
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.

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魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

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



A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in connection with the Supply of Excess Electricity Agreement and the Excess Electricity Supply Transactions, is set out on page 14 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 Supply of Excess Electricity Agreement and the Excess Electricity Supply Transactions is set out on pages 15 to 33 of this circular.

A notice dated 11 November 2016 convening the EGM to be convened and held on 28 December 2016 (Wednesday) at 9:00 a.m. at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC is set out on pages 40 to 43 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 has 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 8 December 2016 (Thursday) in accordance with the instructions printed thereon.

29 November 2016

* 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 29 November 2016 to 28 December 2016

EGM 9:00 a.m. 28 December 2016

Register of members of the Company re-opens 29 December 2016

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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 maximum aggregate annual transaction values under the Supply of Excess Electricity Agreement for the three years ending 31 December 2019 which are set out in this circular
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“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
“connected person(s)”	has the meanings ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company to be convened and held on 28 December 2016 for the Independent Shareholders to consider and, if thought fit, approve the Excess Electricity Supply Transactions (including the Annual Caps)
“Excess Electricity Supply Transactions”	the continuing connected transactions contemplated under the Supply of Excess Electricity Agreement
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holding Company”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC on 14 April 1998, being a promoter and 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 of all the independent non-executive Directors to advise the Independent Shareholders on the Excess Electricity Supply Transactions (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 SFO, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Excess Electricity Supply Transactions (including the Annual Caps)
“Independent Shareholders”	the Shareholders other than Holding Company, Mr. Zhang Shiping and Ms. Zhang Hongxia
“Latest Practicable Date”	25 November 2016, 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 Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 1 November 2013 with a term of three years commenced on 1 January 2014 and ending on 31 December 2016
“Parent Group”	Holding Company, its subsidiaries and associates (excluding the Group)
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Supply of Excess Electricity Agreement”	the supply of excess electricity agreement entered into between the Company and Holding Company on 26 October 2016 for the supply of electricity, which are in excess of the actual electricity consumed, by the Group to Parent Group for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive)
“VAT”	value added tax at the rate of 17%

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.

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
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
Hong Kong

29 November 2016

To the Shareholders

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

A. INTRODUCTION

Reference is made to the announcements of the Company dated 1 November 2013, 23 March 2015 and 26 October 2016, respectively. The Old Supply of Excess Electricity Agreement will expire on 31 December 2016. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the term of transactions and on 26 October 2016, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2017 and ending on 31 December 2019 pursuant to which the Group will supply excess electricity to Parent Group.

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The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim and was the largest textile manufacturer in the PRC. As disclosed in the annual reports and the 2016 interim report of the Company, revenue generated from the sales of textile products were RMB13,880,642,000, RMB11,211,146,000, RMB9,765,478,000, and RMB4,380,098,000, respectively, for the three years ended 31 December 2015 and the six months ended 30 June 2016. During the process of production of cotton yarn, grey fabric and denim, electricity and steam are needed. As disclosed in the circular of the Company dated 16 August 2005, the Group acquired certain thermal power assets from the Holding Company. Such thermal power assets generate excess electricity other than electricity that meets the Group's own demand. In order to ensure the high operation efficiency of such thermal power assets, the Company has provided the excess electricity to Parent Group and independent third parties since 2005. For the three years ended 31 December 2015 and the six months ended 30 June 2016, the Group's gains generated from sales of electricity were RMB2,263,939,000, RMB2,104,800,000, RMB2,732,727,000, and RMB1,554,043,000, respectively. The current customers of sales of excess electricity by the Group include stores, large shopping malls and industrial enterprises located in the coverage of the Group's power grid. For the three years ended 31 December 2015 and six months ended 30 June 2016, the proportions of the Group's external sales of excess electricity were approximately 62%, 65%, 72% and 77% of the total electricity generated by the Group, respectively. The substantial amount of the excess electricity generated by the Group was sold to Parent Group during the same period as Parent Group had a substantial and stable demand of electricity, which had been increasing due to its expansion into the downstream industrial chain of deep processing of textile. The Company believes that the establishment of long-term cooperation with Parent Group will stabilize the Group's operation and ensure a broaden stream of revenue source and a relatively stable profit which is of commercial benefit to the Company and the Shareholders as a whole.

Reference is also made to the circular of the Company dated 24 March 2016 in relation to the acquisition of additional thermal power assets with an expected capacity of 1,320 MW. With a view to further increase the revenue and profit of the Company, the Company conducted the above mentioned acquisition to further enhance its electricity capacity.

Holding Company currently holds 757,869,600 Domestic Shares, representing approximately 63.45% of the total issued Shares. As Holding Company is a substantial shareholder, it constitutes a connected person of the Company under the Listing Rules.

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

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

The Board (excluding Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong, who have abstained from voting on the Board resolution of the Company in respect of the Excess Electricity Supply Transactions due to their equity interests in Holding Company, and the members of the Independent Board Committee, the opinion of which, after taking into account of the advice from the Independent Financial Adviser, is included in the section "Letter from the Independent Board Committee" in this circular) is of the

LETTER FROM THE BOARD

view that the Supply of Excess Electricity Agreement and the transactions contemplated thereunder (i) have been entered into in the ordinary and usual course of business of the Group, (ii) are on normal commercial terms and (iii) as well as the Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with information regarding the resolution to be approved at the EGM relating to the Supply of Excess Electricity Agreement, the Excess Electricity Supply Transactions, and the Annual Caps.

B. THE SUPPLY OF EXCESS ELECTRICITY AGREEMENT

1. Date

26 October 2016

2. Parties

(a) the Company; and

(b) Holding Company.

3. Transaction nature

Supply of electricity by the Group, which will be in excess of the Group's actual electricity consumption, to Parent Group for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive).

4. Pricing basis

The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is determined based on the price of raw coal procured by the Group in September 2016. Accordingly, the benchmark price of excess electricity to be supplied to Parent Group by the Group shall be RMB0.37 per kWh (VAT inclusive).

Under the Old Supply of Excess Electricity Agreement, the price of excess electricity supplied to Parent Group by the Group was RMB0.50 per kWh (VAT inclusive) or the market price (VAT inclusive) from time to time at which power plants in Shandong Province, the PRC, would sell electricity produced to the relevant power grid in Shandong Province, the PRC, whichever is the higher. The aforesaid market price (VAT inclusive) was determined with reference to the average price (VAT inclusive) charged by key power plants in Shandong Province, the PRC, for supply of electricity to the relevant local power grid according to information published on the website of Shandong Price Bureau.

Procurement cost of raw coal is a major cost for electricity generation and will account for approximately 80% of the total cost incurred for electricity generation. The price of raw coal may be materially affected by the governmental policies and market demand in the PRC. Based on the

LETTER FROM THE BOARD

information available to the Company, the price of raw coal increased from approximately RMB348 per ton (VAT inclusive) to RMB491 per ton (VAT inclusive) from July to October in 2016. The price of raw coal procured by the Group in September 2016 is the latest price at the time of execution of the Supply of Excess Electricity Agreement, which better reflected the up-to-date market condition of raw coal at that time.

The benchmark price of excess electricity, RMB0.37 per kWh (VAT inclusive) or approximately RMB0.32 (VAT exclusive), is determined on a cost-plus basis. The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins for the six years ended 31 December 2015. Such market-oriented pricing mechanism will be applied to all the direct-sale electricity customers of the Group, including Parent Group and independent third parties. Under the new pricing basis, notwithstanding the fluctuation of the price of raw coal affecting the cost of electricity generation, the fixed gross profit to be gained from the sales of excess electricity to direct-sale customers (including Parent Group and independent third parties) will basically remain the same. The adoption of such approach can help minimize the adverse effect caused by the price fluctuation of raw coal and ensure a fixed gross profit for the Group. With the expansion of the electricity sales business of the Group, the Company wishes to adopt the new pricing mechanism which is more market-oriented and will better reflect the fluctuation of the market price of raw coal from time to time.

Based on the above, the Board considers that as the price of raw coal is materially affected by the governmental policies and market demand in the PRC and is fluctuating largely in nature, the Company adopted the pricing basis under the Supply of Excess Electricity Agreement to reflect the fluctuated price of raw coal on a monthly basis and the Group will be able to gain a stable gross profit from excess electricity due to the cost-plus basis of the price of excess electricity. Since such pricing mechanism (cost plus fixed gross profit) will also be applied to direct sales of excess electricity to independent third parties, the Board believes such pricing mechanism can ensure that the Excess Electricity Supply Transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

If any applicable mandatory price for the supply of electricity is prescribed by the PRC government under relevant PRC laws and regulations in the future, the Group would adopt such price since it is mandatory with no choice. The Directors believe that with the deeper reform of the electricity industry and gradually open regulatory policies of sales of electricity, the sales price of electricity in the PRC will be more market-oriented. The Company and Holding Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal.

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5. Payment terms

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

6. Termination and renewal

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

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

7. Maximum aggregate annual value

Set out below are the maximum aggregate annual values for electricity (excluding VAT) for the excess electricity to be supplied under the Supply of Excess Electricity Agreement which are estimated to be payable by Parent Group to the Group for each of the three financial years ending 31 December 2019:

	Financial year ending		
	31 December 2017	31 December 2018	31 December 2019
	(RMB)	(RMB)	(RMB)
Expected transaction value	3,022,223,000 ¹	3,022,223,000 ¹	3,022,223,000 ¹
Expected volume of electricity (kWh)	6,800,000,000	6,800,000,000	6,800,000,000

Note 1: The maximum aggregate annual transaction values for the three years ending 31 December 2019 are determined with reference to the followings:

- (i) the expected excess electricity to be supplied for the year ending 31 December 2017 is estimated to be approximately 6,800,000,000 kWh at an expected growth rate of approximately 5% over the expected aggregate excess electricity to be purchased by Parent Group from the Group for the year ending 31 December 2016 amounting to approximately 6,448,164,000 kWh. Such growth rate is determined with reference to the expected growth in electricity consumption due to an expected slight production growth of Parent Group in the downstream textile industry. Such production growth of Parent Group will be attributed to its sales promotion of brand “Xiang Shang” (向尚), a sports brand established in July 2015, which is expected to become a key brand of Parent Group. As the production capacity of Parent

LETTER FROM THE BOARD

Group is expected to remain stable for the two years ending 31 December 2019, the maximum transaction annual values for the two years ending 31 December 2019 are estimated to be the same with that for the year ending 31 December 2017; and

- (ii) the price of raw coal is materially affected by the governmental policies in the PRC and the prices of raw coal fluctuated significantly in the past eight years. Given such circumstances and for the purpose of determining the Annual Caps, the Company decides to use the price of raw coal amounted to RMB800.00 per ton (VAT inclusive) for the calculation of unit production cost for electricity generation, which was determined with reference to the comparatively high prices of raw coal in the past eight years. The Company expects that the price of raw coal will have an increasing trend for the three years ending 31 December 2019. As such price of raw coal for calculating the Annual Caps represents approximately 76% increase compared with the benchmark price of raw coal and the gross profit to be gained by the Company basically remains the same, the estimated settlement price of excess electricity will be RMB0.15 per kWh higher than the benchmark price of excess electricity and amount to RMB0.52 per kWh (VAT inclusive) or approximately RMB0.44 per kWh (excluding VAT) based on the pricing basis set out in the Supply of Excess Electricity Agreement.

The formula for the calculation of the unit price of excess electricity is set out below:

Unit price = unit production cost (substantially composed of the procurement cost of raw coal)
+ fixed gross profit expected to be gained by the Group

The formula for the calculation of the Annual Caps is set out below:

Annual Caps = expected electricity amount to be purchased by Parent Group x unit price of excess electricity supply

The historical figures and annual caps for the electricity purchased or to be purchased by Parent Group from the Group are as follows:

	Financial year ended		Financial year ending
	31 December 2014	31 December 2015	31 December 2016
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Historical figures	1,748,676,000	2,565,567,000	2,755,626,000 ²
Annual caps	2,142,000,000	2,905,000,000	2,905,000,000
Historical purchase			
volume of electricity			
(kWh)	4,091,903,000	6,003,427,000	6,448,164,000

Note 2: The transaction value for the year ending 31 December 2016 was calculated based on the actual average monthly transaction value for the nine months ended 30 September 2016 by multiplying 12. The sales of the excess electricity to Parent Group by the Group for the three months ending 31 December 2016 is expected to be stable in comparison with the average transaction value for the nine months ended 30 September 2016.

LETTER FROM THE BOARD

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLY OF EXCESS ELECTRICITY AGREEMENT

The Company has been engaged in the business of sales of electricity for a long time. As disclosed in the circular of the Company dated 24 March 2016, as the power business expansion, the Group further acquired additional thermal power assets with a designed capacity of 1320 MW (the “**2016 Acquired Thermal Power Assets**”).

When considering to whom the sales of excess electricity will be made, the Company will take into consideration the following factors: (i) the existing power grid coverage which is key for the choice of customers; (ii) the demands of such customers and the stability of such demands; (iii) the price acceptable to both parties; (iv) transmission costs; and (v) the competition faced from other electricity suppliers.

Before such acquisition of the 2016 Acquired Thermal Power Assets, the electricity customers of the Group mainly include: (i) Parent Group; and (ii) medium and small independent third party customers, such as stores and large shopping malls. Under the Old Supply of Excess Electricity Agreement, the prices offered to Parent Group were not very competitive in comparison with the prices offered by other electricity suppliers in the place where the Group located, including relevant local power grid companies. Given the limitation on the coverage of the Group’s power grid and demands of relevant customers for electricity consumption, it was not easy for the Company to find large customers at a similar price sold to Parent Group.

After the acquisition of the 2016 Acquired Thermal Power Assets, the total power generation capacity and the power business of the Group expanded significantly. With a view to find more large and stable customers, the Group planned to adopt a cost-plus approach with an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive) (the “**New Pricing Mechanism**”) for sales to large industrial enterprises customers (with the voltage of 220kV or above) of the Group (“**Independent Third Party Large Customers**”) for the 2016 Acquired Thermal Power Assets. The prices offered by the Group to Independent Third Party Large Customers will be more competitive in comparison with the electricity prices offered by other market participants while the New Pricing Mechanism can bring about a stable gross margin profit since the 2016 Acquired Thermal Power Assets operates with high efficiency and the production cost is generally lower than other independent third party power plants near the location of the Group, which enables the Group to sell electricity at a more competitive price.

Under the New Pricing Mechanism, the gross profit to be earned from Independent Third Party Large Customers will remain basically the same as the gross profit to be earned from Parent Group. Since the demands for electricity of Parent Group and the Independent Third Party Large Customers are large and stable, the prices offered to Parent Group and the Independent Third Party Large Customers by the Group were and will be lower than those offered to other medium and small customers, both historically and in the future. Compared with Parent Group, the electricity purchased by independent third party customers accounted for a small portion of the total electricity sold by the Group. For instance, the second largest electricity customer of the Group only accounted for approximately 1.3% of the total sales of electricity by the Group for each of the two years ended 31 December 2015 and the six months ended 30 June 2016. The Directors confirmed that the prices of excess electricity sold by the Group to other medium and small independent third party customers will be close to the prevailing market price while ensuring the reasonable gross profit of the Group.

LETTER FROM THE BOARD

The demand of Parent Group is expected to remain large and stable and therefore, the excess electricity to be purchased by Parent Group under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets of the Group and thus improve operation efficiency and achieve economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional stream of income and thus enhance the profit of the Group. The sales of electricity to Parent Group accounted over 85% of total sales of electricity by the Group for the two years ended 31 December 2015 and the six months ended 30 June 2016.

Based on the above, the Board believes that the Excess Electricity Supply Transactions would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings and enhancement of the profitability of the Group.

Since the demand for electricity of Parent Group is large, any adverse change in the demands of Parent Group may cause adverse effect on the Group and this is the disadvantage for entering into the Supply of Excess Electricity Agreement. Due to the increased power generation capacity and the electricity provided to independent third parties brought by the 2016 Acquired Thermal Power Assets, the expected proportion of total supply of excess electricity to independent third parties will increase for the three years ending 31 December 2019. The electricity demands of Parent Group remained stable while the total power generation capacity of the Group increased significantly due to the acquisition of the 2016 Acquired Thermal Power Assets. Therefore, it is expected that the proportion of total supply of excess electricity to Parent Group will be less than 50% for the three years ending 31 December 2019, and hence, the Company will be less relied on Parent Group regarding the sales of excess electricity.

The Directors confirm that the slight increase in the Annual Caps was due to the increase of the operation efficiencies of the other thermal power assets and the future slight increase in the demand for electricity of Parent Group. Such increase of the Annual Caps has no relation to the acquisition of the 2016 Acquired Thermal Power Assets as all the electricity to be generated by the 2016 Acquired Thermal Power Assets will be distributed to the Independent Third Party Large Customers by different transmission lines.

The terms and conditions of the Excess Electricity Supply Transactions have been negotiated on an arm's length basis. The Board (excluding Mr. Zhang Shiping, Ms. Zhang Hongxia and Ms. Zhang Yanhong, who abstained from voting on the Board resolution of the Company in respect of the Excess Electricity Supply Transactions due to their equity interests in Holding Company, and the members of the Independent Board Committee, the opinion of which, after taking into account of the advice from the Independent Financial Adviser, will be included in the section "Letter from the Independent Board Committee" in this circular) is of the view that given that Parent Group is the largest customer of the Group and the price of excess electricity offered to Parent Group will be basically the same with Independent Third Party Large Customers of the Group, the Supply of Excess Electricity Agreement (including the pricing basis therein) and the Excess Electricity Supply Transactions have been entered into on normal commercial terms in the ordinary and usual course of business of the Group, and that the terms, as well as the Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

D. LISTING RULES IMPLICATIONS

Holding Company currently holds 757,869,600 Domestic Shares, representing about 63.45% of the total issued Shares. As Holding Company is a substantial shareholder, Holding Company constitutes a connected person of the Company under the Listing Rules.

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

E. EGM

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

As at the Latest Practicable Date, 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 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, 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 7.00% of the equity interests in Holding Company, respectively, and will also abstain from voting at the EGM.

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

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 8 December 2016 (Thursday).

F. RECOMMENDATION

The Board, including the Independent Board Committee, is of the opinion that the terms of the Supply of Excess Electricity Agreement (including the Annual Caps) are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee) recommends that the Independent Shareholders vote in favour of the resolution set out in the notice of the EGM for the approval of the Supply of Excess Electricity Agreement (including the Annual Caps). The Board is also of the view that the Excess

LETTER FROM THE BOARD

Electricity Supply 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.

G. 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 on the Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply Transactions. The Company has appointed First Shanghai to advise the Independent Board Committee and the Independent Shareholders on the Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply Transactions.

H. GENERAL INFORMATION

The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim. Holding Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth. As at the Latest Practicable Date, Holding Company was owned as to 31.59% by Mr. Zhang Shiping (directly or indirectly), as to 37.49% by other 12 individuals (including Mr. Zhang Bo, Ms. Zhang Hongxia and Ms. Zhang Yanhong) and as to 39% by Shandong Weiqiao Investment Holding Company Limited (山東魏橋投資控股有限公司), an investment holding company and in which Mr. Zhang Shiping holds 20.69% for himself and 5.17% on behalf of other 29 individuals.

I. ADDITIONAL INFORMATION

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

By order of the Board
Yours faithfully,
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)

29 November 2016

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS SUPPLY OF EXCESS ELECTRICITY

We have been appointed as members of the Independent Board Committee to consider the Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply Transactions, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 29 November 2016 (the “**Circular**”), of which this letter forms part, and to advise you as to the fairness and reasonableness of the same. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply Transactions and the advice and opinion of First Shanghai in relation thereto as set out on pages 15 to 33 of the Circular, we are of the opinion that the Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply 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 so far as the Independent Shareholders are concerned and 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 Supply of Excess Electricity Agreement (including the Annual Caps) and the Excess Electricity Supply Transactions.

Yours faithfully,

Independent Board Committee

Wang Naixin

*Independent Non-executive
Director*

Chen Shuwen

*Independent Non-executive
Director*

George Chan Wing Yau

*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 received from First Shanghai setting out its opinion regarding the Annual Caps for the continuing connected transactions in respect of Excess Electricity Supply Transactions contemplated under the Supply of Excess Electricity Agreement, for the purpose of inclusion in this circular.



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

29 November 2016

*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 EXCESS ELECTRICITY

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the renewal of Annual Caps for the Excess Electricity Supply Transactions pursuant to the Supply of Excess Electricity Agreement, details of which are contained in the circular to the Shareholders dated 29 November 2016 (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” contained in the Circular, the Old Supply of Excess Electricity Agreement will expire on 31 December 2016. The parties to the Old Supply of Excess Electricity Agreement have agreed to renew the term of the transactions and on 26 October 2016, the Company entered into the Supply of Excess Electricity Agreement with the Holding Company for a period of three years commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive), pursuant to which the Group will supply excess electricity to the Parent Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Holding Company currently holds 757,869,600 Domestic Shares, representing approximately 63.45% of the total issued Shares. As the Holding Company is a substantial Shareholder, the Holding Company constitutes a connected person of the Company under the Listing Rules.

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

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

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 Annual Caps for the Excess Electricity Supply Transactions.

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 renewal of Annual Caps for the Excess Electricity Supply Transactions are fair and reasonable 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 to be proposed for approving the Annual Caps for the Excess Supply Electricity Transactions to be contemplated under the Supply of Excess Electricity Agreement at the EGM.

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.

The Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping and Ms. Zhang Hongxia, both being the Directors, are considered to be parties acting in concert with the Holding Company and hold approximately 31.59% (directly and indirectly) and 7.00% of the equity interests in the Holding Company, respectively, and will also abstain from voting 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company 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 management of the Company, 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 two occasions, which were mainly relating the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for the (1) very substantial acquisition, very substantial disposal and renewal of continuing connected transactions of the Company (supply of cotton yarn, grey fabric and denim); and (2) proposed revision of annual caps for existing continuing connected transactions (supply of excess electricity), as detailed in the circulars of the Company dated 24 November 2014 and 17 April 2015, respectively. Given (i) our independent roles in those previous engagements; (ii) none of the members of our parent group is a direct party to the Supply of Excess Electricity Agreement; and (iii) our fees for this present engagement in addition to those previous engagements represented an insignificant percentage of revenue of our parent group, we consider that the previous engagements would not affect our independence to form our opinion in respect of the Excess Electricity Supply Transactions (including renewal of Annual Caps) to be contemplated under the Supply of Excess Electricity Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Excess Electricity Supply Transactions (including renewal of 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, sales and distribution of cotton yarn, grey fabric and denim and was the largest textile manufacturer in the PRC.

As disclosed in the annual reports of the Company (the “**Annual Report(s)**”) for the three financial years (the “**FY(s)**”) ended 31 December 2015 and its interim report for the six months ended 30 June 2016, revenue generated from the sales of textile products were RMB13,880,642,000, RMB11,211,146,000,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RMB9,765,478,000 and RMB4,380,098,000, respectively. During the process of production of cotton yarn, grey fabric and denim, power and steam are needed. As disclosed in the circular dated 16 August 2005, the Group acquired certain thermal power assets from the Holding Company. Such thermal power assets generate excess electricity, other than electricity that meets the Group's own demand. In order to ensure the high operation efficiency of such thermal power assets, the Company has provided the excess electricity to the Parent Group and independent third parties since 2005. For the three FYs from 2013 to 2015 and the six months ended 30 June 2016, the Group's revenue generated from sales of electricity amounted to approximately RMB2,263,939,000, RMB2,104,800,000, RMB2,732,727,000 and RMB1,554,043,000, respectively. The Group's current customers of sales of excess electricity include stores, large shopping malls and industrial enterprises located in the coverage of its power grid. For the three FYs from 2013 to 2015 and the six months ended 30 June 2016, the proportions of the Group's external sales of excess electricity accounted for approximately 62%, 65%, 72% and 77% of the total electricity generated by the Group, respectively. The substantial amount of the excess electricity generated by the Group has been sold to the Parent Group during the same period, as the Parent Group had a substantial and stable demand for electricity which had been increasing due to its expansion into the downstream industrial chain of deep processing of textile products. The Company believes that the establishment of long-term cooperation relationship with the Parent Group will stabilize the Group's operation, and ensure a broaden stream of revenue source and a relatively stable profit, which is of commercial benefit to the Company and the Shareholders as a whole.

Reference is also made to the circular of the Company dated 24 March 2016 in relation to the acquisition of additional thermal power assets with an expected capacity of 1,320 MW. With a view to further increase its revenue and profit, the Company conducted the above-mentioned acquisition to further enhance its electricity generating capacity.

Based on our review of the Annual Reports for the past few years, we noted that the net gain generated from sale of electricity and steam at all the times had persistently even accounted for more than the net profit attributable to the Shareholders, representing approximately 107.1%, 245.5% and 166.4% thereof for each of the three FYs from 2013 to 2015, respectively.

2. Background of the Parent Group

The Holding Company is a company incorporated in the PRC on 14 April 1998 with limited liability. The Parent Group is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth. As at the Latest Practicable Date, the Holding Company holds 757,869,600 Domestic Shares, representing approximately 63.45% of the entire issued share capital of the Company.

3. Background of and reasons for the Supply of Excess Electricity Agreement

On 26 October 2016, the Company and the Holding Company, same as the parties to the Old Supply Excess Electricity Agreement, agreed to renew the terms of the transactions and entered into the Supply of Excess Electricity Agreement for a period of three years commencing on 1 January 2017 to ending on 31 December 2019 (both dates inclusive) pursuant to which the Group will supply excess electricity to the Parent Group.

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As indicated in the “Letter from the Board” of the Circular, the Company has been engaged in the business of sales of electricity for a long time. As disclosed in the circular of the Company dated 24 March 2016, as the power business expansion, the Group further acquired additional thermal power assets with a designed capacity of 1,320 MW (the “**2016 Acquired Thermal Power Assets**”).

When considering to whom the sales of excess electricity will be made, the Company will take into consideration the following factors: (i) the existing power grid coverage which is key for the choice of customers; (ii) the demands of such customers and the stability of such demands; (iii) the price acceptable to both parties; (iv) transmission costs; and (v) the competition faced from other electricity suppliers.

Before such acquisition of the 2016 Acquired Thermal Power Assets, the electricity customers of the Group mainly include: (i) Parent Group; and (ii) medium and small independent third party customers, such as stores and large shopping malls. Under the Old Supply of Excess Electricity Agreement, the prices offered to the Parent Group were not very competitive in comparison with the prices offered by other electricity suppliers in the place where the Group located, including relevant local power grid companies. Given the limitation on the coverage of the Group’s power grid and demands of relevant customers for electricity consumption, it was not easy for the Company to find large customers at a similar price sold to the Parent Group.

After the acquisition of the 2016 Acquired Thermal Power Assets, the total power generation capacity and the power business of the Group expanded significantly. With a view to find more large and stable customers, the Group planned to adopt a cost-plus approach with an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive) (the “**New Pricing Mechanism**”) for sales to large industrial enterprises customers (with the voltage of 220kV or above) of the Group (“**Independent Third Party Large Customers**”) for the 2016 Acquired Thermal Power Assets. The prices offered by the Group to Independent Third Party Large Customers will be more competitive in comparison with the electricity prices offered by other market participants while the New Pricing Mechanism can bring about a stable gross margin profit since the 2016 Acquired Thermal Power Assets operates with high efficiency and the production cost is generally lower than other independent third party power plants near the location of the Group, which enables the Group to sell electricity at a more competitive price.

Under the New Pricing Mechanism, the gross profit to be earned from Independent Third Party Large Customers will remain basically the same as the gross profit to be earned from the Parent Group. Since the demands for electricity of the Parent Group and the Independent Third Party Large Customers are large and stable, the prices offered to the Parent Group and the Independent Third Party Large Customers by the Group were and will be lower than those offered to other medium and small customers, both historically and in the future. Compared with the Parent Group, the electricity purchased by independent third party customers accounted for a small portion of the total electricity sold by the Group, for instance, the second largest electricity customer of the Group only accounted for approximately 1.3% of the total sales of electricity by the Group for each of the two FYs 2014 and 2015 and the six months ended 30 June 2016. The Directors confirmed that the prices of excess electricity sold by the Group to other medium and small independent third party customers will be close to the prevailing market price while ensuring the reasonable gross profit of the Group.

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The demands of the Parent Group continue to be large and stable and therefore, the excess electricity to be purchased by the Parent Group under the Supply of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets of the Group and thus improve operation efficiency and achieve economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to receive an additional stream of income and thus enhance the profit of the Group. The sales of electricity to the Parent Group accounted over 85% of total sales of electricity by the Group for the two FYs 2014 and 2015 and the six months ended 30 June 2016.

Based on the above, the Board believes that the Excess Electricity Supply Transactions would be conducive to enhancing the operating efficiency and competitiveness of the Group and would result in cost savings and enhancement of the profitability of the Group.

Since the demands for electricity of the Parent Group are large, any adverse change in the demands of the Parent Group may cause adverse effect on the Group and this is the disadvantage for entering into the Supply of Excess Electricity Agreement. Due to the increased power generation capacity and the electricity provided to independent third parties brought by the 2016 Acquired Thermal Power Assets, the expected proportion of total supply of excess electricity to independent third parties will increase for the three FYs from 2017 to 2019. The electricity demands of the Parent Group remained stable while the total power generation capacity of the Group increased significantly due to the acquisition of the 2016 Acquired Thermal Power Assets. Therefore, it is expected that the proportion of total supply of excess electricity to the Parent Group will be less than 50% for the three FYs from 2017 to 2019, and hence, the Company will be less relied on the Parent Group regarding the sales of excess electricity.

The Directors confirms that the slight increase in the Annual Caps was due to the increase of the operation efficiencies of the other thermal power assets and the future slight increase in the demand for electricity of the Parent Group. Such increase of the Annual Caps has no relation to the acquisition of the 2016 Acquired Thermal Power Assets as all the electricity generated by the 2016 Acquired Thermal Power Assets will be distributed to the Independent Third Party Large Customers by different transmission lines.

Based on our independent review of the schedule and analysis for the actual/expected electricity consumption (in kWh) of the Group and the Parent Group, available electricity generating capacity (in kWh) of the Group and annual cap setting for supply of electricity for the FYs from 2013 to 2019, we noted that the percentage of supply of excess electricity to the Parent Group when comparing to the total electricity generating capacity of the Group during the years has been and will be decreasing from approximately 94.1% in 2015, 73.9% in 2016 and 48.5% for each of the three FYs from 2017 to 2019, which is consistent with Directors' previous expectation of decreasing proportion of electricity that will be sold to the Parent Group following completion of the acquisition for the four power generators as disclosed in the circular of the Company dated 24 March 2016.

As advised by the Company, the electricity produced by the Group's self-owned power plant assets very often exceeds the actual electricity consumption for its own production, and thus since 2005, the Group has continuously been selling the excess electricity produced by itself to the Parent Group. As the Old Supply of Excess Electricity Agreement will expire on 31 December 2016, the parties to the Old Supply of Excess Electricity Agreement have agreed conditionally to renew the terms of the transactions by entering into the Supply of Excess Electricity Agreement on 26 October 2016. Furthermore, as stated in the "Letter from the Board" of the Circular, the excess electricity to be purchased by the Parent Group under the Supply

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of Excess Electricity Agreement would (i) optimize the utilization of the power plant assets and thus improving operation efficiency and achieving economies of scale of the Group (by reducing the fixed costs of electricity generation); and (ii) allow the Group to generate an additional income stream and meaningful operating cash inflow and thus enhancing the net profits of the Group.

Based on our review of the Annual Reports for the past five FYs ended 31 December 2015, we noted that the Group's revenue, gross profit and gross profit margin had generally been declining over the period, its gross profit margin decreased from its peak level at approximately 8.7% in the FY 2013 to 5.7% in the FY 2015; while its net profit margin had conversely increased from approximately 4.5% in the FY 2013 to 10.0% in the FY 2015. The key contributor to this phenomenon shall be the considerable amounts of gain on sale of electricity and steam recognised in the consolidated income statements of the Group during the FYs from 2013 to 2015, which amounted to approximately RMB673.3 million, RMB756.7 million and RMB1,629.3 million, respectively; and accordingly accounted for approximately 107.1%, 245.5% and 166.4% of the net profit attributable to the Shareholders during the same period, respectively. Among the total amounts of the gain on sale of electricity and steam over the past three FYs from 2013 to 2015, the respective proportion attributable to the sale of the same to the Parent Group accounted for approximately 82.7%, 83.1% and 93.9% during the same period, whilst the much smaller remaining proportions of such electricity and steam were sold to independent third parties. Based on such scenario, it had obviously demonstrated that the gain on sale of electricity and steam derived from the Parent Group has been the essential profit driver in generating net profit to the Group, and accordingly, we consider that the entering into of the Supply of Excess Electricity Agreement is beneficial to Group and the Shareholders as a whole.

Taking into account the above, in particular, (i) the electricity produced by the Group's power plant assets very often exceeds the electricity required for its own production and the Group has been supplying excess electricity to the Parent Group since 2005; (ii) the economic benefits of the Supply of Excess Electricity Agreement would bring to the Group, including, among others, the additional source of income and operating cash inflow to be generated from the supply of excess electricity to the Parent Group; and (iii) our analysis and view on the major terms of the Supply of Excess Electricity Agreement (as explained below), we consider that the entering into of the Supply of Excess Electricity Agreement is conducted in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole.

4. Major terms of the Supply of Excess Electricity Agreement

We have reviewed the Supply of Excess Electricity Agreement and the Old Supply of Excess Electricity Agreement, and note that, other than the pricing basis, the terms and conditions under the Supply of Excess Electricity Agreement remain substantially the same as those under the Old Supply of Excess Electricity Agreement, which was approved by the then Independent Shareholders on 27 December 2013. Our analysis on major terms of the Supply of Excess Electricity Agreement is set out below.

Transaction nature

Supply of electricity by the Group, which will be in excess of the Group's actual electricity consumption, to the Parent Group for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive).

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Pricing basis

The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is determined based on the price of raw coal procured by the Group in September 2016. Accordingly, the benchmark price of excess electricity to be supplied to the Parent Group by the Group shall be RMB0.37 per kWh (VAT inclusive).

Under the Old Supply of Excess Electricity Agreement, the price of excess electricity supplied to Parent Group by the Group was RMB0.50 per kWh (VAT inclusive) or the market price (VAT inclusive) from time to time at which power plants in Shandong Province, the PRC, would sell electricity produced to the relevant power grid in Shandong Province, whichever is the higher. The aforesaid market price (VAT inclusive) was determined with reference to the average price (VAT inclusive) charged by key power plants in Shandong Province, the PRC, for supply of electricity to the relevant local power grid according to information published on the website of Shandong Price Bureau.

Procurement cost of raw coal is a major cost for electricity generation and will account for approximately 80% of the total cost incurred for electricity generation. The price of raw coal may be materially affected by the governmental policies and market supply in the PRC. Based on the information available to the Company, the price of raw coal increased from RMB348 per ton (VAT inclusive) to RMB491 per ton (VAT inclusive) from July to October in 2016. The price of raw coal procured by the Group in September 2016 was the latest price at the time of execution of the Supply of Excess Electricity Agreement, which better reflected the up-to-date market condition of raw coal at that time.

The benchmark price of excess electricity, RMB0.37 per kWh (VAT inclusive) or approximately RMB0.32 (VAT exclusive), is determined on a cost-plus basis. The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins for the past six years ended 31 December 2015. Such market-oriented pricing mechanism will be applied to all the direct-sale electricity customers of the Group, including the Parent Group and independent third parties. Under the new pricing basis, notwithstanding the fluctuation of the price of raw coal affecting the cost of electricity generation, the fixed gross profit to be gained from the sales of excess electricity to direct-sale customers (including the Parent Group and independent third parties) will basically remain the same. The adoption of such approach can help minimize the adverse effect caused by the price fluctuation of raw coal and ensure a fixed gross profit for the Group. With the expansion of the electricity sales business of the Group, it wishes to adopt the new pricing mechanism which is more market-oriented and will better reflect the fluctuation of the market price of raw coal from time to time.

Based on the above, the Board considers that as the price of raw coal is materially affected by the governmental policies and market demand in the PRC and is fluctuating largely in nature over the past few years, the Group has adopted the pricing basis under the Supply of Excess Electricity Agreement to reflect the fluctuated price of raw coal on a monthly basis, and it will be able to gain a stable gross profit from supply of excess electricity due to the cost-plus basis of the price of excess electricity. Since such pricing mechanism (i.e. cost plus fixed gross profit) will also be applied to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

direct sales of excess electricity to independent third parties, the Board believes that such pricing mechanism can ensure that the Excess Electricity Supply Transactions contemplated under the Supply of Excess Electricity Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

If any applicable mandatory price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations in the future, the Group would adopt such price since it is mandatory with no choice. The Directors believe that with the deeper reform of the electricity industry and gradually open regulatory policies of sales of electricity, the sales price for electricity in the PRC will be more market-oriented. The Company and the Holding Company agreed to adjust the benchmark price of excess electricity based on the fluctuation of actual price of raw coal, calculated at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal.

As understood from the Management, for avoidance of any doubt, in the event that the Company decides to adjust the price of excess electricity to be supplied to the Parent Group due to the fluctuation of coal prices, the above pricing principle would provide a fair and equitable mechanism for adjusting the selling price of excess electricity to more closely reflect the cost of producing such excess electricity to be supplied by the Company to the Parent Group. We have discussed with the Management in relation to the above pricing principle and concur with the Company's view that such adjustment in selling price would provide more flexibility to the Company, as it would have the discretion to adjust the price of excess electricity to be supplied to the Parent Group (i) upwards in the event of a rise in raw coal price; or (ii) downwards in the event of a drop in raw coal price, in order to maintain pricing competitiveness. We have reviewed the written electricity supply agreement entered into in May 2016 between the Group and its largest independent third party purchaser in respect of the pricing basis and price-adjusting mechanism relating to the supply of, among others, excess electricity by the Group and note that similar pricing basis and price-adjusting mechanism have also been offered by the Group to that independent third party purchaser, so we consider that such pricing basis and price-adjusting mechanism are comparable to the market practice, irrespective of whether they are connected person or independent third party. Accordingly, we consider such price-adjusting mechanism is fair and equitable for either party to the Supply of Excess Electricity Agreement, which can better protect themselves for any probable risk arising from fluctuation of raw coal prices that form a significant portion (i.e. over 80%) of the cost of production of electricity, so as to more effectively secure the expected gross profit rate of RMB0.10 per kWh (VAT inclusive), or around an overall gross profit margin of about 30% thereof, subject to fluctuation of the coal price, that can be earned by the Group from the supply of excess electricity to the Parent Group pursuant to the new Supply of Excess Electricity Agreement for the coming three FYs from 2017 to 2019. On such basis, we are of the view that the above rationale behind for determining the benchmark price of RMB0.37 per kWh (VAT inclusive) for supply of excess electricity to the Parent Group in accordance with the benchmark price of raw coal at RMB454.35 per ton (VAT inclusive) in September 2016 in conjunction with the new price-adjusting mechanism to be adopted in the Supply of Excess Electricity Agreement is beneficial to the Group and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned.

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As further advised by the Management, as at the Latest Practicable Date, there was not any applicable mandatory price for supply of electricity prescribed by the relevant government authority in the Shandong Province, the PRC.

In relation to the current price at which key power plants in Shandong Province, the PRC sell their electricity to the relevant power grid, based on our review of the information relating to the prices (the “**Power Grid Price(s)**”) for supply of electricity to power grid by key power plants in Shandong Province, the PRC published on the website of Shandong Price Bureau (www.sdwj.gov.cn) in December 2015, we note that the above selling price of RMB0.37 per kWh is slightly lower than, but closely comparable to, the current average Power Grid Prices of approximately RMB0.3823 per kWh (VAT inclusive), respectively. Furthermore, as advised by the Company, corporate users can procure electricity from the power grid in Shandong Province, the PRC as well as from local power plants and thus to keep the Company at a competitive position in supply of electricity in the locality, the Company may consider to sell its excess electricity at a price lower than the electricity price charged by the power grid in Shandong Province, the PRC. We have reviewed a sensitivity analysis for estimated cost of production of electricity provided by the Company for September 2016, the above selling price of electricity at approximately RMB0.37 per kWh (VAT inclusive) shall imply an estimated gross profit margin at around 30.0%, which is far above the actual gross profit margin of its core business operation, i.e. sale of textile products, of about 5.7% and 1.7% for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively. Taking into consideration the above factors, we are of the view that the aforesaid pricing basis is commercially justifiable, fair and reasonable and hence on normal commercial terms.

We have obtained from the Company and reviewed the sales breakdown by individual independent third party customers for the two years ended 31 December 2015 and the nine months ended 30 September 2016 (the “**Review Period**”), and note that apart from supplying the excess electricity generated by the Group to the Parent Group under the Old Supply of Excess Electricity Agreement, the Group also supplied excess electricity to a number of independent third party customers. Upon comparison of the electricity price offered by the Group to its independent third party customers and to the Parent Group during the Review Period, we note that the selling price of RMB0.50 per kWh (VAT inclusive) charged by the Group under the Old Supply of Excess Electricity Agreement to the Parent Group had usually been lower than those offered by the Company to its independent third party customers for the FY 2014, mainly because the above selling price of RMB0.50 per kWh (VAT inclusive) had already been mutually agreed and fixed on 1 November 2013 between the Company and the Parent Group with binding effect throughout the prescribed contract period commencing from 1 January 2014 to 31 December 2016, which could not be adjusted upwards/downwards to reflect the then prevailing market condition. Based on our independent review of the historical actual transaction values of electricity supplied to the Parent Group, annual cap setting analysis and cross reference to the Annual Reports, we noted that the average selling price of excess electricity per kWh (VAT inclusive) offered by the Group to its independent third party customers (i) during the FYs from 2013 to 2014 was comparatively higher at approximately RMB0.64; (ii) during the FY in 2015 was relatively comparable at RMB0.49; whilst (iii) during the nine months ended 30 September was much lower at approximately RMB0.38, mainly because the then prevailing raw coal price had been fluctuating significantly during the Review Period, which was relatively higher for the FYs 2013 and 2014 when compared to that of the period for the FY 2015 and up to September 2016.

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As advised by the Company, throughout the Review Period, the Parent Group was by far the largest purchaser of the excess electricity generated by the Group and the purchase pattern was relatively stable with much larger amount and quantities purchased for each period. We have reviewed the sales breakdown in quantity by the Parent Group and independent third party customers for the Review Period, and note that the aggregate electricity quantity sold to the Parent Group was very much larger than that sold to the Group's independent third party customers for the Review Period, and that the historical purchase quantity of electricity from the Parent Group was within a relatively larger and stable range of approximately 4.1 billion to 6.4 billion kWh per year (on an annualised basis for the year ending 31 December 2016) in comparison to a relatively lower and wider range of approximately 0.4 billion to 2.3 billion kWh per year (on an annualised basis for the year ending 31 December 2016) sold to the Group's independent third party customers. Taking into consideration the significant difference in purchase size and stability of purchase pattern between the Parent Group and the Group's independent third party customers, and as advised by the Company, the administrative costs in providing excess electricity to the Group's independent third party customers are relatively higher as compared to the Parent Group due to the need to set up additional lines for electricity transmission to independent third party customers; while such extra administration costs are to be incurred on an actual case-by-case basis so which could not be accurately quantified under a common circumstance, we are of the view that the said relatively lower price offered to the Parent Group for a certain period due to the mutually-binding effect under the Old Supply of Excess Electricity Agreement as compared to the Group's independent third party customers is commercially justifiable and 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.

Nevertheless, following the adoption of the new pricing mechanism pursuant to the Supply of Excess Electricity Agreement which is more market-oriented and will better reflect the fluctuation of the market price of raw coal from time to time, irrespective whether the contract party is a connected person (i.e. the Parent Group) or an independent third party, the Directors believe that the same situation of material deviation in selling price of excess electricity there-between shall not continue under the new Supply of Excess Electricity Agreement. In any event, the Directors confirm that the Company must ensure those selling prices of excess electricity to independent third party customers comparable to the prevailing market condition from time to time with reasonable profit margin that can be earned by the Group, which can outweigh the extra administration costs to be incurred for supplying excess electricity to them.

Payment terms

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the written electricity supply agreement entered into between the Group and its largest independent third party purchaser in respect of payment terms relating to the supply of, among others, excess electricity by the Group during the term of the Old Supply of Excess Electricity Agreement and note that the payment terms offered by the Group to the Parent Company are on normal commercial terms.

Termination and renewal

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

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

Having considered the above, in particular the fairness and reasonableness of the pricing principle, we are of the view that the terms of the Supply of Excess Electricity 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.

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5. The Annual Caps

Set out below are (i) the historical transaction amounts (excluding VAT at the rate of 17%) and volume of the Excess Electricity Supply Transactions under the Old Supply of Excess Electricity Agreement; and (ii) the maximum aggregate annual value (excluding VAT at the rate of 17%) for the excess electricity supplied under the Supply of Excess Electricity Agreement which is estimated to be payable by the Parent Group to the Company for each of the three FYs ending 31 December 2019:

(i) Historical transaction amounts/volume

	For the FY ended/ending 31 December					
	Increase/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	from		from		from	
	2014	2013	2015	2014	2016	2015
	RMB	%	RMB	%	RMB	%
Historical annual caps	2,142,000,000	10.0	2,905,000,000	35.6	2,905,000,000	0.0
Actual/estimated transaction value of electricity purchased by the Parent Group from the Group	1,748,676,000	(6.6)	2,565,567,000	46.7	2,755,626,000	7.4
Utilisation rate of the historical annual caps	81.6%		88.3%		94.8%	
Historical purchase volume of electricity by the Parent Group (kWh)	4,091,903,000	(6.6)	6,003,427,000	46.7	6,448,164,000	7.4

Note:

The estimated transaction value for the whole FY 2016 was calculated by the Company based on the actual average monthly transaction value for the nine months ended 30 September 2016 by multiplying 12 months. The sales of the excess electricity to the Parent Group by the Group for the three months ending 31 December 2016 is expected to be stable in comparison with the average transaction value for the nine months ended 30 September 2016.

Based on our discussion with Management and the Group's monthly sales breakdown to the Parent Group for the Review Period provided by the Company, we understand that the Group's sales of excess electricity to the Parent Group were generally stable on a monthly basis and were not subject to any particular seasonality factors and significant fluctuation during a FY.

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(ii) *Maximum aggregate annual value*

	For the FY ending 31 December					
	Increase		Increase		Increase	
	from		from		from	
	2017	2016	2018	2017	2019	2018
	RMB	%	RMB	%	RMB	%
	(Note 1)	(Note 2)				
Expected transaction value	3,022,223,000	9.7	3,022,223,000	0.0	3,022,223,000	0.0
Expected electricity amount (kWh)	6,800,000,000	5.5	6,800,000,000	0.0	6,800,000,000	0.0
Expected actual settlement prices of excess electricity per kWh (excluding VAT)	0.44	2.3	0.44	0.0	0.44	0.0

Notes:

1. The maximum transaction value for the three years ending 31 December 2019 is determined with reference to the followings:
 - (i) the expected excess electricity to be supplied for the year ending 31 December 2017 is estimated to be approximately 6,800,000,000 kWh at the expected growth rate of approximately 5% over the expected aggregate excess electricity to be purchased by the Parent Group from the Group for the year ending 31 December 2016 amounted to approximately 6,448,164,000 kWh. Such growth rate is determined with reference to the expected growth in electricity consumption due to an expected slight production growth of the Parent Group in the downstream textile industry. Such production growth of the Parent Group will be attributed to its sales promotion of “Xiang Shang” (向尚) brand, a sports brand established in July 2015, which is expected to become a key brand of the Parent Group. As the production capacity of the Parent Group is expected to remain stable for the two years ending 31 December 2019, the maximum transaction annual values for the two years ending 31 December 2019 are estimated to be the same as that for the year ending 31 December 2017; and
 - (ii) the price of raw coal is materially affected by the governmental policies in the PRC and the prices of raw coal fluctuated significantly in the past eight years. Given such circumstances and for the purpose of determining the Annual Caps, the Company decides to use the price of raw coal amounted to RMB800.00 per ton (VAT inclusive) for the calculation of unit production cost of electricity generation, which was determined with reference to the comparatively high prices of raw coal in the past eight years. The Company expects that the price of raw coal will have an increasing trend for the three years ending 31 December 2019. As such price of raw coal for calculating the Annual Caps represents approximately 76% increase compared with the benchmark price of raw coal and the gross profits to be gained by the Company basically remains the same, the estimated settlement prices of excess electricity will be RMB0.15 per kWh higher than the benchmark price of excess electricity and amount to RMB0.52 per kWh (VAT inclusive) or approximately RMB0.44 per kWh (excluding VAT) based on the pricing basis set out in the Supply of Excess Electricity Agreement.

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2. The increase of annual cap by approximately 9.7% for the FY 2017 when compared to that of the FY 2016 was calculated based on the actual transaction value of approximately RMB2,066,720,000 incurred for the nine months ended 30 September 2016 and then multiplied by 12 months, i.e. equal to RMB2,755,626,000.

As stated in the “Letter from the Board” of the Circular, the maximum transaction value for the excess electricity to be supplied by the Group to the Parent Group was determined with reference to the estimated volume of electricity purchased by the Parent Group from the Company for the full FY 2016, which was estimated to be approximately RMB2,755,626,000 (VAT exclusive), with an expected increase rate of approximately 9.7% for the FY 2017.

Starting from 2016, China’s economy has been developing under the new normal of “reasonable and steady growth, plus economic restructuring”, characterized by deceleration of economic growth, adjustment of economic structure and de-leveraging in the corporate sector. Based on our independent research from the official website of 中華人民共和國國家統計局 (The National Bureau of Statistics of China), according to the statistical information as extracted therefrom, the gross domestic products (the “GDP”) growth rate on an annual basis had been gradually decreasing from approximately 9.5% in 2011 to about 6.7% for the nine months up to September 2016. In respect of export of textile products and apparel, affected by weak demand in the major markets, intensified international competition and rapid development of textile products and apparel industry in neighbouring countries, exports of China’s textile products and apparel remained under pressure. According to statistics from the General Administration of Customs of the PRC, China’s total exports of textile products and apparel was approximately US\$125.0 billion in the first half of 2016, representing a year-on-year decrease of approximately 2.6%. Exports of textile products decreased by approximately 0.9% on year-on-year basis to about US\$52.4 billion, while exports of apparel decreased by approximately 3.8% on year-on-year basis to about US\$72.6 billion. Accordingly, the Directors believe that, as China transits to a new normal of economic growth model, the overall economic environment covering most of the industries in the PRC, including the downstream textile industry which the Parent Group is currently in, has been slowing down. As the production capacity of the Parent Group is expected to remain stable for the coming three FYs in 2017 to 2019, the expected electricity volume to be supplied by the Company to the Parent Group for the three FYs 2017 and 2019 are the same as that for the FY 2017 at 6,800 million kWh.

In assessing the fairness and reasonableness of setting the Annual Caps, we have discussed with the Management the basis considered in determining the Annual Caps for the three FYs of 2017 to 2019, and understand that the annual cap for the FY 2017 is mainly determined with reference to the estimated electricity consumption in kWh by the Parent Group for the whole FY 2016 with a safe buffer of approximately 5.5% for any possible increase in electricity consumption volume in the coming three FYs from 2017 to 2019. Based on the above summary, the historical actual/estimated transaction volume of electricity supplied to the Parent Group were approximately 4,091.9 million kWh, 6,003.4 million kWh and 6,448.2 million kWh for each of the three FYs from 2014 to 2016 respectively, representing (i) a compound annual growth rate of about 25.5% during the three FYs from 2014 to 2016; and (ii) an annual growth rate of about 7.4% when comparing the two FYs 2015 and 2016. The Directors believe that as China’s overall economy has been slowing down, it shall be enough to allow a safe buffer of about 5.5% increase in estimated electricity consumption volume for the coming three FYs from 2017 to 2019 when compared to that of the FY 2016. The total estimated transaction value for the full FY 2016 of approximately RMB2,755,626,000 is arrived at by

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annualizing the actual transaction value of selling excess electricity to the Parent Group of approximately RMB2,066,720,000 for the nine months ended 30 September 2016, which we consider is an appropriate and reasonable starting reference point for determination of the annual cap for the FY 2017. The actual increase in annual cap for the FY 2017 by approximately 9.7% when compared to that of the FY 2016 is mainly due to the combined effect of (i) the slight upward adjustment of unit selling price of excess electricity by approximately 2.3% from about RMB0.43 to RMB0.44 per kWh (VAT exclusive); and (ii) the above safe buffer of about 5.5% increase in estimated electricity consumption volume for the FY 2017 of 6,800 million kWh when compared to that of approximately 6,448.2 million kWh for the FY 2016. Based on our understanding from the Management, the Holding Company believes that its operating scale and production volume had already reached their peak level in the FY 2016; while it is relatively conservative about the trading prospects in the downstream textile industry, including printing and dyeing and home textile products, for the subsequent three FYs in 2017 to 2019 in view of the sluggish and uncertain economic environment all over the world, including the PRC. Accordingly, it is currently anticipated that electricity consumption at 6,800 million kWh for the Parent Group's production activities to be supplied by the Group would have no room to increase during the coming three FYs from 2017 to 2019. However, the Directors otherwise estimate that there would be a drastic increase rate of approximately 76.1% in raw coal price from RMB454.32 to RMB800.0 per ton (VAT inclusive) during the three FYs from 2017 to 2019 in view of the fact that the international thermal coal price had reached its record low for the recent past five years in 2016 and has been starting to rebound in February 2016, which would in turn lead to an increase in the Group's cost of producing electricity, and hence, the selling price of excess electricity to the Parent Group by a more drastic increase from approximately RMB0.3162 (i.e. RMB0.37/1.17, if on VAT exclusive basis) to RMB0.44 (VAT exclusive) in the FY 2017, but would remain stable in the subsequent two FYs in 2018 and 2019. On such basis, the expected transaction value of electricity to be supplied by the Group to the Parent Group for each of the FYs 2018 and 2019 would remain unchanged.

Based on our independent research from the website of Index Mundi at <http://www.indexmundi.com>, being a comprehensive data portal that gathers facts and statistics from multiple sources and turns them into easy to use visuals, for coal price tendency over the recent years, we noted that the thermal coal price has been increasing from approximately US\$53.37 to US\$78.11 per ton during the nine months from January to September 2016, representing a drastic increase by approximately 46.4% during the period. We have made cross reference with other sources, such as the websites of (i) Bloomberg L.P. at <http://www.bloomberg.com> and (ii) Trading Economics at <http://www.tradingeconomics.com/commodity/coal>, of data and/or information about the international coal price over the past few years, all of which had been showing a consistent price trend with that of Index Mundi, so we consider that Index Mundi is a reliable and representative data portal providing meaningful thermal coal information for our analysis. On such basis, we concur with the Directors' estimate that there may be possibility of raw coal price further increasing by approximately 76.1% to RMB800.0 (equivalent to approximately US\$118.52) per ton during the coming three FYs from 2017 to 2019, which we consider to be prudent and justifiable on the basis that the historical thermal coal price during the past five years had reached its record high at approximately US\$131.88 per ton in September 2011 and had gradually decreased to approximately US\$53.37 per ton in January 2016, and hence, an anticipation for a stronger rebound in raw coal price from approximately RMB454.42 (equivalent to approximately US\$67.32) to RMB800.0 (equivalent to approximately US\$118.52) per ton in the coming three FYs may not be unjustifiable.

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We have reviewed some sample purchase invoices for procuring raw coal by the Group from different suppliers during the past few months, we noted that the purchase prices (per ton and VAT inclusive) of raw coal have been significantly increasing from approximately RMB347.3 on 22 July 2016, to RMB455.0 on 27 August and 20 September 2016, to RMB595.6 on 23 October 2016 and to RMB616.0 on 2 November 2016, representing a significant increase by approximately 77.4% during these four months. Perhaps, the Directors' estimate of the highest raw coal price level at RMB800.0 (equivalent to approximately US\$118.52) per ton during the three FYs from 2017 to 2019 would still be 10.1% lower than that of approximately US\$131.88 per ton recorded in September 2011. Accordingly, the Directors' current estimate of the highest raw coal price at RMB800.0 per ton (VAT inclusive) for the coming three FYs up to the end of December 2019, which would be approximately 76.5% higher than that of the benchmark raw coal price at RMB454.35 per ton (VAT inclusive) in September 2016 shall be prudent, justifiable, fair and reasonable.

Based on our review of a sensitivity analysis for estimated cost of production of electricity provided by the Company, the cost of raw coal form a significant part of over 80% of the cost of production of electricity in September 2016 and the same cost pattern shall remain consistent in the coming future, so the Annual Caps' setting to be directly linked with the anticipation of future raw coal prices in the open market for the coming three FYs from 2017 to 2019 is fair and reasonable.

Having considered the above rationale behind and analysis, we are of the view that the basis adopted by the Management in determining the Annual Caps is prudent, justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Requirements by the Listing Rules regarding the Excess Electricity Supply Transactions

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

- (a) each year the independent non-executive Directors must review the Excess Electricity Supply Transactions and confirm in the annual report and accounts that the Excess Electricity Supply 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 favorable to the Company than the terms available to or from (as appropriate) independent third parties; and
 - in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

In light of the reporting requirements attached to the Excess Electricity Supply Transactions, in particular, (i) the restriction of the value of the Excess Electricity Supply Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Excess Electricity Supply 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 Excess Electricity Supply Transactions and safeguard the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Excess Electricity Supply Transactions pursuant to the Supply of Excess Electricity Agreement have been conducted on normal commercial terms and in the ordinary and usual course of business of the Group; and the renewal of Annual Caps for the Excess Electricity Supply Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders as well as the

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Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Excess Electricity Supply Transactions (including renewal of the Annual Caps) pursuant to the Supply of Excess Electricity Agreement.

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:

Name of Shareholders	Type of interest	Number of Domestic Shares (Note 1)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)
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) were as follows:

Name of Shareholders	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 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 will be beneficially owned by Ms. Zhang Hongxia, who is taken to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen, under the SFO.

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company nor their associates had 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) 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:

Name of Shareholders	Number of Domestic Shares (Note 1)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued share capital (%)
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 (%)	Approximate percentage of total issued share capital (%)
Brandes Investment Partners, L.P.	Investment manager	74,267,862 (Long position) (Note 4)	17.96	6.22
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	20,901,310 (Long position)	5.05	1.75
	Custodian corporation/ approved lending agent	20,811,800 (Lending pool) (Note 6)	5.03	1.74

Note 1: Unlisted shares.

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

Note 3: Shares listed on the main board of the Stock Exchange.

Note 4: These 74,267,862 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 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.

Note 6: These 20,901,310 H Shares (long 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 20,811,800 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.

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

5. SERVICE CONTRACTS

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

6. COMPETING INTEREST

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

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2015, 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 to carry out type 6 (advising on corporate finance) regulated activity under the SFO

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 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, 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, Hong Kong.
- (iv) The Company's H share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (v) The secretary of the Company is Mr. Zhang Jinglei, who was accepted by the Stock Exchange as an individual who meets the requirements of a secretary under Rule 8.17 of the Listing Rules.
- (vi) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 5109, The Center, 99th Queen's Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date of this 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 14 of this circular;
- (c) the letter from the Independent Financial Adviser issued by First Shanghai, the text of which is set out on pages 15 to 33 of this circular;
- (d) the letter of consent from First Shanghai;
- (e) the Supply of Excess Electricity Agreement and the Old Supply of Excess Electricity Agreement; and
- (f) this circular.

NOTICE OF THE EGM



魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Weiqiao Textile Company Limited (the “**Company**”) will be convened and held at 9:00 a.m. on 28 December 2016 (Wednesday) at the conference hall 401 on the Fourth Floor, Company Office Building, No. 1 Wei Fang Road, Economic Development Zone, Zouping County, Shandong Province, the People's Republic of China (the “**PRC**”) to consider and, if thought fit, approve the following ordinary resolution:

AS ORDINARY RESOLUTION

“**THAT:**

- (a) the Company's entering into of the supply of excess electricity agreement (the “**Supply of Excess Electricity Agreement**”) with Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the “**Holding Company**”) on 26 October 2016 be and is hereby approved, ratified and confirmed;
- (b) the estimated annual maximum transaction value of the supply of excess electricity by the Company and its subsidiaries (the “**Group**”) to Holding Company and its subsidiaries (excluding the Group) (as set out in the announcement of the Company dated 26 October 2016 and the circular of the Company to be despatched to the shareholders of the Company) for each of the three years ending 31 December 2019 (the “**Annual Caps**”) be and are hereby approved, ratified and confirmed; and

NOTICE OF THE EGM

- (c) any director of the Company (the “**Director**”) be and is hereby authorised to do further acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the Supply of Excess Electricity Agreement and the transactions contemplated thereunder, and the Annual Caps, with such changes as the Directors may consider necessary, desirable or expedient.”

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

11 November 2016
Shandong, the PRC

As at the date of this notice, the board of Directors 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.

NOTICE OF THE EGM

Notes:

- (A) The H Share register of the Company will be closed from 29 November 2016 (Tuesday) to 28 December 2016 (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 before 4:30 p.m. on 28 November 2016 (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 28 November 2016 (Monday).

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

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

- (B) Holders of H Shares and Domestic Shares, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the Office of the Secretary to the board of Directors not later than 20 days before the date of the EGM, i.e. on or before 8 December 2016 (Thursday).

Details of the Office of the Secretary to the board of Directors are as follows:

Fourth Floor
Company Office Building
No. 1 Wei Fang Road
Economic Development Zone
Zouping County
Shandong Province
The PRC
Tel: 86 (543) 4162222
Fax: 86 (543) 4162000

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

NOTICE OF THE EGM

- (G) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Notes (D) to (E) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the Office of the Secretary to the board of Directors, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.
- (H) If a proxy attends the EGM on behalf of a shareholder, he should produce his identity card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the EGM, such legal representative should produce his/her ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
- (I) The EGM, is expected to last not more than half a day. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.
- * *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).*