

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 TRANSACTIONS
(SUPPLY OF COTTON YARN AND COTTON FABRIC)**

Reference is made to the Prospectus which states that:

- (a) the Company and Holding Company entered into the Old Supply Agreement on 25 August 2003 pursuant to which (i) 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 (ii) 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, for a term of three years commencing from 25 August 2003; and
- (b) the Group has agreed to supply cotton yarn and cotton fabric to Itochu on normal commercial terms.

The Board wishes to announce that the Company has:

- (a) 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. 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 Company 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) by Holding Company to the Group; and

(b) on 28 December 2006 entered into the Supply of Raw Materials Agreement pursuant to which the Company and Itochu have confirmed and ratified the supply of cotton yarn and cotton fabric by the Group to Itochu on normal commercial terms since 1 January 2006 and the Company has agreed to continue to supply or procure its subsidiaries to continue to supply cotton yarn and cotton fabric to Itochu in accordance with the terms of the Supply of Raw Materials Agreement.

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.

The Group's supply of cotton yarn and cotton fabric to Parent Group pursuant to the Old Supply Agreement (from 1 January 2006 to 24 August 2006) and the Renewed Supply Agreement constitutes a continuing connected transaction of the Company. It is subject to the reporting, announcement and independent shareholders' requirements under the Listing Rules.

The Group's supply of cotton yarn and cotton fabric to Itochu pursuant to the Supply of Raw Materials Agreement constitutes a continuing connected transaction of the Company. It is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements under the Listing Rules.

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

A circular containing, among others, further details of the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap, the letter from the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and notice of the EGM will be dispatched to the Shareholders as soon as practicable.

In relation to the Group's supply of cotton yarn and cotton fabric to Parent Group within the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008, the Company is subject to the reporting, announcement and independent shareholders' requirements under the Listing Rules. Prior to the date of this announcement, the Company has complied with the above reporting requirement (in respect of the sales volume for the six months ended 30 June 2006 only) but has not complied with the announcement and independent shareholders' requirements.

In relation to the Group's supply of cotton yarn and cotton fabric to Itochu within the Annual Itochu Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008, the Company is subject to the reporting and announcement requirements under the Listing Rules. Prior to the date of this announcement, the Company has not complied with the above requirements.

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

1. Date

25 August 2006

2. Parties

Seller: the Company

Buyer: Holding Company

3. Connected person

Holding Company

4. 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) by 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.

5. 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.

6. 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 raw materials is expected to increase correspondingly.

7. 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 31 December 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.

B. SUPPLY OF COTTON YARN AND COTTON FABRIC BY THE GROUP TO ITOCHU

1. Date

28 December 2006

2. Parties

Seller: the Company

Buyer: Itochu

3. Connected person:

Itochu

4. Transaction nature

As stated in the Prospectus, the Group has been supplying cotton yarn and cotton fabric to Itochu on normal commercial terms. On 28 December 2006, the Company and Itochu entered into the Supply of Raw Materials Agreement pursuant to which both parties have confirmed and ratified the supply of cotton yarn and cotton fabric by the Group to Itochu on normal commercial terms since 1 January 2006 and the Company has agreed to continue to supply or procure its subsidiaries to continue to supply cotton yarn and cotton fabric to Itochu in accordance with the terms of the Supply of Raw Materials Agreement.

5. Pricing basis and Payment terms

The prices at which cotton yarn and cotton fabric are supplied by the Group to Itochu are determined by reference to the 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.

The Directors have confirmed that the pricing basis agreed between the Company and Itochu 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 prices are settled by issuance of sight letters of credit.

6. 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 Itochu amounted to approximately RMB261,000,000 (equivalent to approximately HK\$258,416,000), RMB351,000,000 (equivalent to approximately HK\$347,525,000) and approximately RMB312,609,000 (equivalent to approximately HK\$309,514,000), respectively.

The Directors currently estimate that the values of the annual aggregate supply of cotton yarn and cotton fabric by the Group to Itochu for each of the three years ending 31 December 2008 would not exceed RMB213,600,000 (equivalent to approximately HK\$211,485,000), RMB235,000,000 (equivalent to approximately HK\$232,673,000) and RMB258,500,000 (equivalent to approximately HK\$255,941,000) (for each such year, an “**Annual Itochu Cotton Yarn/Fabric Supply Cap**”), respectively.

The Annual Itochu Cotton Yarn/Fabric Supply Cap for the year ending 31 December 2006 was determined by reference to (a) the actual amount of cotton yarn and cotton fabric supplied by the Group to Itochu for the eleven months ended 30 November 2006; and (b) the estimated value of the cotton yarn and cotton fabric to be supplied by the Group to Itochu in December 2006 calculated by reference to (i) the values of the aggregate supply of cotton yarn and cotton fabric by the Group to Itochu of approximately RMB312,609,000 (equivalent to approximately HK\$309,514,000) for the year ended 31 December 2005; and (ii) the average annual growth rate of the national consumption index of approximately 10% for the three years ended 31 December 2005.

The Annual Itochu Cotton Yarn/Fabric Supply Cap for each of the two years ending 31 December 2008 was determined on the basis that the demand of Itochu for cotton yarn and cotton fabric remains stable. Therefore, the Company only takes into account the average annual growth rate of the national consumption index of approximately 10% for the three years ended 31 December 2005.

7. Reason for the transaction

Itochu is an important business partner of the Group. It would be to the Group's advantage to maintain a close business relationship with Itochu because Itochu is one of the key export customers of the Group and is in a position to assist the Group in developing its market in Japan.

C. REASONS FOR NON-COMPLIANCE

As mentioned above, (a) 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); and (b) the Group has been supplying cotton yarn and cotton fabric to Itochu on normal commercial terms since 2003.

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 (a) the supply of cotton yarn and cotton fabric by the Group to Parent Group under the Old Supply Agreement; and (b) the supply of cotton yarn and cotton fabric by the Group to Itochu under the above mentioned arrangement. 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 ending on 31 December 2006.

The Company was of the further misunderstanding that as regards the supply of cotton yarn and cotton fabric by the Group to Itochu, it would not need to comply with the announcement requirement as long as the value of such supply is within the annual cap set out in the above waiver of 5% of the turnover of the Group for the financial year ending on 31 December 2006 as it was in the same category of transaction as the supply of cotton yarn and cotton fabric by the Group to Parent Group under the Old Supply Agreement.

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 Transactions were entered into in the ordinary and usual course of the Group's business; and (c) transactions similar to the Continuing Connected Transactions have previously been disclosed in the Prospectus.

D. 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 Transactions 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 this announcement. 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 Transactions 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.

E. 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.

Itochu is the holder of 10.2% interests in Luteng Textile, a 75% owned subsidiary of the Company, and the holder of 25% interests in Binteng Textile, a 75% owned subsidiary of the Company. As it is a substantial shareholder of the above subsidiaries of the Company, it constitutes a connected person of the Company under the Listing Rules.

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

The terms and conditions of each of the Continuing Connected Transactions 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.

The independent non-executive Directors consider that the terms and conditions of each of the Renewed Supply Agreement and the Supply of Raw Materials Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

F. EGM

The Company will convene the EGM as soon as possible 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 ending 31 December 2006;
- (b) the Company's entering into of the Renewed Supply Agreement and the continuing connected transactions 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. As at the date of this announcement, 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.

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

The Independent Board Committee will advise the Independent Shareholders in relation to their voting on the resolution(s) relating to the Old Supply Agreement, the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap for each of the three years ending 31 December 2008.

Evolution Watterson Securities Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the same transaction.

G. 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. Itochu is principally engaged in the production and import and export of textile products.

H. DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“Board”	the board of directors of the Company (including the independent non-executive Directors)
“Binteng Textile”	山東濱藤紡織有限公司 (Shandong Binteng Textile Co., Ltd.), a subsidiary of the Company
“Company”	魏橋紡織股份有限公司 (Weiqiao Textile Company Limited [#])
“Continuing Connected Transactions”	the continuing connected transactions under the Old Supply Agreement (from 1 January 2006 to 24 August 2006) and the Renewed Supply Agreement and the continuing connected transaction under the Supply of Raw Materials Agreement
“Directors”	the directors of the Company

“EGM”	an extraordinary general meeting of the Company proposed to be convened and held as soon as possible 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 and the Renewed Supply Agreement during the year ending 31 December 2006, the Company’s entering into of the Renewed Supply Agreement 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, and 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
“Independent Financial Adviser”	Evolution Watterson Securities Limited, the independent financial adviser appointed to make relevant recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Old Supply Agreement, the Renewed Supply Agreement and the Annual Parent Cotton Yarn/Fabric Supply Cap
“Independent Shareholders”	the shareholders of the Company other than Holding Company and its associates (as such term is defined in the Listing Rules)
“Itochu”	Itochu Corporation, a company incorporated in Japan, which is a customer of the Group and a substantial shareholder of Luteng Textile and Binteng Textile
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Luteng Textile”	山東魯藤紡織有限公司 (Shandong Luteng Textile Co., Ltd.)
“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 placing and public 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
“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
“Supply of Raw Materials Agreement”	the supply of raw materials agreement entered into between the Company and Itochu on 28 December 2006

On behalf of the Board
Weiqiao Textile Company Limited
Zhao Suwen
Executive Director and Company Secretary

Hong Kong, 28 December 2006

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

Notes:

1. As at the date of this announcement, the board of Directors of the Company is comprised of Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen and Ms. Zhang Yanhong as executive Directors, Mr. Zhang Shiping and Mr. Wang Zhaoting as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.
2. The conversion of RMB into HK\$ is based on the exchange rate of RMB1.01=HK\$1.00.

Please also refer to the published version of this announcement in South China Morning Post.