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

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魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM

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



First Shanghai Capital Limited

A letter from the Board is set out in pages 4 to 11 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions is set out in page 12 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions is set out in pages 13 to 25 of this circular.

A notice dated 10 November 2017 convening the EGM to be convened and held on Wednesday, 27 December 2017 at 9:00 a.m. at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping County, Shandong Province, the PRC is set out in pages 32 to 34 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 PRC on or before Thursday, 7 December 2017 in accordance with the instructions printed thereon.

10 November 2017

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

EXPECTED TIMETABLE

Register of members of the Company closes from 27 November 2017 to 27 December 2017

EGM 27 December 2017

Register of members of the Company re-opens 28 December 2017

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DEFINITIONS

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

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement for a term commencing on 1 January 2018 and ending on 31 December 2020
“Board”	the board of Directors
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited), the Shares of which are listed on the main board of the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement
“Director(s)”	the director(s) of the Company
“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 and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company to be convened and held on Wednesday, 27 December 2017 for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a RMB-denominated par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 on 14 April 1998, being the controlling shareholder of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Caps)
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than the Holding Company, Mr. Zhang Shiping and Ms. Zhang Hongxia for the purpose of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement
“Latest Practicable Date”	8 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Cotton Yarn/Grey Fabric and Denim Supply Agreement”	the old cotton yarn/grey fabric and denim supply agreement entered into between the Company and the Holding Company dated 21 October 2014 for a term of three years ending on 31 December 2017
“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 dated 17 October 2017 for a term commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Shares”	Domestic Shares and H Shares

LETTER FROM THE BOARD



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

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

(Stock Code: 2698)

Executive Directors:

Ms. Zhang Hongxia (*Chairman*)
Ms. Zhang Yanhong
Ms. Zhao Suwen
Mr. Zhang Jinglei

Non-executive Directors:

Mr. Zhang Shiping
Ms. Zhao Suhua

Independent Non-executive Directors:

Mr. Wang Naixin
Mr. George Chan Wing Yau
Mr. Chen Shuwen

Registered Office:

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

Principal place of business in the PRC

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

Principal Place of Business in Hong Kong:

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

10 November 2017

To the Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF COTTON YARN, GREY FABRIC AND DENIM**

A. INTRODUCTION

As disclosed in the announcement of the Company dated 17 October 2017, the Company and Holding Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement on 17 October 2017, pursuant to which, the Company agreed to continue 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 for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive).

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding (i) further details of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), (ii) the letter from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice of the EGM.

B. THE RENEWED COTTON YARN/GREY FABRIC AND DENIM SUPPLY AGREEMENT

The material terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are set out as follows:

1. Date

17 October 2017

2. Parties

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

3. Connected person

the Holding Company

4. Transaction nature

The Company and the Holding Company entered into the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement on 21 October 2014, 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. On 17 October 2017, the Company and the Holding Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement with a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive).

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.

5. Pricing basis and payment terms

The prices of cotton yarn/grey fabric and denim products supplied by the Group to Parent Group are the same with their respective prices when supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC. The

LETTER FROM THE BOARD

Company shall provide the evidence of such market prices to the Holding Company upon the request of the Holding Company, such as samples of contracts entered into by the Group and independent third parties and relevant invoices.

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

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

6. Termination and renewal

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

LETTER FROM THE BOARD

7. Historical transaction values and Annual Caps

The historical transaction values of the cotton yarn/grey fabric and denim supplied by the Group to Parent Group and the annual caps under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for the two years ended 31 December 2016 and the financial year ending 31 December 2017 are as follows:

	Financial years ended/ending 31 December		
	2015	2016	2017
	(RMB)	(RMB)	(RMB)
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction values	1,372,536,000	382,080,000	454,320,000 ¹
Annual caps	1,917,380,000	2,876,060,000	3,163,670,000

Note 1: For the nine months ended 30 September 2017, the aggregate transaction value of supply of the cotton yarn/grey fabric and denim by the Group to Parent Group amounted to approximately RMB340,740,000. The Directors currently estimate that the aggregate transaction value of supply of the cotton yarn/grey fabric and denim for the year 2017 will be approximately RMB454,320,000 (exclusive of VAT), which was calculated by annualising the actual transaction value for the nine months ended 30 September 2017.

Set out below are the Annual Caps of the cotton yarn/grey fabric and denim to be supplied by the Group to Parent Group under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, which are estimated to be payable by Parent Group to the Group for the three financial years ending 31 December 2020:

	Financial years ending 31 December		
	2018	2019	2020
	(RMB)	(RMB)	(RMB)
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Annual Caps ¹	599,700,000	791,610,000	1,044,920,000

Note 1: The Annual Caps for each of the three years ending 31 December 2020 represent an average annual growth rate of approximately 30% from the previous year, which is determined with reference to the followings:

- (i) the annual growth rate of approximately 19% from the year ended 31 December 2016 to the year ending 31 December 2017, which was calculated by annualising the actual transaction value for the nine months ended 30 September 2017; and
- (ii) an extra expected annual growth rate of 10% in consideration of the year-on-year growth rate of 7.3% in the retail sales of apparel, footwear, headwear and knitwear in the PRC for the first eight months ended 31 August 2017, announced by the National Bureau of Statistics of the PRC.

LETTER FROM THE BOARD

C. REASONS FOR AND BENEFITS 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 the 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 the long-term cooperation relationship with the Holding Company will stabilize the Company's operation, ensure a broaden stream of revenue source and a relatively stable profits rate and therefore is of commercial benefit to the Group as a whole.

D. LISTING RULES IMPLICATIONS

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 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 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. INTERNAL CONTROL PROCEDURES

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

- (1) the general manager and/or the executive deputy general manager of the sales department of the Company shall prepare a draft price list for Group's products based on the prices of raw materials and the prevailing market conditions, and submit such list for review and approval by the chairman of the Board on monthly basis. At the time when the raw material prices fluctuate, the general manager and/or the executive deputy general manager of the sales department will adjust the draft price list more frequently to reflect the market conditions. Upon approval, the price list shall be announced internally. Any deviation from the price list shall be separately approved by the general manager and the executive deputy general manager of the sales department, as well as the chairman of the Board;

LETTER FROM THE BOARD

- (2) the finance department of the Company shall provide the monthly caps, calculated pursuant to the Annual Caps, to the sales departments of the Company, which will keep track of the actual transaction sum of the contracts of the Continuing Connected Transactions under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement from time to time and will submit a report to the finance department when the actual transaction amounts may exceed the monthly caps. The finance department will also monitor the aggregate value of the Continuing Connected Transactions on a monthly basis and ensure it will not exceed the Annual Caps;
- (3) prior to executing any contract of the Continuing Connected Transactions, such contract, including its transaction value and terms, will be provided by the sales department of the Company to the finance department for their review. Such contract will not be executed unless and until the finance department has confirmed that the aggregate value of the transaction sums under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement will not exceed the Annual Caps and the terms of such contract are in compliance with the terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement. If it is contemplated that the Annual Caps will be exceeded as a result of entering into the relevant contracts, such transaction will not be entered into until the Company has complied with the relevant requirements under the Listing Rules;
- (4) the Board will continue to periodically review the Company's internal control systems and their effectiveness, as well as the pricing policy in order to keep it fair and reasonable; and
- (5) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the Annual Caps in accordance with the requirements of the Listing Rules.

F. EGM

The Company proposes to seek the approvals of the Independent Shareholders at the EGM relating to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

As at the Latest Practicable Date, the Holding Company held approximately 63.45% of the total issued Shares, and Mr. Zhang Shiping and Ms. Zhang Hongxia held approximately 0.44% and 1.48%, respectively, of the total issued Shares. To the best of the knowledge and belief of the Directors, none of the Holding Company, Mr. Zhang Shiping and Ms. Zhang Hongxia, has any associate (other than amongst themselves) who is a Shareholder.

According to the Listing Rules, the Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors, are considered to be parties acting in concert with the Holding Company and hold approximately 31.59% (directly and indirectly) and 9.73% (directly and indirectly) of the equity interests in the Holding Company, respectively, and will also abstain from voting at the EGM.

LETTER FROM THE BOARD

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 Continuing Connected Transactions, and no Shareholder is required to abstain from voting to approve the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement or the Annual Caps at the EGM.

The votes to be taken at the EGM in relation to the resolution for approval by the Independent Shareholders of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) will be taken by poll.

The Independent Board Committee will advise the Independent Shareholders in relation to their voting on the resolution relating to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

The relevant forms of proxy and reply slips for attending the EGM are enclosed. Shareholders who intend to attend the EGM are required to complete and return the reply slips to the Company on or before Thursday, 7 December 2017.

The holders of H Shares of the Company should note that the register of members of the Company will be closed from Monday, 27 November 2017 to Wednesday, 27 December 2017 (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 Friday, 24 November 2017.

G. RECOMMENDATION

The Board is of the opinion that the terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Caps) are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders vote in favour of the resolution set out in the notice of the EGM for the approval of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Caps). The Board is also of the view that Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group, and that the terms, as well as the Annual Caps applicable thereto, are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong, being Directors having material interest in the transactions under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, have abstained from voting in the board resolution in relation to the resolution set out in the notice of EGM.

LETTER FROM THE BOARD

H. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Wang Naixin, Mr. George Chan Wing Yau and Mr. Chen Shuwen, has been formed to advise the Independent Shareholders in relation to their voting on the resolution in respect of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

I. GENERAL INFORMATION

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

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 Appendix to this circular.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

10 November 2017

To the Independent Shareholders

Dear Sir or Madam,

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 Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps), details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 10 November 2017 (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 Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the Annual Caps) and the advice and opinion of First Shanghai in relation thereto as set out on pages 13 to 25 of the Circular, we are of the opinion that (i) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement was entered into in the ordinary and usual course of business with normal commercial terms; and (ii) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,

Independent Board Committee

George Chan Wing Yau

Independent non-executive

Director

Wang Naixin

Independent non-executive

Director

Chen Shuwen

Independent non-executive

Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser setting out its opinion regarding the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including the renewal of Annual Caps), for the purpose of inclusion in this circular.



19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

10 November 2017

*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,

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 the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps), details of which are contained in the circular to the Shareholders dated 10 November 2017 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

As set out in the “Letter from the Board” of the Circular, the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement will expire on 31 December 2017. The parties to the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement have agreed to renew the term of the transactions contemplated thereunder and on 17 October 2017, the Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement with the Holding Company for a term of three financial years (the “**Year(s)**”)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

commencing on 1 January 2018 and ending on 31 December 2020 (both dates inclusive), pursuant to which the Company will continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group. Terms and conditions of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are basically the same as those of the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement.

IMPLICATIONS UNDER 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.

As at the Latest Practicable Date, the Holding Company held approximately 63.45% of the total issued Shares, and Mr. Zhang Shiping and Ms. Zhang Hongxia held approximately 0.44% and 1.48%, respectively, of the total issued Shares. To the best of the knowledge and belief of the Directors, none of the Holding Company, Mr. Zhang Shiping and Ms. Zhang Hongxia, has any associate (other than amongst themselves) who is a Shareholder.

According to the Listing Rules, the Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being Directors, are considered to be parties acting in concert with Holding Company and hold approximately 31.59% (directly and indirectly) and 9.73% (directly and indirectly) of the equity interests in the Holding Company, respectively, and will also abstain from voting at the EGM.

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 Continuing Connected Transactions, and no Shareholder is required to abstain from voting to approve the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement or the Annual Caps at the EGM.

The Company proposes to seek the approval of the Independent Shareholders at the EGM relating to the Continuing Connected Transactions (including renewal of the Annual Caps). 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

An Independent Board Committee comprising Mr. Wang Naixin, Mr. Chen Shuwen and Mr. George Chan Wing Yau, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps).

As the Independent Financial Adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Continuing Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

renewal of the Annual Caps) are conducted in the ordinary and usual course business of the Group, and terms of which are 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; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolution(s) to be proposed for approving the Continuing Connected Transactions to be contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps) at the EGM.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management, for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

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

The Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by the Company for one occasion, which was mainly relating the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for the renewal of continuing connected transactions of the Company in relation to supply of excess electricity, as detailed in the circular of the Company dated 26 November 2016. Given (i) our independent role in that previous engagement; (ii) none of the members of our parent group is a direct party to the Supply of Excess Electricity Agreement under that previous engagement; and (iii) our fees for that present engagement in addition to this previous engagement represented an insignificant percentage of revenue of our parent group, we consider that the previous engagement would not affect our independence to form our opinion in respect of the Continuing Connected Transactions to be contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Continued Connected Transactions pursuant to the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps), we have taken into consideration the following principal factors:

1. Background information of the Group

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

2. Background information of the Parent Group

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. As at the Latest Practicable Date, the Holding Company holds 757,869,600 Domestic Shares, representing approximately 63.45% of the entire issued Shares.

3. Reasons for entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement

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

Based on our review of the annual reports of the Company (the “**Annual Report(s)**”) for the past few years, 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 the sale to independent third parties. The Parent Group had been one of the Group’s major and stable customers for cotton yarn/grey fabric and denim, but the reliance level has been diminishing in the recent years. Based on the Annual Report for the Year 2016 (the “**2016 Annual Report**”) and its interim report for the six months ended 30 June 2017 (the “**2017 Interim Report**”), sales to the Parent Group accounted for approximately 11.0%, 2.7% and 2.5% of the Group’s total sales revenue for each of the two Years 2015 and 2016 and the six months ended 30 June 2017, 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) and falling within the ordinary and usual course business of the Group, 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 from the Holding Company in addition to its other independent third party customers and a relatively stable profit rate, and therefore is of commercial benefit to the Group as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above, we consider that the entering into of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps) 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.

4. Major terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement

Transaction nature

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

On 17 October 2017, the Company and the Holding Company entered into the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement with a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive).

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 from 2015 to 2017, 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 independent review of those sales invoices/contracts, 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 so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole notwithstanding the connected relationship between the Group and the Parent Group.

Payment terms

In respect of the payment terms, the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement provides that the Company would, on the last business day of each calendar month, prepare an account book of the relevant costs/expenses that shall be paid by the Holding Company for that month. The expenses undue shall not be included in such account book. The Holding Company shall, within the first ten (10) business days of the following month, pay the amount due in full.

Based on our independent review of the 2016 Annual Report and the 2017 Interim Report, we noted that the Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers who have a long-term relationship with the Group, 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 valuable 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 so far as the Independent Shareholders are concerned.

Termination and renewal

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above facts and consideration, we consider that the major terms of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement are on 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.

5. Basis for determination of the Annual Caps

The historical transaction values (exclusive of VAT) of the cotton yarn/grey fabric and denim supplied by the Group to the Parent Group and the annual caps under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for the two Years 2015 and 2016 and the Year ending 31 December 2017 are as follows:

(i) *Historical transaction amounts*

	For the Years ended/ending 31 December					
	Increase/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	2015 RMB'000	from 2014 %	2016 RMB'000	from 2015 %	2017 RMB'000	from 2016 %
Historical annual caps	1,917,380	(37.9)	2,876,060	50.0	3,163,670	10.0
Actual/estimated transaction value of cotton yarn/grey fabric and denim supplied by the Group to the Parent Group	1,372,536	42.0	382,080	(72.2)	454,320 <i>(Note 1)</i>	18.9
Utilisation rate of the historical annual caps (%)	71.6%		13.3%		14.4%	
Total revenue of the Group	12,498,205	11.5	14,175,446	13.4	N/A <i>(Note 2)</i>	
Proportion of revenue from the Parent Group to the total revenue of the Group (%)	11.0%		2.7%		N/A	

Notes:

- For the nine months ended 30 September 2017, the aggregate transaction value of supply of the cotton yarn/grey fabric and denim by the Group to the Parent Group amounted to approximately RMB340,740,000. The Directors currently estimate that the aggregate transaction value of supply of the cotton yarn/grey fabric and denim for the year 2017 will be approximately

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RMB454,320,000 (i.e. RMB340,740,000 x 12/9 months) (exclusive of VAT), which was calculated by annualising the actual transaction value for the nine months ended 30 September 2017.

2. The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2017.

Based on our discussion with the Management, we understand that the Group's supply of cotton yarn/grey fabric and denim to the Parent Group was generally stable on a monthly basis and were not subject to any particular seasonality factors and significant fluctuation during a Year.

For each of the two Years 2015 and 2016 and the first nine months ended 30 September 2017, the values of the aggregate supply of the cotton yarn/grey fabric and denim by the Group to the Parent Group amounted to approximately RMB1,372.5 million, RMB382.1 million and RMB340.7 million (exclusive of VAT), respectively. 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 2017 will amount to approximately RMB454.3 million (exclusive of VAT). The Group's historical actual transaction values of the aggregate supply of the cotton yarn/grey fabric and denim to the Parent Group for each of the three Years ended/ending 31 December 2015 to 2017 accounted/would account for an utilisation rate of approximately 71.6%, 13.3% and 14.4%, respectively, when compared to the annual caps previously set under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for the same period.

(ii) *The Annual Caps*

Set out below are the Annual Caps (exclusive of VAT) of the cotton yarn/grey fabric and denim to be supplied by the Group to the Parent Group under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement, which are estimated to be payable by the Parent Group to the Group for the three Years from 2018 to 2020:

	For the Years ending 31 December					
	Increase		Increase		Increase	
	2018	from 2017	2019	from 2018	2020	from 2019
	RMB'000	%	RMB'000	%	RMB'000	%
The proposed Annual Caps	599,700	32.0	791,610	32.0	1,044,920	32.0

We note that the Annual Caps represent considerable increases as compared to the historical transaction amounts for each of the two Years 2015 and 2016 and the nine months ended 30 September 2017.

As mentioned in the "Letter from the Board" of the Circular, the Annual Caps for each of the three Years from 2018 to 2020 are determined with reference to: (i) the annual growth rate of approximately 19% from the Year 2016 to the Year 2017, which was calculated by annualising the actual transaction value for the nine months ended 30 September 2017; and (ii) an extra expected annual growth rate of 10% in consideration of the year-on-year growth rate

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of 7.3% in the retail sales of apparel, footwear, headwear and knitwear in the PRC for the first eight months ended 31 August 2017, announced by the 中華人民共和國國家統計局 (National Bureau of Statistics of the PRC) at website address: www.stats.gov.cn.

In assessing the fairness and reasonableness of the proposed Annual 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 RMB454.3 million (i.e. RMB340,740,000 x 12/9 months) for the whole Year of 2017 on the basis of the actual transaction amount of approximately RMB340.7 million for the nine months ended 30 September 2017; (ii) an expected annual growth rate of approximately 19.0% in the coming three Years from 2018 to 2020, which was made reference to the Group's above annualised transaction values of approximately RMB454.3 million for the whole Year 2017 when compared to that of approximately RMB382.1 million for the Year 2016 (i.e. RMB340,740,000 x 12/9 months = RMB454,320,000, minus RMB382,080,000, then divided by RMB382,080,000 x 100%); and (iii) an additional growth rate of approximately 13.0% as a reasonable buffer for accommodating any unanticipated demand for cotton yarn/grey fabric and denim with reference to the year-on-year increase of approximately 7.3% in the retail sales of apparel, footwear, headwear and knitwear in the PRC for the first eight months ended 31 August 2017.

The Management further advised that the Company basically has not taken into account the actual transaction amount for the Year 2015 under the Old Cotton Yarn/Grey Fabric and Denim Supply Agreement for determination of the Annual Caps for the coming three Years from 2018 to 2020, because the transaction activities between the Group and the Parent Group during the Year 2015 were favourably affected by the recovering market condition of textile market in China as a result of the positive influence of the Central Government's cotton direct subsidy policies promulgated since September 2014, which had narrowed down the difference between international and domestic cotton prices, and in turn had positively stimulated the market demand for textile end-products and increased the demand for the Group's cotton yarn/grey fabric and denim; and therefore did not fairly reflect the demand of the Parent Group under normal market condition. Based on our independent review of the Group's past records in such respects, we have noted that, as disclosed in the Annual Reports, 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 the Year 2005 to the record high of approximately RMB1,419.2 million in the Year 2008, but subsequently dropped to the recent low of approximately RMB382.1 million in the Year 2016. However, the Directors are confident that the Group's operating performance will gradually be able to improve in the coming years, in view of the currently anticipated recovering market condition of textile market in China and overseas countries, which will 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 review of the Annual Reports for the past ten Years, by taking an average of the historical actual transaction values between the Group and the Parent Group, which had amounted to approximately RMB988.2 million over the same period. On such basis, we concur with the Directors' estimate that the Annual Caps of approximately RMB1,044.9 million to be attained in the Year 2020 shall not be too aggressive, and

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accordingly, consider that the Annual Caps for the coming three Years from 2018 to 2020 in the amounts of approximately RMB599.7 million, RMB791.6 million and RMB1,044.9 million, respectively, shall be prudent, justifiable, fair and reasonable.

Based on our independent research for the price information published by the China Cotton Association, the average cotton price in China has been fluctuating considerably from RMB19,455 per ton in February 2014 to RMB11,885 per ton in March 2016 (i.e. an obvious decrease by about 38.9%) over the past almost four Years from 2014 up to October 2017; but well recovered to RMB15,989 per ton in October 2017 (i.e. an obvious increase by about 34.5%) whilst a relatively stable cotton price level is generally anticipated in the market, which the Directors consider the Chinese textile enterprises (i.e. like the Parent Group) will be better controlling their cost of production, and hence stimulating stable and even greater demand for the Group's cotton yarn/grey fabric and denim by the Parent Group during the period and in the coming years. Based on our review of the 2017 Interim Report, the Group's sales of textile products to the Parent Group for the six months ended 30 June 2017 had considerably increased by approximately 33.1% over that of the corresponding period in Year 2016, which is closely comparable to the Group's expected annual growth rate of about 32.0% in the Annual Caps for the three Years from 2018 to 2020, accordingly, the Directors are very optimistic about the sales revenue growth between the Group and the Parent Group in the coming Years from 2018 to 2020, in view of the anticipated recovering domestic and international textile markets.

We also noted from an official and regular news publication with heading of "Total Retail Sales of Consumer Goods in October 2017" released by 中華人民共和國國家統計局 (National Bureau of Statistics of the PRC) on 19 October 2017 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 apparel, footwear, headwear and knitwear in the PRC recorded a year-on-year growth of approximately 9.8%, 7.0%, 7.3% and 7.2% for each of the two Years 2015 and 2016 and the eight/nine months ended 31 August/30 September 2017, respectively. Given the facts that the above statistical information is (i) officially and regularly published by a competent government authority in the PRC specializing in gathering, collecting and publishing statistical data/information; and (ii) closely relating to the Group's supply of cotton yarn/grey fabric and denim to the Parent Group, which are the primary materials for producing end products to be launched to the retail apparel and knitwear market, we do not cast doubt on such statistical information to be reliable, accurate and relevant to support our analysis for and view on the year-on-year growth in the Group's sales of textile products to the Parent Group in the coming years. With reference to such statistical information and in consideration of the aforementioned estimated annualised growth rate of approximately 19.0% 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 2017, we thus consider the above annual growth rate of 32.0% in the Annual Caps for Years 2018 to 2020 is prudent and justifiable.

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Having considered the above, we are of the view that the basis adopted by the Management in determining the Annual 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 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 Caps as discussed above.

6. Compliance requirements 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 Old Cotton Yarn/Grey Fabric and Denim Supply Agreement, which will fully be extended to and applicable for 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), details of which are as follow:

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

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

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

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 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 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.

In fact, according to the 2016 Annual Report, the Company had confirmed that an annual review of the Continuing Connected Transactions for the year ended 31 December 2016 had been conducted by the independent non-executive Directors and the auditors of the Company, in compliance 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 from 2018 to 2020;
- 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 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,

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we consider that the Continuing Connected Transactions contemplated under the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps) is conducted in the ordinary and usual course of business of the Group, the terms of which are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement (including renewal of the Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Fanny Lee

Nicholas Cheng

Managing Director

Director

Note:

Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO and have over 15 years of experience in corporate finance industry. Both of them have participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executive's Interests in the Company

As at the Latest Practicable Date, the interests of the Directors, supervisors or chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the Domestic Shares:

	Type of interest	Number of Domestic Shares <i>(Note 1)</i>	Approximate percentage of total issued Domestic Share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Zhang Hongxia <i>(Executive Director/Chairman)</i>	Beneficial interests	17,700,400	2.27	1.48
Zhang Shiping <i>(Non-executive Director)</i>	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 associated corporation	Type of interest	Approximate percentage of total issued share capital (%)
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 Sunwen (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 will be beneficially owned by Ms. Zhang Hongxia, who is taken to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen, under the SFO.

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

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 any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions

which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to any Directors, supervisors or the chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Interests in the Domestic Shares:

Name of shareholders	Number of Domestic Shares <i>(Note 1)</i>	Approximate percentage of total issued domestic share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
the Holding Company	757,869,600 (Long position)	97.07	63.45
Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment")	757,869,600 (Long position) <i>(Note 2)</i>	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 (%)	Approximate percentage of total issued share capital (%)
Brandes Investment Partners, L.P.	Investment manager	69,693,852 (Long position) (Note 4)	16.85	5.84

Note 1: Unlisted shares.

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

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

Note 4: According to the disclosure of interest published on the website of the Stock Exchange by Brandes Investment Partners, L.P., these 69,693,852 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Save as disclosed above, so far as known to the Directors, supervisors and the chief executive of the Company, as at the Latest Practicable Date, there was no other person (not being a director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

5. SERVICE CONTRACTS

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

6. COMPETING INTEREST

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

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2016, being the date to which the latest audited financial statements of the Group were made up.

8. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualifications
First Shanghai Capital Limited	a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity

First Shanghai has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, (i) First Shanghai had no interest, either direct or indirect, in any assets which have been, since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) First Shanghai had no shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate any persons to subscribe for securities of any members of the Group.

10. MISCELLANEOUS

- (i) The registered office of the Company is at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC.
- (ii) The address of the head office of the Company is No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping County, Shandong Province, the PRC.
- (iii) The principal place of business of the Company in Hong Kong is Suite 5109, The Center, 99th Queen's Road Central, Central, Hong Kong.
- (iv) The Company's H share registrar and transfer office in Hong Kong is at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (v) The secretary of the Company is Mr. Zhang Jinglei, who was accepted by Stock Exchange as an individual who meets the requirements of a secretary under Rule 8.17 of the Listing Rules.

- (vi) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS FOR INSPECTION

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

- (a) the articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (c) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 13 to 25 of the circular;
- (d) the written consent from the Independent Financial Adviser;
- (e) the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement; and
- (f) this circular.

NOTICE OF THE EGM



魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Weiqiao Textile Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be convened and held at 9:00 a.m. on Wednesday, 27 December 2017 at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Zouping Economic Development Zone, Zouping County, Shandong Province, the People’s Republic of China (the “**PRC**”), to consider and, if thought fit, approve the following:

AS ORDINARY RESOLUTION

“**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 Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the “**Holding Company**”, collectively with its subsidiaries (excluding the Group), the “**Parent Group**”) on 17 October 2017 be and is hereby approved and confirmed;
- (b) the estimated maximum values of the annual aggregate supply of cotton yarn/grey fabric and denim by the Group to the Parent Group (as set out in the announcement of the Company dated 17 October 2017) for each of the three years ending 31 December 2020 (the “**Annual Caps**”) be and are hereby approved and confirmed; and

NOTICE OF THE EGM

- (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 Caps.”

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

10 November 2017
Shandong, the PRC

As at the date of this notice, the board of directors of the Company comprises nine directors, namely Ms. Zhang Hongxia, Ms. 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. Chen Shuwen and Mr. George Chan Wing Yau as independent non-executive directors.

Notes:

- (A) A circular containing, among others, (i) further details of the Renewed Cotton Yarn/Grey Fabric and Denim Supply Agreement and the Annual Caps; (ii) the letter from the independent board committee to the independent shareholder; and (iii) the letter of advice from the independent financial adviser to the independent board committee and the independent shareholders has been despatched to the shareholders on 10 November 2017.
- (B) The H share register of the Company will be closed from Monday, 27 November 2017 to Wednesday, 27 December 2017 (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 Friday, 24 November 2017, 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 Friday, 24 November 2017.

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
Wan Chai
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 not later than 20 days before the date of the EGM, i.e. on or before Thursday, 7 December 2017.

NOTICE OF THE EGM

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 Road
Zouping Economic Development Zone
Zouping County
Shandong Province
The PRC
Tel: 86 (543) 4162222
Fax: 86 (543) 4162000

- (D) The resolution 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof 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 (D) to (E) also apply to holders of domestic shares, except that the proxy form or other documents of authority must be delivered to the Office of the Secretary to the board of directors, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.
- (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.

* *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).*