



THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

16 October 2008

The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) criticises Weiqiao Textile Company Limited (the “Company”) (Stock code: 2698) for breaching the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules”).

On 12 August 2008, the Listing Committee conducted a hearing into the conduct of, among other things, the Company in relation to its obligations under the Exchange Listing Rules.

Facts

The disciplinary hearing was in connection with the Company’s failure to timely comply with the announcement requirement under Rule 14A.47 of the Exchange Listing Rules and the independent shareholders’ approval requirement under Rule 14A.52 in respect of certain continuing connected transactions.

On 25 August 2003, the Company entered into an agreement (the “Supply Agreement”) with Shangdong Weiqiao Chuangye Group Company Limited (the “Holding Company”) in relation to, among other things, the supply of cotton yarn and cotton fabric by the Company and its subsidiaries (together the “Group”) to the Holding Company and its subsidiaries and associates (the “Group Arrangements”). The Supply Agreement was for a term of three years from 25 August 2003 to 24 August 2006, automatically renewable for another three years. The Holding Company at the material time was a promoter and the controlling shareholder of the Company and therefore constituted a connected person of the Company under the Exchange Listing Rules.

In addition, the Group had, since as early as 2003, been supplying cotton yarn and cotton fabric to Itochu Corporation (“Itochu”), a connected person of the Company at the material time (the “Itochu Arrangements”). There was no written agreement signed in respect of such arrangement from 2003 to December 2005.

Prior to the Company’s listing on the Main Board of the Exchange on 24 September 2003, the Exchange on 16 September 2003 granted the Company a conditional waiver from strict compliance with the disclosure, circular and/or independent shareholders’ approval requirements in respect of, among other things, the Group Arrangements and the Itochu Arrangements for a period of three financial years until 31 December 2005 (the “Waiver”).

The Waiver expressly stipulated that the Company must comply with the provisions of the then Chapter 14 of the Exchange Listing Rules governing connected transactions if, among other things, any transaction covered by the Waiver continued after expiry of the relevant waiver period.

By an announcement published on 29 December 2006 (the “Announcement”), the Company disclosed that: (i) on 25 August 2006, the Company renewed the Group Arrangements with the Holding Company based on the same terms and conditions for a period of three years from 25 August 2006 to 24 August 2009 in accordance with the automatic renewal mechanism provided under the Supply Agreement (the “Renewed Group Arrangements”); and (ii) on 28 December 2006, the Company entered into an agreement with Itochu in which both parties confirmed and ratified the Itochu Arrangements on normal commercial terms since 1 January 2006; and the Company agreed to continue with the Itochu Arrangements in accordance with the terms of such agreement (the “2006 Itochu Arrangements”).

The Group Arrangements, the Renewed Group Arrangements and the 2006 Itochu Arrangements constituted continuing connected transactions of the Company. Following the expiry of the Waiver on 31 December 2005, the Company was required to comply with:

1. the reporting, announcement and independent shareholders’ approval requirements (the “Requirements”) in respect of the Group Arrangements for the period from 1 January 2006 to 24 August 2006;
2. the Requirements in respect of the Renewed Group Arrangements as from 25 August 2006; and
3. the reporting and announcement requirements in respect of the 2006 Itochu Arrangements as from 1 January 2006. The 2006 Itochu Arrangements were exempted from the independent shareholders’ approval requirement.

The relevant transactions were included in the Company’s annual report of 2006 in compliance with the reporting requirement. However, the Company was late in complying with the announcement and independent shareholders’ approval requirements.

The Company was advised by its auditors of its non-compliance with the Exchange Listing Rules on or about 2 December 2006 in the course of preparing the Company’s audit for 2006. On 21 December 2006, through its legal advisers, the Company submitted to the Exchange the draft Announcement disclosing, for the first time, the Renewed Group Arrangements and the 2006 Itochu Arrangements.

On 2 March 2007, an extra-ordinary general meeting was held at which the independent shareholders of the Company passed an ordinary resolution to approve, ratify and confirm the Group Arrangements for the period 1 January 2006 to 24 August 2006 and the Renewed Group Arrangements (together the “Relevant Group Arrangements”).

The Listing Division alleged that the Company breached:

- (i) Rule 14A.47 in failing to comply with the announcement requirement in a timely manner in respect of the Relevant Group Arrangements and the 2006 Itochu Arrangements; and
- (ii) Rule 14A.52 in failing to comply with the independent shareholders’ approval requirement in a timely manner in respect of the Relevant Group Arrangements.

Decision

The Listing Committee concluded that the Company breached Rules 14A.47 and 14A.52.

The Listing Committee decided to impose a public statement which involves criticism on the Company for the said breaches.

Further, the Listing Committee directed that the Company retain an independent professional adviser satisfactory to the Listing Division (the “Adviser”) on an ongoing basis for consultation on compliance with the Exchange Listing Rules for a period of two years from 16 October 2008. The Adviser shall be accountable to the Audit Committee of the Company.

The Listing Committee noted the Company recognised that there was room for improvement regarding its internal control system.

For the avoidance of doubt, the Exchange confirms that this public statement which involves criticism applies only to the Company and not to any other past or present members of the Board of Directors of the Company.

Richard Williams, Head of Listing, commented: “The regulatory message in this case has two elements. First, if issuers are in any doubt as to the meaning or scope of a waiver granted by the Exchange, the proper course is to seek professional advice and consult the Exchange in good time. Part of the problem in this case evidently arose from a misunderstanding as to the terms and scope of the waiver which had been granted to the Company.

Second, I note that in this case the breaches in question were discovered by the Company’s auditors. Listed issuers and their management are entitled to and should enlist the assistance of external professional advisers but the primary obligation to ensure compliance with the Exchange Listing Rules rests with its management and responsibility for any failures rests with them. If a listed issuer has been granted a waiver from compliance with the rules, it is the responsibility of management to ensure that the Company is in a position to comply with its obligations under the waiver by the creation and maintenance of adequate and effective internal controls that support and monitor the functioning of the waiver for the duration of its existence. Such prudent measures should also alert an issuer to approach the Exchange in good time if a new or modified waiver is required.”