

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)

CONTINUING CONNECTED TRANSACTION (SUPPLY OF COTTON YARN AND COTTON FABRIC)

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



A letter from the Board is set out on pages 4 to 11 of this circular.

A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in connection with the Old Supply Agreement (as defined herein), the Renewed Supply Agreement (as defined herein) and the Annual Parent Cotton Yarn/Fabric Supply Cap (as defined herein) for each of the three years ending 31 December 2008 is set out on page 12 of this circular.

A letter from the Evolution Watterson Securities Limited containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Old Supply Agreement (as defined herein), the Renewed Supply Agreement (as defined herein) and the Annual Parent Cotton Yarn/Fabric Supply Cap (as defined herein) for each of the three years ending 31 December 2008 is set out on pages 13 to 17 of this circular.

The notice dated 15 January 2007 convening the EGM (as defined herein) to be convened and held on 2 March 2007 at 9:00a.m. at Room 401, Company Office Building, No.1 Weifang Road, Zouping County Economic Development Zone, Shandong Province, the People's Republic of China is set out on pages 25 to 27 of this circular. Whether or not you are able to attend the above meeting, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as practicable and in any event by not less than 24 hours before the time appointed for the holding of the meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

Reply slips for the EGM (as defined herein) have also been enclosed. You are reminded to complete and sign the relevant reply slips and return the signed slips to the office of the secretary to the board of directors of the Company in the People's Republic of China on or before 9 February 2007 in accordance with the instructions printed thereon.

* The Company is registered in Hong Kong as an oversea company under the English name "Weiqiao Textile Company Limited".

15 January 2007

EXPECTED TIMETABLE

2007

Register of members of the Company closes	From 31 January to 2 March
Latest time for return of proxy forms in respect of the EGM	9:00 a.m. on 1 March
EGM	9:00 a.m. on 2 March
Register of members of the Company re-opens on	9:30 a.m. on 3 March

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DEFINITIONS

“Board”	the board of directors of the Company
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited)
“Continuing Connected Transaction”	the continuing connected transactions under the Old Supply Agreement (from 1 January 2006 to 24 August 2006) and the Renewed Supply Agreement
“Directors”	the directors of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a Renminbi-dominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are not tradable on the Stock Exchange
“EGM”	an extraordinary general meeting of the Company proposed to be convened and held for the Independent Shareholders to consider and, if thought fit, approve, confirm and ratify the continuing connected transaction carried out by the Company pursuant to the Old Supply Agreement during the year ended 31 December 2006; the Company’s entering into of the Renewed Supply Agreement and the continuing connected transaction thereunder; and the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008
“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, which are subscribed for and traded in Hong Kong dollars
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holding Company”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established in the PRC, being a promoter and the controlling shareholder of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the Independent Directors

DEFINITIONS

“Independent Directors”	the independent directors of the Company, who are invited to advise the Independent Shareholders in connection with the Old Supply Agreement (as defined herein), the Renewed Supply Agreement (as defined herein) and the Annual Parent Cotton Yarn/Fabric Supply Cap (as defined herein) for each of the three years ending 31 December 2008
“Independent Financial Adviser” or “Evolution Watterson Securities Limited”	the independent financial adviser appointed to make the relevant recommendation to the Company’s Independent Board Committee and the Independent Shareholders in relation to the Old Supply Agreement (as defined herein), the Renewed Supply Agreement (as defined herein) and the Annual Parent Cotton Yarn/Fabric Supply Cap (as defined herein) for each of the three years ending 31 December 2008, being a registered investment adviser and dealer under the Securities and Futures Ordinance
“Independent Shareholders”	the shareholders of the Company other than Holding Company and its associates (as defined in the Listing Rules)
“Latest Practicable Date”	11 January 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Old Supply Agreement”	the supply of products, raw materials and processing services agreement entered into between the Company and Holding Company on 25 August 2003
“Parent Group”	Holding Company, its subsidiaries and associates (excluding the Group)
“PRC”	People’s Republic of China
“Prospectus”	the prospectus issued by the Company on 15 September 2003 in relation to the placing and initial public offer of H Shares in the Company
“Renewed Supply Agreement”	the Old Supply Agreement as renewed in accordance with the automatic renewal mechanism set out in the Old Supply Agreement, between the Company and Holding Company on 25 August 2006
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the 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 of the Company
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“ZCSU”	鄒平縣供銷合作社聯合社 (Zouping County Supply and Marketing Cooperation Union), the ultimate controlling shareholder of the Company, being a collectively-owned enterprise (established with the assistance of local government in 1949 in Zouping County of the Shandong Province, the PRC to assist the cooperation of peasants) and not a government body. It obtained a body corporate business licence on 24th June 1991 and has the status of an independent legal person as a body corporate

* *The Company is registered in Hong Kong as an oversea company under the English name “Weiqiao Textile Company Limited”.*

For the purpose of this circular, unless otherwise specified, conversion of RMB into HK\$ is based on the exchange rate of RMB1.01 = HK1.00.

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



魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

Executive Directors:

Zhang Hongxia (*Chairman*)

Zhang Yanhong

Qi Xingli

Zhao Suwen

Registered Office:

No. 34 Qidong Road

Weiqiao Town

Zouping County

Shandong Province

the PRC

Non-executive Directors:

Zhang Shiping

Wang Zhaoting

Principal place of business in Hong Kong:

39th Floor, Gloucester Tower

The Landmark

15 Queen's Road Central

Hong Kong

Independent Non-executive Directors:

Wang Naixin

Xu Wenying

Chan Wing Yau, George

15 January 2007

To the Shareholders

Dear Sir/Madam,

Continuing Connected Transaction

1. INTRODUCTION

The Company stated in its announcement dated 28 December 2006 that the Company had on 25 August 2006 renewed the Old Supply Agreement based on the same terms and conditions for a period of three years commencing from 25 August 2006 in accordance with the automatic renewal mechanism set out in the Old Supply Agreement.

Pursuant to Renewed Supply Agreement, the Company has supplied and will supply or has procured or will procure its subsidiaries to supply cotton yarn and cotton fabric to Parent Group.

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LETTER FROM THE BOARD

The terms and conditions of the Renewed Supply Agreement have been negotiated on an arm's length basis. The Board considers such terms to be normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

According to the Listing Rules, the Group's supply of cotton yarn and cotton fabric to Parent Group pursuant to the Renewed Supply Agreement constitutes a continuing connected transaction of the Company. It is subject to the reporting, announcement and independent shareholders' approval requirements.

The purpose of this circular is (i) to provide you with further information in respect of the continuing connected transaction under the Old Supply Agreement (from 1 January 2006 to 24 August 2006) and the Renewed Supply Agreement (including recommendation from the Independent Board Committee and opinion rendered from the Independent Financial Adviser); and (ii) to give you notice of the EGM at which an ordinary resolution will be proposed for the purpose of seeking the approval, confirmation and ratification by the Independent Shareholders of:

- (a) the continuing connected transaction carried out by the Company pursuant to the Old Supply Agreement during the year ended 31 December 2006;
- (b) the Company's entering into of the Renewed Supply Agreement and the continuing connected transaction thereunder; and
- (c) the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008.

Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia are considered to be parties acting in concert with Holding Company and will voluntarily abstain from voting at the same meeting.

2. SUPPLY OF COTTON YARN AND COTTON FABRIC BY THE GROUP TO PARENT GROUP

Date of the Renewed Supply Agreement

25 August 2006

Parties

Seller: Company

Buyer: Holding Company

LETTER FROM THE BOARD

Transaction nature

The Company and Holding Company entered into the Old Supply Agreement on 25 August 2003 pursuant to which (a) the Company has agreed to supply or procure its subsidiaries to supply cotton yarn and cotton fabric to Parent Group for the production of downstream cotton textile products; and (b) Holding Company has agreed to supply cotton (including lint cotton and tailings) to the Group and to provide, or procure its subsidiaries and/or associates to provide, cotton yarn and grey fabric downstream processing services to the Group.

The Old Supply Agreement has a term of three years commencing from 25 August 2003. Unless either party decides not to renew the agreement within 30 days before expiry of the term and so notifies the other, the agreement will be automatically renewed for another three years upon the expiry of its term. As no such notification was made, the Old Supply Agreement was renewed on 25 August 2006 for a term of three years. According to the terms of the Old Supply Agreement, the renewal of the Old Supply Agreement applies to the supply of cotton yarn and cotton fabric by the Group to Parent Group as well as the provision of cotton yarn and grey fabric downstream processing services by the Parent Group to the Group but does not apply to the supply of cotton (including lint cotton and tailings) Holding Company to the Group.

Pursuant to the Renewed Supply Agreement, (a) the Company has supplied and will supply or has procured or will procure its subsidiaries to supply cotton yarn and cotton fabric to Parent Group; (b) Holding Company has not supplied and will not supply cotton (including lint cotton and tailings) to the Group; and (c) Parent Group has not provided and will not provide cotton yarn and grey fabric downstream processing services to the Group.

Pricing basis and Payment terms

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

The Directors have confirmed that the pricing basis agreed between the Company and Holding Company for the supply of cotton yarn and cotton fabric is fair and reasonable, was negotiated on an arm's length basis and constitutes a normal commercial term.

The Company would on the last business day of each calendar month, prepare a book of the relevant costs/expenses that shall be paid by Holding Company for that month. Holding Company shall, within the first 5 business days of the following month, pay the amount due in full in cash.

LETTER FROM THE BOARD

Maximum Aggregate Annual Value

For each of the three years ended 31 December 2005, the values of the aggregate supply of cotton yarn and cotton fabric by the Group to Parent Group amounted to approximately RMB218,000,000 (equivalent to approximately HK\$215,842,000), approximately RMB252,000,000 (equivalent to approximately HK\$249,505,000) and approximately RMB417,040,000 (equivalent to approximately HK\$412,911,000), respectively.

The Directors currently estimate that the values of the annual aggregate supply of cotton yarn and cotton fabric by the Group to Parent Group for each of the three years ending 31 December 2008 would not exceed RMB642,200,000 (equivalent to approximately HK\$635,842,000), RMB989,100,000 (equivalent to approximately HK\$979,307,000) and RMB1,523,100,000 (equivalent to approximately HK\$1,508,020,000) (for each such year, an “**Annual Parent Cotton Yarn/Fabric Supply Cap**”), respectively.

The Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008 was determined by reference to (a) the average annual growth rate of the values of the annual aggregate supply of cotton yarn and cotton fabric by the Group to Parent Group of approximately 40% for the three years ended 31 December 2005; and (b) the average annual growth rate of the national consumption index of approximately 10% for the three years ended 31 December 2005.

It is anticipated that two of the subsidiaries of Holding Company, namely Shandong Weiqiao Broad Loom Printing & Dyeing Company (山東魏橋特寬幅印染有限公司) and Shandong Hengfu Fabric Printing & Dyeing Company (山東魏橋恒富針織印染有限公司) would expand their production scales in 2007. To adapt to the above anticipated expansion of production scales, Holding Company’s demand for cotton yarn and cotton fabric is expected to increase correspondingly.

Reasons for the transaction

Parent Group has a substantial demand for cotton yarn and cotton fabric for further processing into downstream cotton textile products for sale to independent third parties. Parent Group is one of the Group’s major customers for cotton yarn and cotton fabric. The provision of cotton yarn and cotton fabric to Parent Group at prices no more favourable than those available to independent third parties falls within the ordinary and usual course of the Group’s business.

As of December 31, 2005, the Group had a total of 5,800 domestic customers and over 600 overseas customers. Of these 6,400 customers, Parent Group was one of the Group’s top-five customers and accounted for 3.07% of the Group’s total revenue for 2005.

3. REASONS FOR NON-COMPLIANCE

As mentioned above, the Company and Holding Company entered into the Old Supply Agreement on 25 August 2003 for a term of three years commencing from 25 August 2003 (i.e. expired on 24 August 2006).

In September 2003, the Stock Exchange granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of the supply of cotton yarn and cotton fabric by the Group to Parent Group under the Old Supply Agreement. The waiver was granted for a term of three financial years ended 31 December 2005.

Due to the difference in the timing between the expiry of the Old Supply Agreement and the expiry of the above waiver, the Company was of the wrongful impression that as regards the supply of cotton yarn and cotton fabric by the Group to Parent Group under the Old Supply Agreement, it would not need to comply with the announcement and independent shareholders' approval requirements as long as the value of such supply is within the annual cap set out in the above waiver of 8% of the turnover of the Group for the financial year ended on 31 December 2006.

Despite the above, (a) the values of the supply of cotton yarn and cotton fabric by the Group to Parent Group under the Old Supply Agreement during the six months period ended on 30 June 2006 have been disclosed in the 2006 Interim Report of the Company; (b) the Continuing Connected Transaction was entered into in the ordinary and usual course of the Group's business; and (c) transaction similar to the Continuing Connected Transaction have previously been disclosed in the Prospectus.

4. MEASURES ADOPTED BY THE COMPANY TO ENSURE FUTURE COMPLIANCE WITH THE LISTING RULES

The Company only became aware of its non-compliance with the Listing Rules in respect of the Continuing Connected Transaction in December 2006 when its auditors were reviewing its financial statements for the purpose of the Company's audit for 2006. The Directors have acted promptly in compliance with the Listing Rules as soon as this came to their notice and have accordingly made the relevant announcement dated 28 December 2006. The Directors have taken appropriate measures to ensure future compliance with the Listing Rules. A team has been set up within the Company's finance and accounting department to monitor closely the extent of the Continuing Connected Transaction on a monthly basis taking into account developments and/or conditions in the PRC textile markets at the time of review, and if there is any indication that the relevant annual caps will likely be exceeded, the Company will promptly re-comply with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Internal approval procedures have also been tightened, for example, arrangement has been made by the Group to facilitate better communication between the Secretary of the Board and the other departments of the Group to ensure any discloseable matters/events are verified and reported on a timely basis so as to fully comply with the requirements of the Listing Rules. The Company also plans to provide further training to the relevant management personnel of the Company so that they could familiarize themselves of the Hong Kong accounting system and relevant Listing Rules.

LETTER FROM THE BOARD

5. LISTING RULES IMPLICATIONS

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

As each of the applicable percentage ratios (as defined in the Listing Rules) in respect of the supply of cotton yarn and cotton fabric by the Group to Parent Group is, on an annual basis, more than 2.5%, the same transaction is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules as well as the independent shareholders' approval requirement set out in Rule 14A.48 of the Listing Rules.

The terms and conditions of the Continuing Connected Transaction have been negotiated on an arm's length basis. The Board (including the independent non-executive Directors) considers such terms to be normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Relevant particulars of the Renewed Supply Agreement as set forth in this circular will be disclosed in the Company's 2006 annual report and accounts.

6. EGM

Set out in pages 25 to 27 of this circular is the notice dated 15 January 2007 to convene and hold the EGM at Room 401, Company Office Building, No.1 Weifang Road, Zouping County Economic Development Zone, Shandong Province, the People's Republic of China at 9:00 a.m. on 2 March 2007.

It is proposed that an ordinary resolution will be proposed for the purpose of seeking the approval, confirmation and ratification by the Independent Shareholders of:

- (a) the continuing connected transaction carried out by the Company pursuant to the Old Supply Agreement during the year ended 31 December 2006;
- (b) the Company's entering into of the Renewed Supply Agreement and the continuing connected transaction thereunder; and
- (c) the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008.

For the purposes of the EGM, the register of members of the Company will be closed from 31 January 2007 to 2 March 2007 (both days inclusive), during which no transfer of shares will be registered. Accordingly, holders of H Shares of the Company and holders of Domestic Shares whose names appear on the register of members of the Company at the close of business on 30 January 2007 shall have the right to attend the EGM.

Each Shareholder who has the right to attend and vote at the EGM, is entitled to appoint one or more proxies, whether they are Shareholders or not, to attend and vote on his behalf at the EGM.

LETTER FROM THE BOARD

The proxy form for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed proxy form 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 holding of the meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

Holding Company will abstain from voting in the EGM. Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia are considered to be parties acting in concert with Holding Company and will voluntarily abstain from voting at the same meeting. As at the Latest Practicable Date, Holding Company held 58.42% of the total issued Shares, and Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia held 0.44%, 1.08% and 1.48%, respectively, of the total issued Shares. To the best of the knowledge and belief of the Directors, none of Holding Company, Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia had any associate (other than amongst themselves) who was a Shareholder.

7. GENERAL

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. Holding Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth.

8. POLL PROCEDURE

Set out below is the procedure by which Shareholders and the chairman of any Shareholders' meeting may demand a poll pursuant to the articles of association of the Company:

“At any general meeting of shareholders, a resolution shall be decided on a show of hands unless a poll is demanded before or after any vote by show of hands by:

- (i) the chairman of the meeting;
- (ii) at least two shareholders, who possess the right to vote, present in person or by proxy; or
- (iii) any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders having the right to attend and vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution, that the resolution has been carried.

A demand for a poll may be withdrawn by the person who made the demand.”

LETTER FROM THE BOARD

9. RECOMMENDATION

The Board, including the Independent Board Committee, is of the opinion that the terms of the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 2008 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 approval, confirmation and ratification of (i) the continuing connected transaction carried out by the Company pursuant to the Old Supply Agreement during the year ended 31 December 2006; (ii) the Company's entering into of the Renewed Supply Agreement and the continuing connected transaction thereunder; and (iii) the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008.

10. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising Mr. Wang Naixin, Mr. Xu Wenying and Mr. Chan Wing Yau, George, has been established to advise the Independent Shareholders in respect of the Old Supply Agreement, the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap. Evolution Watterson Securities Limited has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the same transaction.

11. ADDITIONAL INFORMATION

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

Yours faithfully,
Weiqiao Textile Company Limited
Zhang Hongxia
Chairman



魏橋紡織股份有限公司

Weiqiao Textile Company Limited*

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

(Stock Code: 2698)

15 January 2007

To the Independent Shareholders

Dear Sir or Madam,

Continuing Connected Transaction

We have been appointed as the Independent Board Committee to advise you in connection with the Old Supply Agreement, the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap, details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 15 January 2007 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Continuing Connected Transactions under the Old Supply Agreement (in respect of the period from 1 January 2006 to 24 August 2006) and the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap and the advice and opinion of Evolution Watterson Securities Limited in relation thereto as set out on pages 13 to 17 of the Circular, we are of the opinion that (a) the terms of the Renewed Supply Agreement are fair and reasonable and; (b) the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008 are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve, confirm and ratify (a) the continuing connected transaction carried out by the Company pursuant to the Old Supply Agreement during the year ended 31 December 2006; (b) the Company's entering into of the Renewed Supply Agreement and the continuing connected transaction thereunder; and (c) the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008.

Mr. Wang Naixin

Independent non-executive Director

Yours faithfully,

Mr. Xu Wenying

*Independent
non-executive Director*

Mr. Chan Wing Yau, George

*Independent
non-executive Director*

* The Company is registered in Hong Kong as an oversea company under the English name “Weiqiao Textile Company Limited”.



15 January 2007

The Independent Board Committee and
the Independent Shareholders
Weiqiao Textile Company Limited
No. 34 Qidong Road
Weiqiao Town
Zouping County
Shangdong Province
The PRC

Dear Sirs,

Continuing Connected Transaction

INTRODUCTION

We refer to our appointment as independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction under the Old Supply Agreement and the Renewed Supply Agreement as described in the letter from the Board contained in the document dated 15 January 2007 to the Shareholders (the “**Circular**”). Our letter is made for incorporation into the Circular. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

Background and details of the Old Supply Agreement and the Renewed Supply Agreement are set out in the letter from the Board in the Circular. The Independent Board Committee has been formed to advise the Independent Shareholders on whether the terms and the proposed caps under the Old Supply Agreement and the Renewed Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Our role as independent financial adviser is to give our opinion as to whether the Old Supply Agreement and the Renewed Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS AND ASSUMPTIONS

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that 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. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and 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 dispatch 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.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion on the terms of the Old Supply Agreement and the Renewed Supply Agreement, we have taken into consideration the following principal factors and reasons:

Background, reason and benefits of the Old Supply Agreement and the Renewed Supply Agreement

The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim in the PRC. As disclosed in the Company's 2005 annual report, the aggregate production volume of cotton yarn and grey fabric in 2005 increased by 21.4% and 19.6% respectively from 2004. This increase was mainly attributed to the full operation of the production base of the Group in Zouping, the PRC during 2005. As at 31 December 2005, the Group had a total of 5,800 domestic customers and over 600 overseas customers.

The Holding Company is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn, print cloth, retail and distribution of cloth. As advised by the management of the Company, the Parent Group was among the top five customers of the Group contributing about 3 to 4% of the Group's total sales between 2003 and 2005 and is expected to be the second largest customer of the Group for the financial year ended 31 December 2006.

Prior to the listing of the shares of the Company in 2003, the Company has been providing cotton yarn and cotton fabric to the Parent Group for the production of cotton garments. At the time of the listing, the Company and the Holding Company entered into the Old Supply Agreement to formalize various continuing connected transactions among the Group and the Parent Group. Upon listing of the shares of the Company in 2003, the Stock Exchange granted a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements with respect to certain continuing connected transactions (the "Wavier") among the Group and the Parent Group as specified in the Old Supply Agreement provided that these transactions were on normal commercial terms and were conducted in the ordinary course of its business in the PRC for the period up to 31 December 2005.

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The Old Supply Agreement contained a renewal mechanism to automatically renew the tenor for another three years upon expiry should no objection notice is served by either contractual party to the others. As no such notification was made, the Old Supply Agreement was renewed on 25 August 2006 for a term of three years and constituted the Renewed Supply Agreement which enables the Group to continue to supply cotton yarn and cotton fabric to the Parent Group.

The renewal of the Old Supply Agreement, however, does not apply to the supply of cotton (including lint cotton and tailings) made by the Holding Company to the Group. According to the management of the Company, the Parent Group has not provided cotton yarn and grey fabric downstream processing services the Group since the signing of the Old Supply Agreement.

As the continuing connected transactions among the Group and the Parent Group continued after expiry of the Waiver (i.e. up to 31 December 2005), the Company had not complied with the announcement and independent shareholders' requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

As the Continuing Connected Transaction constitutes "non-exempt" continuing connected transactions under rule 14A.35 of the Listing Rules, the Old Supply Agreement and the Renewed Supply Agreement are required to be tabled to the Independent Shareholders for approval at the upcoming EGM to 1) ratify the Continuing Connected Transaction in relation to the provision of cotton yarn and cotton fabric by the Group to the Parent Group during the period from 1 January 2006 to 31 December 2006, and 2) to approve the Continuing Connected Transaction for the period from 1 January 2007 to 31 December 2008.

Having considered 1) the Continuing Connected Transaction had been conducted in the ordinary and usual course of businesses of the Group and is expected to continue in the future and 2) the Parent Group is among the top five largest customers of the Group and the continuation of the Old Supply Agreement enables the Group to better utilize its production capacity and to continue to secure businesses from one of its key customers, we are of view that the approval of the Old Supply Agreement and the Renewed Supply Agreement to ratify the Continuing Connected Transaction for 2006 and to formalize the Continuing Connected Transaction in 2007 and 2008 are in the interests of the Company and the Independent Shareholders as a whole.

Basis for determining the terms

Cotton yarn and cotton fabric supplied to the Parent Group are for their production of downstream cotton textile products. Over the years, the prices of cotton yarn and cotton fabric supplied by the Group to the Parent Group are determined by reference to prices at which comparable types of cotton yarn and cotton fabric are sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC. We have compared the invoices of comparable products issued by the Group to the Parent Group with that of independent customers and noted that the terms of supplies to the Parent Group are comparable to those to independent customers and are made under market terms. Consequently, we are of the view that the basis for determining the terms of supplies to the Parent Group is fair and reasonable so far as the Independent Shareholders are concerned.

We also understand from the Directors that with a view to strengthen the Group's credit and internal control, the Group's sales to independent customers are primarily made on cash basis; whereas credit sales are only made to larger customers with established trading relationships with the Group and having established satisfactory payment records. Currently, sales to the Parent Group are settled on a monthly basis under the Old Supply Agreement. Given that the Parent Group is one of the major customers of the Group and has already established good working relationship with the Group, we agree with the Directors that the continuation of the existing payment term to the Parent Group is fair and reasonable.

The proposed annual caps

The total amount of sales to the Parent Group were approximately RMB218.0 million, RMB252.0 million and RMB417.0 million for each of the three years ended 31 December 2003, 2004 and 2005.

The Board expects that the amount of supply of cotton yarn and fabric to the Parent Group will amount to approximately RMB642.2 million for the year ended 31 December 2006 and will be approximately RMB989.1 million and RMB1,523.1 million for the two years ending 31 December 2008, which will form the cap amounts in their respective years. In terms of annual percentage increase during the above period, they are approximately 54.0%, 54.0%, and 54.0% respectively.

The Annual Parent Cotton Yarn/ Fabric Supply Cap for the financial year ended 31 December 2006 is determined based on the estimated figure for the full year whereas that for each of the two years ended 31 December 2007 and 2008 are determined after taking into consideration (1) average annual growth rate of approximately 40% in relation to sales of cotton yarn and cotton fabric by the Group to the Parent Group for the three years ended 31 December 2005 and (2) the average annual growth rate of the China's national consumption index of approximately 10% for the three years ended 31 December 2005.

Having reviewed and discussed with the Directors the bases and assumptions for determining the Annual Parent Cotton Yarn/ Fabric Supply Caps which including, among other things, (1) the historical increase in sales of cotton yarn and fabric to the Parent Group and (2) the production capacity and scales, the historical sales price and market price of various cotton yarn and cotton fabric as estimated by the Parent Group for its expected increase in demand on cotton yarn and cotton fabric for determining the proposed annual caps, we are of the view that the bases for determining the proposed Annual Parent Cotton Yarn/ Fabric Supply Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the continuation of the Old Supply Agreement and the entering into the Renewed Supply Agreement are in the interest of the Group and that their terms and the Annual Parent Cotton Yarn/ Fabric Supply Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution to approve the Old Supply Agreement and the Renewed Supply Agreement to ratify the Continuing Connected Transaction for 2006 and to formalize the Continuing Connected Transaction in 2007 and 2008 and to approve the Annual Parent Cotton Yarn/ Fabric Supply Cap for each of the three years ending 31 December 2008 at the EGM.

Yours faithfully,
For and on behalf of
Evolution Watterson Securities Limited
David Tsang
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executives' Interests and Positions

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 any of 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 were 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 as set out in appendix 10 to the Listing Rules, were as follows:

Long positions in the Domestic Shares:

			Approximate percentage of the total issued domestic share capital (%)	Approximate percentage of the total issued share capital (%)
	Type of interest	Number of Domestic Shares (Note 1)		
Zhang Hongxia (<i>Executive Director</i>)	Personal	17,700,400	2.27	1.48
Qi Xingli (<i>Executive Director</i>)	Personal	8,052,500	1.03	0.67
Zhang Shiping (<i>Non-executive Director</i>)	Personal	5,200,000	0.67	0.44

Note 1: Unlisted shares

Long positions in the Shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital (%)
Zhang Shiping (<i>Non-executive Director</i>)	Holding Company	Personal	4.53

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 interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules, or to be entered in the register to be kept by the Company pursuant to section 352 of the SFO.

Directors' and Supervisors' Interest in Any Asset Acquired, Disposed or Leased

As at the Latest Practicable Date, none of the Directors and supervisors of the Company had any material interest, direct or indirect, in any asset which, since 31 December 2005, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and supervisors of the Company (except for the independent supervisors of the Company) has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, independent non-executive Directors and independent supervisors of the Company has entered into a letter of appointment with the Company for a term of three years. Pursuant to the articles of association of the Company, each Director and supervisor of the Company is eligible for re-election upon expiration of their term of office.

The expiry date of the service contract of and the annual remuneration payable to each of the executive Directors are as follows:

	Expiry Date	Annual Remuneration
Zhong Hongxia	6 June 2009	RMB1,000,000
Zhang Yanhong	Date of 2008 Annual General Meeting	RMB400,000
Qi Xingli	6 June 2009	RMB600,000
Zhao Suwen	6 June 2009	RMB400,000

The expiry date of the letter of appointment of and the annual remuneration payable to each of the non-executive Directors are as follows:

	Expiry Date	Annual Remuneration
Zhang Shiping	6 June 2009	RMB100,000
Wang Zhaoting	6 June 2009	RMB80,000

The expiry date of the letter of appointment of and the annual remuneration payable to each of the independent non-executive Directors are as follows:

	Expiry Date	Annual Remuneration
Wang Naixin	6 June 2009	RMB50,000
Xu Wenyong	27 June 2009	RMB120,000
Chan Wing Yau, George	6 June 2009	HK\$600,000

The expiry date of the service contract/letter of appointment of and the annual remuneration payable to each of the supervisors of the Company are as follows:

	Expiry Date	Annual Remuneration
Liu Mingping	6 June 2009	RMB30,000
Lu Tianfu (note)	6 June 2009	RMB30,000
Wang Wei (note)	6 June 2009	RMB30,000

Note: Independent supervisor of the Company

4. DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

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

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors, supervisors or chief executives of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long positions in the Domestic Shares:

Name of shareholders	Number of Domestic Shares <i>(note 1)</i>	Approximate percentage of the total issued domestic share capital <i>(%)</i>	Approximate percentage of the total issued share capital <i>(%)</i>
Holding Company	697,781,600 <i>(note 2)</i>	89.37	58.42
ZCSU	697,781,600 <i>(note 3)</i>	89.37	58.42

Long positions in the H Shares:

Name of shareholders	Number of H Shares <i>(note 4)</i>	Approximate percentage of the total issued H share capital <i>(%)</i>	Approximate percentage of the total issued share capital <i>(%)</i>
Brandes Investment Partners, L.P.	70,680,500 <i>(note 5)</i>	17.08	5.92
UBS AG	28,648,476 <i>(note 6)</i>	6.93	2.40
Templeton Investment Counsel, LLC	20,802,930 <i>(note 7)</i>	5.03	1.74

Notes:

1. Unlisted shares.
2. These 697,781,600 Domestic Shares are directly held by Holding Company.
3. These 697,781,600 Domestic Shares are deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
4. Shares listed on the Main Board of the Stock Exchange.
5. 70,680,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
6. 11,668,890 H Shares were directly held by UBS AG, while 16,979,586 H Shares were directly held by certain corporations controlled by UBS AG.
7. 20,802,930 H Shares were held by Templeton Investment Counsel, LLC in its capacity as investment manager.

Save as disclosed above, so far as is known to the Directors, supervisors or chief executives of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had any interests or short positions in the Share or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

6. 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 prospects of the Group since 31 December 2005, the date to which the latest audited financial statements of the Group were made up.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. CONSENT AND EXPERT

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

Name	Qualification
Evolution Watterson Securities Limited	Licensed under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

Evolution Watterson Securities Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, (a) Evolution Watterson Securities Limited did not have any 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 (b) Evolution Watterson Securities Limited did not have any 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.

9. MISCELLANEOUS

- (i) The legal address of the Company is at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the People's Republic of China.
- (ii) The address of the head office of the Company is No. 1 Weifang Road, Zouping County Economic Development Zone, Shandong Province, the People's Republic of China.
- (iii) The principal place of business of the Company in Hong Kong is 39th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is at Computershare Hong Kong Investor Services Limited.

- (v) The secretary of the Company is Ms. Zhao Suwen, a qualified PRC economist. Ms. Zhao is assisted by Coudert Brothers, the Company's legal advisers on Hong Kong law, so as to enable her to acquire the relevant experience (required under Rule 8.17(3) of the Listing Rules) to discharge the functions of a company secretary.
- (vi) Mr Zhao Weijian, being a PRC qualified accountant, is the qualified accountant of the Company appointed under Rule 3.24 of the Listing Rules. Mr. Zhao Weijian is able to meet the requirement as set out in Rule 3.24 of the Listing Rules except that he is not a fellow or associate of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) or a similar body of accountants recognized by HKICPA for the purpose of granting exemptions from the examination requirement for membership of HKICPA. The Stock Exchange has granted a three-year conditional waiver to the Company from strict compliance with Rule 3.24 of the Listing Rules commencing from 22 December 2004.
- (vii) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Coudert Brothers on the 39th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 30 January 2007:

- (a) the articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (c) the letter issued by Evolution Watterson Securities Limited, the text of which is set out on pages 13 to 17 of the circular;
- (d) the service contracts/letters of appointment of the Directors referred to in the paragraph entitled “Directors’ and Supervisors’ Service Contracts and Letters of Appointment” of this appendix;
- (e) the Old Supply Agreement; and
- (f) the Renewed Supply Agreement.



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 2 March 2007 at Room 401, Company Office Building, No.1 Weifang Road, Zouping County Economic Development Zone, Shandong Province, the People's Republic of China, to consider and, if thought fit, approve the following ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the continuing connected transaction carried out by the Company during the year ended 31 December 2006 pursuant to the supply of products, raw materials and processing services agreement entered into between the Company and 山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited) (“**Holding Company**”) on 25 August 2003 (“**Old Supply Agreement**”) (a copy of which has been produced to this meeting marked “A” and signed by the Chairman hereof for identification purpose) be and is hereby approved, ratified and confirmed;
- (b) the Company's entering into of the agreement renewed in accordance with the automatic renewal mechanism set out in the Old Supply Agreement (“**Renewed Supply Agreement**”) with Holding Company on 25 August 2006 for a period of three years commencing from 25 August 2006 on the same terms and conditions as the Old Supply Agreement be and is hereby approved, ratified and confirmed;
- (c) the estimated maximum values of the annual aggregate supply of cotton yarn and cotton fabric by the Company and its subsidiaries (the “**Group**”) to Holding Company, its subsidiaries and associate (excluding the Group) (as set out in the announcement of the Company dated 28 December 2006 and the circular of the Company dated 15 January 2007 of which this notice forms part) for each of the three years ending 31 December 2008 be and are hereby approved, ratified and confirmed; and
- (d) any director of the Company be and is hereby authorised to do such other 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

NOTICE OF EXTRAORDINARY GENERAL MEETING

the Renewed Supply Agreement and the continuing connected transaction contemplated thereunder with such changes as the directors of the Company may consider necessary, desirable or expedient.”

By Order of the Board
Wei qiao Textile Company Limited
Zhao Suwen
Executive Director and Company Secretary

15 January 2007
Shandong, the People's Republic of China

Notes:

- (A) The register of members of the Company will be closed from 31 January 2007 to 2 March 2007, both days inclusive, during which period no share transfer will be effected. In order to qualify for attending the EGM, all instruments of transfer must be lodged with the Company's H Share registrar not later than 4:00 p.m. on 30 January 2007.

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

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

- (B) Holders of H Shares and Domestic Shares, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the Office of the Secretary to the Board of Directors of the Company not later than 20 days before the date of the EGM, i.e. no later than 9 February 2007.

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

Room 412
Company Office Building
No.1 Weifang Road
Zouping County Economic Development Zone
Shandong Province
The People's Republic of China

Tel: 86 (543) 4162222
Fax: 86 (543) 4162000

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (C) The votes to be taken at the EGM in relation to the above proposed resolution will be taken by poll.
- (D) Holding Company will abstain from voting at the EGM. Mr. Zhang Shiping, Mr. Zhang Bo and Ms. Zhang Hongxia are considered to be parties acting in concert with Holding Company and will voluntarily abstain from voting at the same meeting.
- (E) Each holder of H Shares who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the EGM. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.
- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.
- (G) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited, on 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.
- (H) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Notes (E) to (F) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the Office of the Secretary to the Board of Directors, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.
- (I) If a proxy attends the EGM on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the EGM, such legal representative should produce his/her ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
- (J) The EGM is expected to last for half a day. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.

* *The Company is registered in Hong Kong as an oversea company under the English name "Weiqiao Textile Company Limited".*