB2,540,000 for production use. As advised by the Company, the buildings of the Property (refer to note 1) were erected on this land.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. The Company legally owns the buildings ownership rights of the property and is entitled to legally occupy, use, transfer, lease, mortgage and otherwise legally dispose of the buildings; and

   b. The property is not found to be subject to mortgage, compulsory acquisition, litigation, dispute or major adverse effect on the Company.

4. The property contributes a significant portion of revenue to the Company, we are of the view that the property is the material property held by the Company:

   Details of the material property

| | | | |
|---|---|---|---|
| (a) | General description of location of the property | : | Zouping No. 1 Power Plant and Zouping No. 2 Power Plant are situated in Zouping Economic Development Zone, Zouping County, Shandong Province, PRC, a major area for economic development of Zouping County. It have significant regional advantages with Jinan-Qingdao Expressway in the proximity, less than one-hour ride by car westbound to Jinan International Airport, two-hour ride eastbound to Qingdao Port, and 8 kilometres away from Jinan-Qingdao Railway and National Highway 309. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | The property is not subject to any mortgage or pledges. |
| (c) | Environmental Issue | : | No environmental impact assessment has been carried out. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | No |
| (e) | Future plans for construction, renovation, improvement or development of the property | : | The CIP is scheduled to be completed in December 2014, the total construction cost of the CIP is estimated to be approximately RMB30,140,752. |

## 1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors', Supervisors' and Chief Executive's Interests in Shares

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:

| Name of Shareholder | Type of Interest | Number of Domestic Shares *(Note 1)* | Approximate percentage of total issued domestic share capital as at the Latest Practicable Date *(%)* | Approximate percentage of total issued share capital as at the Latest Practicable Date *(%)* |
|---|---|---|---|---|
| Zhang Hongxia *(Executive director/Chairman)* | Beneficial interests | 17,700,400 | 2.27 | 1.48 |
| Zhang Shiping *(Non-executive director)* | Beneficial interests | 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 as at the Latest Practicable Date *(%)* |
|---|---|---|---|
| Zhang Shiping *(Non-executive director)* | Holding Company | Beneficial interests | 31.59 |
| Zhang Hongxia *(Executive director)* | Holding Company | Beneficial interests and spouse interests *(Note 1)* | 9.73 *(Note 1)* |
| Zhang Yanhong *(Executive director)* | Holding Company | Beneficial interests | 5.63 |
| Zhao Suwen *(Executive director)* | Holding Company | Beneficial interests | 0.38 |
| Zhao Suhua *(Non-executive director)* | Holding Company | Spouse interests *(Note 2)* | 4.93 *(Note 2)* |

*Note 1:* These 112,000,000 shares of the Holding Company are 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.

Each of Ms. Zhang Hongxia, the chairman of the Company, and Ms. Zhao Suwen and Ms. Zhang Yanhong who are executive directors of the Company, and Mr. Zhang Shiping, a non-executive director of the Company, also serves as a director of the Holding Company, respectively. The Holding 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 Holding Company in the shares of the Company.

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

Save as disclosed in this circular, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director or a supervisor of the Company had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this circular. None of the Directors or their respective associates has any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company for the purpose of the Listing Rules).

## 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) had 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 *(Note 1)* | Approximate percentage of total issued domestic share capital as at the Latest Practicable Date *(%)* | Approximate percentage of total issued share capital as at the Latest Practicable Date *(%)* |
|---|---|---|---|
| Shandong Weiqiao Chuangye Group Company Limited ("Holding Company") | 757,869,600 (Long position) | 97.07 | 63.45 |
| Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment") | 757,869,600 (Long position) *(Note 2)* | 97.07 | 63.45 |

Interests in the H Shares:

| Name of Shareholders | Type of interest | Number of H Shares *(Note 3)* | Approximate percentage of total issued H share capital as at the Latest Practicable Date *(%)* | Approximate percentage of total issued share capital as at the Latest Practicable Date *(%)* |
|---|---|---|---|---|
| Brandes Investment Partners, L.P. | Investment manager | 95,154,362 (Long position) *(Note 4)* | 23.01 | 7.97 |
| Mellon Financial Corporation | Interest of a controlled corporation | 41,073,100 (Long position) *(Note 5)* | 9.93 | 3.44 |
| Citigroup Inc. | Interest of corporation controlled by the substantial shareholder | 24,774,184 (Long position) | 5.98 | 2.07 |
| | | 10,392,818 (Short position) | 2.51 | 0.87 |
| | Custodian corporation/ approved lending agent | 13,418,356 (Lending pool) *(Note 6)* | 3.24 | 1.12 |

*Notes:*

1. Unlisted shares.

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

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

4. These 95,154,362 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

5. 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.

6. These 24,774,184 H Shares (long position) and 10,392,818 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 13,418,356 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.

Save as disclosed above, so far as is known to the Directors, supervisors or chief executives of the Company, 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. DIRECTORS INTERESTS IN ASSETS

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up, and up to the Latest Practicable Date.

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that save for the significant decrease in the profit of the Group for the six months ended 30 June 2014 as mentioned in the profit warning announcement dated 11 June 2014, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2013, the date to which the latest audited financial statements of the Group were made up.

## 8. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, 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.

## 9. 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 is known to the Directors to be pending or threatening against the Company or any of its subsidiaries.

## 10. CONSENT AND QUALIFICATIONS

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

| Name | Qualification |
|---|---|
| First Shanghai Capital Limited | a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity |
| WanLong (Shanghai) Assets Appraisal Co., Ltd. | Qualified PRC valuer |
| Zong Heng Law Firm | Legal adviser as to PRC laws |

First Shanghai Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears. WanLong (Shanghai) Assets Appraisal Co., Ltd. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its valuation report and references to its name in the form and context in which it appears. Zong Heng Law Firm has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its legal opinions and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, First Shanghai Capital Limited, WanLong (Shanghai) Assets Appraisal Co., Ltd. and Zong Heng Law Firm (i) 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) had no shareholding interests in any member of the Group and they 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.

## 11. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

Please refer to the pages 60-152 of Annual Report 2011, pages 60-146 of Annual Report 2012 and pages 59-140 of Annual Report 2013 of the Company for the years ended 31 December 2011, 2012 and 2013 published by the Company on 12 April 2012, 27 March 2013 and 11 April 2014, respectively, which contained information for each of the years ended 31 December 2011, 2012 and 2013, respectively, with respect to the profits and losses, financial record and position of the Group and the audited consolidated statement of financial position of the Group together with the notes on the respective annual accounts. The annual reports are available on the Company's website (http://www.wqfz.com) and the Stock Exchange's website (www.hkexnews.hk).

## 12. STATEMENT OF INDEBTEDNESS

### Borrowings

As at 30 September 2014 (being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular), the Group had total outstanding indebtedness of approximately RMB8,625 million. The table below sets forth the Group's total outstanding indebtedness as at 30 September 2014:

| | *Notes* | **Total** *RMB'000* |
|---|---|---|
| **Current** | | |
| Bank loans | | 2,229,996 |
| Current portion of long term bank loans | | 270,975 |
| **Non-current** | | |
| Bank loans | | 3,146,025 |
| Corporate bond | *(2)* | 2,977,808 |
| **Total borrowings** | | 8,624,804 |
| Representing: | | |
| – secured | *(1)* | 4,006,346 |
| – guaranteed | | 358,000 |
| – secured and guaranteed | | 63,500 |
| – unguaranteed and unsecured | | 4,196,958 |
| **Total borrowings** | | 8,624,804 |

*Notes:*

(1) Certain of the Group's bank loans amounting to approximately RMB3,888 million were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB2,402 million and certain of the Group's land use right of carrying value of approximately RMB19 million as at 30 September 2014.

Certain of the Group's bank loans amounting to approximately RMB181 million were secured by certain trade receivables of Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") and Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park") from the Company of approximately RMB241 million as at 30 September 2014, which were eliminated in the consolidated statement of financial position, among which, certain bank loans of Weihai Industrial Park amounting to approximately RMB64 million were also guaranteed by the Company.

The Company guaranteed bank loans of Weihai Industrial Park of approximately RMB422 million as at 30 September 2014, among which, certain bank loans of Weihai Industrial Park amounting to approximately RMB64 million were also secured by certain trade receivables of Weihai Industrial Park from the Company of approximately RMB73 million as at 30 September 2014, which were eliminated in the consolidated statement of financial position.

(2) On 26 July 2013, the Company received the "Approval for the Public Issue of Corporate Bonds by Weiqiao Textile Company Limited (Zheng Jian Xu Ke [2013] No. 977)" (證監許可[2013] 977號《關於核准魏橋紡織股份有限公司公開發行公司債券的批復》) from the China Securities Regulatory Commission approving the Company to issue its corporate bonds in the PRC with an aggregate nominal value of no more than RMB6 billion. In October 2013, the Company issued a domestic corporate bond in an aggregate principal amount of RMB3 billion with a nominal interest rate of 7.00% per annum and denomination and issue price of RMB100. The domestic corporate bond is with periods of five years and the Company has the right to raise the nominal interest rate, and meanwhile, the investor could sell back at the end of the third year. Subsequent to the completion of the issue of the corporate bond, on 6 November 2013, the corporate bond was listed on the Shanghai Stock Exchange.

Based on the official reply of China Securities Regulatory Commission, the Company should issue a domestic corporate bond no more than RMB6 billion within 24 months after their reply day. As at 30 September 2014, the Company still has corporate bonds of RMB3 billion to be issued before 25 July 2015.

In addition to the above, as at 30 September 2014, certain of the Group's bank deposits with an aggregate amount of approximately RMB143 million were pledged against the Group's letters of credit.

**Contingent liabilities**

As at the close of business on 30 September 2014, the Group had no material contingent liabilities.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables, as at the close of business on 30 September 2014, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## 13. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, taking into account the Group's internal resources, available banking facilities and corporate bond to be issued by the Company, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the period of twelve months from the date of this circular.

## 14. MANAGEMENT DISCUSSION AND ANALYSIS

The following information is the management discussion and analysis of the Group for the three years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014:

***FOR THE YEAR ENDED 31 DECEMBER 2011***

**Liquidity and financial resources**

As at 31 December 2011, cash and cash equivalents of the Group were approximately RMB2,058 million, representing a decrease of approximately 14.7% as compared with that of approximately RMB2,413 million as at 31 December 2010. It was mainly due to a decrease in demand in downstream market, which resulted in a decrease in the revenue of the Group and raised the Group's inventory at the end of the year and thus led to a decrease in cash and cash equivalents at the end of the year.

For the year ended 31 December 2011, the Group had a net cash outflow from operating activities of approximately RMB1,560 million, a net cash inflow from investing activities of approximately RMB1,393 million and a net cash outflow from financing activities of approximately RMB161 million. As at the end of the 2011, the cash and cash equivalents dropped approximately RMB355 million. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs and will continue to maintain sound financial status.

For the year ended 31 December 2011, the capital expenditures of the Group amounted to approximately RMB453 million, mainly attributable to the construction of certain new production lines for production of high-end products.

For the year ended 31 December 2011, the inventory turnover days of the Group increased 102 days to 245 days as compared with last year. The increase in inventory turnover days was due to the shrinking demand from international market and significant fluctuation in the cotton price during the year ended 31 December 2011 which reduced orders and accumulated inventory. Meanwhile, due to the decrease in sales volume, the corresponding trade receivables decreased and the average turnover days decreased to 8 days from 11 days last year.

For the year ended 31 December 2011, the Group did not have financial derivative instruments.

**Capital structure**

The major objective of the Group's capital management is to ensure the ongoing operations, and maintain a satisfactory capital ratio of the Group. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2011, the debts of the Group were mainly bank borrowings totaling approximately RMB9,103 million. Cash and cash equivalents were approximately RMB2,058 million. The gearing ratio was 46.2% (2010: 41.1%) (Net debt (interest bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

The Group maintained a balanced portfolio of loans at fixed interest rate and variable rates to manage interest expenses. As at 31 December 2011, 23.3% of the Group's bank loans were subject to fixed interest rates while the remaining 76.7% were subject to floating interest rates.

The Group kept a balance between the continuity and flexibility of funds through bank loans. In any 12-month period, the loans due will not exceed 50% of the total loans. As at 31 December 2011, approximately 48.8% of the loans will become due within one year.

As at 31 December 2011, the Group's loans were denominated in RMB and US dollars, of which borrowings in US dollars represented 8.4% of the total borrowings, while cash and cash equivalents were mainly denominated in RMB and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 11.0% of the total amount.

**Significant investments and material acquisitions and disposals of subsidiaries or associated companies**

As of 31 December 2011, the Group had no significant investment, or material acquisition or disposal of subsidiaries or associated companies.

**Employees and emolument policies**

As at 31 December 2011, the Group had a total of approximately 102,000 employees, representing a decrease of 11,000 employees as compared with last year. Such decrease in the number of staff was mainly due to the high turnover of staff, reduction of number of staff arising from shrinking textile market demand and decrease of orders, and the corresponding reduction of the Company's staff reserve. Besides, following the higher automation level of the Group's machinery, the use of manpower per unit reduces. Total staff costs amounted to approximately RMB2,772 million during the year ended 31 December 2011, representing 18.2% of the turnover. Employee remuneration is determined based on their performance, experience and the industry practice. The Group's remuneration policies and packages were reviewed periodically by the management of the Group. In addition, the Group also grants bonuses and rewards to the staff based on their performance to encourage and drive its staff to strive for better performance. During the year ended 31 December 2011, the Group provided training to its staff according to their respective job duties and skills requirements, such as training sessions on safety and skills.

**Details of charges on the assets of the Group**

Set out below is the information relating to the Group's restricted assets as at 31 December 2011:

(i) Certain of the Group's bank loans amounting to approximately RMB5,834 million (2010: RMB5,245 million) were secured by certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments) of an aggregate value of approximately RMB8,241 million (2010: RMB9,130 million) as at 31 December 2011.

(ii) Certain of the Group's bank loans up to RMB460 million (2010: RMB488 million) were secured by certain of Binzhou Industrial Park's trade receivables from the Company of approximately RMB581 million (2010: RMB679 million) as at 31 December 2011, which were eliminated in the consolidated statement of financial position.

(iii) Certain of the Group's bank loans up to RMB227 million (2010: Nil) were secured by certain of Binzhou Industrial Park's sales orders from the Company of approximately RMB339 million (2010: Nil) as at 31 December 2011.

(iv) Weihai Civil Aviation Industrial Company Limited, the non-controlling shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao") of approximately RMB34 million (2010: RMB32 million) as at 31 December 2011.

(v) The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB609 million (2010: RMB448 million) as at 31 December 2011.

**Gearing ratio**

The gearing ratio was 46.2% (2010: 41.1%) (Net debt (interest bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

**Exposure to foreign exchange risks**

The Group adopted a prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars and a portion of bank deposits and bank borrowings are denominated in US dollars. The repayment period of the import purchases and foreign borrowings is longer than the period of receiving export trade payments. 32.2% of the Group's revenue and 42.4% of the costs of purchase of cotton were denominated in US dollars for the year ended 31 December 2011. With the continuous appreciation of RMB, the Group recorded an exchange gain of approximately RMB102 million for the year ended 31 December 2011. During the year ended 31 December 2011, the Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates.

***FOR THE YEAR ENDED 31 DECEMBER 2012***

**Liquidity and financial resources**

As at 31 December 2012, cash and cash equivalents of the Group were approximately RMB7,350 million, representing an increase of approximately 257.1% as compared with approximately RMB2,058 million as at 31 December 2011. It was mainly due to the reduction of certain inventory during the year ended 31 December 2012, which resulted in the substantial increase in cash and cash equivalents.

The working capital of the Group is mainly financed by cash inflow from operating activities. For the year ended 31 December 2012, the Group had a net cash inflow from operating activities of approximately RMB4,437 million, a net cash inflow from investing activities of approximately RMB995 million and a net cash outflow from financing activities of approximately RMB111 million. As at the end of the year ended 31 December 2012, the cash and cash equivalents increased by approximately RMB5,292 million. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs and will continue to maintain sound financial status.

For the year ended 31 December 2012, the inventory turnover days of the Group decreased by 96 days to 149 days as compared with that of the corresponding period of last year. The decrease in inventory turnover days was due to the Group's increased sales efforts during the year ended 31 December 2012, which resulted in an increase in the sales volume and a decrease in the inventory level. The average turnover days of the Group's account receivables increased to 13 days from 8 days of last year, which was mainly due to the corresponding increase in the settlement by way of letters of credit as a result of the increased volume of exports at the end of the year ended 31 December 2012.

For the year ended 31 December 2012, the Group used financial instruments, i,e. a forward currency contract, to reduce exposure to exchange rate fluctuation. As at 31 December 2012, the derivative financial liability from the above forward currency contract was approximately RMB3 million.

**Capital structure**

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximise shareholders' interests. The Group continued to emphasize on an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2012, the debts of the Group were mainly bank borrowings totalling approximately RMB9,066 million. Cash and cash equivalents were approximately RMB7,350 million. The gearing ratio was 11.0% as at 31 December 2012 (2011: 46.2%) (net debt (interest bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2012, 39.8% of the Group's bank loans were subject to fixed interest rates, while the remaining 60.2% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds through bank loans. At any time, the borrowings due within the upcoming 12-month period will not exceed 50.0% of the total borrowings. As at 31 December 2012, approximately 49.2% of the loans will become due within one year.

As at 31 December 2012, the Group's loans were denominated in RMB and US dollars, among which borrowings in US dollars represented approximately 12.0% of the total borrowings, while cash and cash equivalents were mainly denominated in RMB and US dollars, among which cash and cash equivalents denominated in US dollars represented approximately 4.7% of the total amount.

**Significant investments and material acquisitions and disposals of subsidiaries or associated companies**

As of 31 December 2012, the Group had no significant investment, or material acquisition or disposal of subsidiaries or associated companies.

**Employees and emolument policies**

As at 31 December 2012, the Group had a total of approximately 82,000 employees, representing a decrease of 20,000 employees as compared with that of last year. Such decrease in the number of staff was mainly due to the Group's adjustment of production plans during the year ended 31 December 2012 according to market demands, which led to the decrease in production volume and reserve of new staff. Meanwhile, the Group raised the level of equipment automatization, optimized operating process, and reduced the use of manpower per unit. Total staff costs amounted to approximately RMB2,311 million during the year ended 31 December 2012, representing 15.2% of the turnover of the Group. Employee remuneration is determined based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages were also reviewed periodically by the management of the Group. In addition, bonuses and rewards were granted to the staff based on their performance appraisal to encourage and drive the staff to strive for better performance. During the year ended 31 December 2012, the Group provided appropriate training to its staff according to the skills requirements for their respective positions, such as training sessions on safety and skills.

**Details of charges on the assets of the Group**

Set out below is the information relating to the Group's restricted assets as at 31 December 2012:

(i) Certain of the Group's bank loans amounting to approximately RMB5,703 million (2011: RMB5,834 million) were secured by certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments) of an aggregate carrying value of approximately RMB2,961 million (2011: RMB3,912 million) as at 31 December 2012.

(ii) Certain of the Group's bank loans up to RMB463 million (2011: RMB460 million) were secured by certain of Weihai Industrial Park and Binzhou Industrial Park's trade receivables from the Company of approximately RMB594 million (2011: RMB581million) as at 31 December 2012, which were eliminated in the consolidated statement of financial position.

(iii) Certain of the Group's bank loans up to RMB169 million (2011: RMB227 million) were secured by certain of Binzhou Industrial Park's sales orders from the Company of approximately RMB254 million (2011: RMB339 million) as at 31 December 2012.

(iv) Weihai Civil Aviation Industrial Company Limited, the non-controlling shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao of approximately RMB19 million (2011: RMB34 million) as at 31 December 2012.

(v) The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB587 million (2011: RMB609 million) as at 31 December 2012.

**Gearing ratio**

The gearing ratio was 11.0% as at 31 December 2012 (2011: 46.2%) (net debt (interest bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

**Exposure to foreign exchange risks**

The Group adopted a prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars, and a portion of bank deposits and bank borrowings are denominated in US dollars. 32.0% of the Group's revenue and 76.5% of the costs of purchase of cotton were denominated in US dollars for the year ended 31 December 2012. For the year ended 31 December 2012, the Group recorded exchange loss of approximately RMB30 million for holding a large amount of balances of payables and borrowings denominated in US Dollars due to temporary depreciation of RMB. During the year ended 31 December 2012, the Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group will have sufficient foreign currency to meet its requirements.

***FOR THE YEAR ENDED 31 DECEMBER 2013***

**Liquidity and financial resources**

As at 31 December 2013, cash and cash equivalents of the Group were approximately RMB10,211 million, representing an increase of approximately 38.9% as compared with approximately RMB7,350 million as at 31 December 2012. It was mainly due to the issue of corporate bonds by the Group during the year ended 31 December 2013, which resulted in the increase in cash and cash equivalents.

The working capital of the Group is mainly financed by cash inflow from operating activities. For the year ended 31 December 2013, the Group recorded a net cash inflow from operating activities of approximately RMB1,508 million, a net cash inflow from investing activities of approximately RMB187 million and a net cash inflow from financing activities of approximately RMB1,221 million. As at the end of the Period, the cash and cash equivalents increased by approximately RMB2,916 million. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs, and will continue to maintain a sound financial position.

For the year ended 31 December 2013, the inventory turnover days of the Group were 185 days, representing an increase of 36 days as compared with that of the corresponding period of last year. It was due to the increase in the Group's inventory of raw materials at the end of the year ended 31 December 2013. The average turnover days of the Group's receivables were 14 days, which remained stable as those for the corresponding period of last year.

For the year ended 31 December 2013, the Group had used financial instruments, specifically forward currency contract, to minimize its exposure to fluctuations of exchange rates. The contract was settled in May 2013.

**Capital structure**

The major objective of the Group's capital management is to ensure ongoing operations and maintain a satisfactory capital ratio in order to support its business and maximize shareholders' interests. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2013, the debts of the Group were mainly bank borrowings totalling approximately RMB7,455 million and corporate bonds amounting to approximately RMB2,972 million. The Group had cash and cash equivalents of approximately RMB10,211 million. The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by total equity) was approximately 1.3% (2012: approximately 11.0%).

The Group maintained a balanced portfolio of borrowings at fixed interest rates and floating rates to manage interest expenses. As at 31 December 2013, approximately 48.1% of the Group's bank borrowings were subject to fixed interest rates, while the remaining approximately 51.9% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds through financial instruments such as bank borrowings and corporate bonds. At any time, the borrowings due within the upcoming 12-month period will not exceed 50.0% of the total borrowings. As at 31 December 2013, approximately 35.6% of the Group's borrowings will mature within one year.

As at 31 December 2013, the Group's bank borrowings were denominated in RMB and US dollars, of which bank borrowings in US dollars represented approximately 4.9% of the total bank borrowings, while cash and cash equivalents were mainly denominated in RMB and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 3.6% of the total amount.

**Significant investments and material acquisitions and disposals of subsidiaries or associated companies**

As of 31 December 2013, the Group had no significant investment, or material acquisition or disposal of subsidiaries or associated companies.

**Employees and emolument policies**

As at 31 December 2013, the Group had a total of approximately 84,000 employees, representing an increase of approximately 2,000 employees as compared with that of last year. Such increase in the number of staff was mainly due to the recruitment of new staff as talent reserve to meet the production requirement of the Group. Total staff costs amounted to approximately RMB2,642 million during the year ended 31 December 2013, representing approximately 19.0% of the revenue of the Group and an increase of approximately 3.8 percentage points over approximately 15.2% for the corresponding period of last year. Employee remuneration is determined based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages were also reviewed periodically by the management of the Group. In addition, bonuses and rewards were granted to the staff based on their performance appraisal to encourage and drive the staff to strive for better performance. During the year ended 31 December 2013, the Group provided appropriate training to its staff according to the skills requirements for their respective positions, such as training sessions on safety and skills.

**Details of charges on the assets of the Group**

Set out below is the information relating to the Group's restricted assets as at 31 December 2013:

(i) Certain of the Group's bank loans amounting to approximately RMB4,706 million (2012: RMB5,703 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB2,694 million (2012: RMB3,143 million, including certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments)) as at 31 December 2013.

(ii) Certain of the Group's bank loans up to RMB517 million (2012: RMB463 million) were secured by certain of Weihai Industrial Park and Binzhou Industrial Park's trade receivables from the Company of approximately RMB709 million (2012: RMB594 million) as at 31 December 2013, which were eliminated in the consolidated statement of financial position.

(iii) The Company guaranteed bank loans of Weihai Industrial Park of approximately RMB352 million (2012: the Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB587 million) as at 31 December 2013.

**Gearing ratio**

The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by total equity) was approximately 1.3% (2012: approximately 11.0%).

**Exposure to foreign exchange risks**

The Group adopts a strict and prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars, and a portion of bank deposits and bank borrowings are denominated in US dollars. For the year ended 31 December 2013, approximately 46.7% of the Group's revenue and approximately 43.4% of the costs of purchase of cotton were denominated in US dollars. For the year ended 31 December 2013, the Group recorded exchange loss of approximately RMB12 million due to the appreciation of RMB. During the year ended 31 December 2013, the Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group has sufficient foreign currency to meet its requirements.

***FOR THE SIX MONTHS ENDED 30 JUNE 2014***

**Liquidity and financial resources**

The working capital of the Group is mainly financed by cash inflow from operating activities. For the six months ended 30 June 2014, the Group recorded a net cash inflow from operating activities of approximately RMB967 million, which was mainly due to the year over year decrease in the imported cotton during the six months ended 30 June 2014, leading to a decline in the payment thereof. Net cash inflow from investing activities was approximately RMB14 million. Net cash outflow from financing activities was approximately RMB1,599 million, which was mainly due to repayment of certain bank borrowings during the six months ended 30 June 2014. Cash and cash equivalents of the Group were approximately RMB9,588 million, representing a decrease of approximately 6.1% from approximately RMB10,211 million as of 31 December 2013. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs, and will continue to maintain a sound financial position.

For the six months ended 30 June 2014, the average turnover days of the Group's receivables was 12 days, which remained flat as compared with the corresponding period of 2013.

For the six months ended 30 June 2014, the inventory turnover days of the Group were 200 days, representing a decrease of 10 days from 210 days for the same period of 2013. It was mainly due to the decrease in the Group's inventory of raw materials as at 30 June 2014.

For the six months ended 30 June 2014, the Group had not used financial derivative instruments. In the same period of last year, the Group had used financial instruments, specifically forward currency contract, to minimise its exposure to fluctuation of exchange rates. The contract was settled in May 2013.

**Capital structure**

The major objective of the Group's capital management is to ensure ongoing operations and maintain a satisfactory capital ratio. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. At 30 June 2014, the debts of the Group were mainly bank loans totaling approximately RMB6,057 million (31 December 2013:

approximately RMB7,455 million) and corporate bonds amounting to approximately RMB2,974 (31 December 2013: approximately RMB2,972 million). The Group had cash and cash equivalents of approximately RMB9,588 million (31 December 2013: approximately RMB10,211 million). The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by net assets) was approximately -3.5% (31 December 2013: approximately 1.3%).

The Group manages its interest expenses through a fixed rate and floating rate liabilities portfolio. As at 30 June 2014, approximately 42.4% of the Group's bank loans were subject to fixed interest rates while the remaining approximately 57.6% were subject to floating interest rates.

The Group maintains a balance between the continuity and flexibility of funds through bank borrowings and corporate bonds. At any time, the borrowings due within the upcoming 12-month period will not exceed 50.0% of the total loans. As at 30 June 2014, approximately 31.2% of the Group's borrowings will mature within one year.

As at 30 June 2014, the Group's borrowings were denominated in RMB and US dollars, of which borrowings in US dollars represented approximately 4.1% of the total borrowings, while cash and cash equivalents were denominated in RMB and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 1.7% of the total amount.

**Significant investments and material acquisitions and disposals of subsidiaries or associated companies**

As of 30 June 2014, the Group had no significant investment, or material acquisitions or disposals of subsidiaries or associated companies.

**Employees and emolument policies**

As at 30 June 2014, the Group had a total of approximately 83,000 employees, which decreased by approximately 4,000 employees as compared with that of the corresponding period of last year. Such decrease of employees was mainly a normal employee turnover. Total staff costs of the Group amounted to approximately RMB1,397 million during the six months ended 30 June 2014, representing approximately 23.4% of the revenue, up by 4.9 percentage points as compared with approximately 18.5% in the corresponding period of last year.

The increase in total staff costs was mainly due to the increase in employee remuneration with a view to maintaining the Group's stability in production and operation during the six months ended 30 June 2014. Employee remuneration is determined based on performance and experience and the industry practice. The Group's remuneration policies and packages are reviewed periodically by the management of the Group. In addition, the management also grants bonuses and rewards to staff based on their performance to encourage and motivate them to engage in technology innovation and technique improvement. The Group also provide relevant trainings, such as safety training and skills training, to staff based on the technical requirements of different positions.

**Details of charges on the assets of the Group**

Set out below is the information relating to the Group's restricted assets as at 30 June 2014:

(i) Certain of the Group's bank loans amounting to approximately RMB3,987 million (31 December 2013: RMB4,706 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB2,343 million as at 30 June 2014 (31 December 2013: RMB2,694 million).

(ii) Certain of the Group's bank loans amounting to approximately RMB479 million (31 December 2013: RMB517 million) were secured by certain trade receivables of Weihai Industrial Park and Binzhou Industrial Park from the Company of approximately RMB648 million as at 30 June 2014 (31 December 2013: RMB709 million), which were eliminated in the condensed consolidated statement of financial position.

(iii) Certain of the Group's bank deposits with an aggregate amount of approximately RMB76 million (31 December 2013: RMB142 million) were pledged against the Group's letters of credit as at 30 June 2014.

**Gearing ratio**

The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by net assets) was approximately -3.5% (31 December 2013: approximately 1.3%).

**Exposure to foreign exchange risks**

The Group adopts a strict and prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars. For the six months ended 30 June 2014, approximately 45.7% of the Group's revenue and approximately 27.0% of the costs of purchase of lint cotton were denominated in US dollars. For the six months ended 30 June 2014, the Group recorded exchange loss of approximately RMB12 million due to depreciation of the RMB. During the six months ended 30 June 2014, the Group did not experience any significant difficulties or impacts on its operations or liquidity as a result of fluctuations in currency exchange rates. The directors believe that the Group will have sufficient foreign currency to meet its requirements.

## 15. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is principally engaged in the production and sale of cotton yarn, grey fabric and denim. During the year 2013, the Group recorded revenue of approximately RMB13,881 million, representing a decrease of approximately 9.0% compared with 2012. Net profit attributable to owners of the parent was approximately RMB629 million, representing an increase of approximately 30.5% as compared with that of 2012. Earnings per share were RMB0.53. For the six months ended 30 June 2014, the Group recorded revenue of approximately RMB5,973 million, representing a decrease of approximately 10.9% from the corresponding period of 2013. Net profit attributable to owners of the parent of the Group was approximately RMB210 million for the six months ended 30 June 2014, representing a decrease of approximately 21.1% from approximately RMB266 million for the corresponding period of last year.

The Acquisition will not significantly influence the financial position of the Group as the Company will satisfy the payment of consideration for the Acquisition by disposing to the Holding Company the Weiqiao Thermal Power Plants and setting off the balance between the respective value of the Holding Company No. 7 Thermal Power Plant and the Weiqiao Thermal Power Plants. In addition, it is expected that the Group will be able to lower its production cost benefiting from the reduction of power and steam costs generated from its production activities upon the completion of the Acquisition.

The gradual recovery of the global economy and an improving global economic situation will benefit overseas demand for China's products significantly. The domestic economy has shown signs of a stable and positive development, thanking to a series of "micro stimulus" policies implemented by the Chinese government beginning in April 2014 which have shown positive initial results, and leading to deeper reforms which are providing an impetus for economic growth. The implementation of a direct subsidy policy as well as the stabilisation and marketisation of cotton prices is expected to reduce the price gap between domestic and overseas cotton prices during the second half of 2014. This will enhance the competitiveness of domestic textile companies to a certain degree. In view of this, the Company will continue to adjust its product mix according to its clients' needs, increase the market share of middle to high-end products, enhance its products' added-value, source cotton globally, and improve cost controls in line with changes in the market for raw textile materials. The Group will invest in technology R&D to reduce labour usage (measured by workers needed per ten thousand spindles) and production costs. Focus will also be placed on reducing the gearing ratio, financial costs and solvency risks to further enhance the Group's capacity to cope with risk. The Company will continue to focus on environmental protection and sustainable development, to be an industry leader in terms of industry standards and to undertake its social responsibility.

## 16. 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, Jing Ji Kai Fa Qu, 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 Shops 1712-1716, 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.

## 17. MATERIAL CONTRACTS

(1) a bond underwriting agreement ("**Bond Underwriting Agreement**") dated 13 May 2013 was entered into between the Company and CITIC Securities Co., Ltd. ("**CITIC Securities**"), pursuant to which the Company agreed to issue its domestic corporate bonds in the PRC with an aggregate principal amount of no more than RMB6 billion with a term of no more than 10 years and a par value of RMB100 ("**Bond Issue**") and CITIC Securities (as the principal underwriter and on behalf of the underwriters) to underwrite the Bond Issue; and

(2) a supplementary agreement to the Bond Underwriting Agreement dated 15 August 2013 was entered into between the Company and CITIC Securities, pursuant to which the Company agreed to issue and CITIC Securities (as the principal underwriter and on behalf of the underwriters) agreed to underwrite a domestic corporate bond in an aggregate principal amount of RMB3 billion.

## 18. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the process agent of the Company in Hong Kong at Room 2204, 22/F., Fu Fai Commercial Centre, 27 Hillier Street, 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 material contracts referred to in paragraph 17 of this appendix;

(c) the service contracts of the Directors of the Company;

(d) the annual reports of the Company for each of the years ended 31 December 2011, 2012 and 2013;

(e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;

(f) the letter of advice from First Shanghai Capital Limited, the text of which is set out on pages 21 to 44 of the circular;

(g) the written consent from First Shanghai Capital Limited;

(h) the written consent from WanLong (Shanghai) Assets Appraisal Co., Ltd.;

(i) the written consent from Zong Heng Law Firm;

(j) the valuation report of WanLong (Shanghai) Assets Appraisal Co., Ltd. in relation to the properties under the Disposal and the Acquisition;

(k) the valuation report of WanLong (Shanghai) Assets Appraisal Co., Ltd. in relation to the assets under the Disposal;

(l) the valuation report of WanLong (Shanghai) Assets Appraisal Co., Ltd. in relation to the assets under the Acquisition;

(m) the legal opinions issued by Zong Heng Law Firm with respect to the land, buildings and other assets under the Thermal Power Assets Swap Agreement;

(n) the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement;

(o) the Thermal Power Assets Swap Agreement;

(p) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement; and

(q) this circular.

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

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

**(Stock Code: 2698)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "**EGM**") of Weiqiao Textile Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") will be convened and held at 9:00 a.m. on 24 December 2014 (Wednesday) 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 resolutions:

### AS ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the thermal power assets swap agreement (the "**Thermal Power Assets Swap Agreement**") entered into between the Company and 山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited) ("**Holding Company**", together with its subsidiaries and associates (excluding the Group) the "**Parent Group**") on 21 October 2014 be and is hereby approved, ratified and confirmed; and

   (b) 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 Thermal Power Asset Swap Agreement and the transactions thereunder."

2. "**THAT**:

   (a) the renewed cotton yarn/grey fabric and denim supply agreement (the "**Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement**") entered into between the Company and the Holding Company on 21 October 2014 be and is hereby approved, ratified and confirmed;

* *For identification purposes only*

(b) the estimated maximum values of the annual aggregate supply of cotton yarn/grey fabric and denim by the Group to Parent Group (as set out in the announcements of the Company dated 21 October 2014) for each of the three years ending 31 December 2017 (the "**Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps**") 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 Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the transactions thereunder, and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps."

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

10 November 2014
Shandong
The PRC

*Notes:*

(A) A circular containing, among others, further details of the Thermal Power Assets Swap Agreement, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Parent Cotton Yarn/Grey Fabric and Denim Supply Caps, the letter from the independent board committee to the independent shareholder and the letter of advice from the independent financial adviser to the independent board committee and the independent shareholders will be despatched to the shareholders as soon as possible.

(B) The H Share register of the Company will be closed from 25 November 2014 (Tuesday) to 24 December 2014 (Wednesday) (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 at 4:30 p.m. on 24 November 2014 (Monday), 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 24 November 2014 (Monday).

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

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

(C) 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 4 December 2014 (Thursday).

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

(D) The resolutions proposed at the EGM will be voted by way of poll.

(E) 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.

(F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.

(G) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited, on 17M 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.

(H) 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 (E) to (F) 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 (C) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.

(I) If a proxy attends the EGM on behalf of a shareholder, 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.

(J) 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.

(K) 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. George Chan Wing Yau and Mr. Chen Shuwen as independent non-executive directors.

* *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).*