魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

ANNUAL REPORT
2007

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December *(RMB'000)*				
	2003	2004	2005	2006	**2007**
Revenue	6,560,470	11,088,224	13,584,389	19,826,154	**18,589,586**
Gross profit	1,210,313	1,857,177	2,244,130	3,323,090	**2,662,371**
Gross profit margin (%)	18.4	16.8	16.5	16.8	**14.3**
Profit before tax	853,442	1,246,884	1,435,784	2,307,571	**2,272,626**
Profit attributable to shareholders of the Company	541,672	825,535	1,242,473	1,685,405	**1,868,471**
Net profit margin (%)	8.3	7.5	9.1	8.5	**10.1**
Basic earnings per share (RMB)	0.89	0.97	1.35	1.43	**1.56**

Assets and liabilities

	As at 31 December (RMB'000)				
	2003	2004	2005	2006	**2007**
Total assets	11,339,925	16,388,853	24,704,766	26,140,632	**26,748,676**
Equity	4,598,141	6,069,850	9,827,008	12,027,739	**13,370,679**
Total liabilities	6,682,539	10,228,695	14,783,418	14,018,831	**13,276,020**
Return on equity* (%)	17.6	15.5	15.6	15.4	**14.7**
Current ratio (times)	1.3	1.0	1.0	1.2	**1.3**
Accounts receivable turnover (days)	28	20	15	13	**18**
Inventory turnover (days)	142	106	117	79	**82**
Accounts payable turnover (days)	69	44	60	15	**27**

Note:* Calculated based on average equity

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Hongxia *(Chairman)*
Zhang Yanhong
Qi Xingli
Zhao Suwen

NON-EXECUTIVE DIRECTORS

Zhang Shiping
Wang Zhaoting

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin
Xu Wenying
Chan Wing Yau, George

SUPERVISORS

Liu Mingping
Lu Tianfu
Wang Wei

COMPANY SECRETARY

Zhao Suwen

AUDIT COMMITTEE

Wang Naixin
Xu Wenying
Chan Wing Yau, George

REMUNERATION COMMITTEE

Zhang Hongxia
Wang Naixin
Xu Wenying

AUTHORISED REPRESENTATIVES

Qi Xingli
Zhao Suwen

PLACE OF BUSINESS IN HONG KONG

39th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

LEGAL ADDRESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Weifang Road
Zouping Development Area
Zouping County
Shandong Province
The PRC

LEGAL ADVISOR AS TO HONG KONG LAW

Coudert Brothers in association with Orrick Herrington & Sutcliffe LLP

INTERNATIONAL AUDITORS

Ernst & Young

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.wqfz.com

STOCK CODE

2698

SHAREHOLDERS' REFERENCE INFORMATION

LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

LISTING DATE

24 September 2003

NUMBER OF ISSUED SHARES AS AT 31 DECEMBER 2007

H shares: 413,619,000
Domestic shares: 780,770,000

INVESTOR RELATIONS

Wang Donghua
Tel: (86 21) 6427 8173
Fax: (86 21) 5459 1327
Email: wangdonghua@wqfz.com

INVESTOR & PR CONSULTANT

Christensen International Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: weiqiao@ChristensenIR.com

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

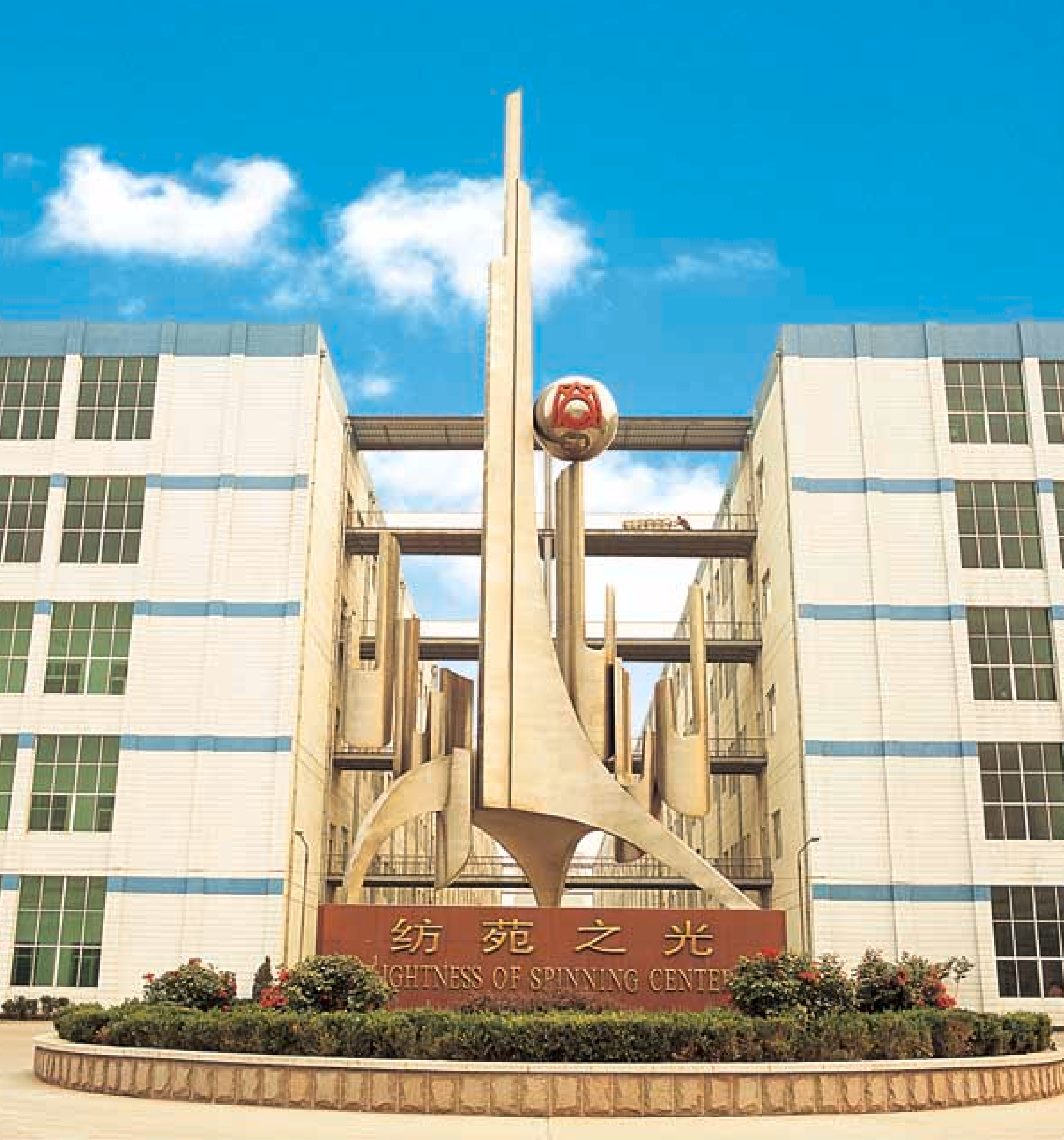
Annual Results Announcement Date
28 March 2008

ANNUAL GENERAL MEETING

30 May 2008

DISTRIBUTION OF FINAL DIVIDEND

27 June 2008


纺苑之光
OF SPINNING

CHAIRMAN'S STATEMENT

It is my pleasure to present the annual results of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company"), together with its subsidiaries, (collectively, the "Group") for the year ended 31 December 2007 (the "Year" or "Period under Review").

In 2007, China's economy sustained fast development. According to the figures of the National Bureau of Statistics of China, GDP for the whole year of 2007 was RMB24,953 billion, representing a growth of 11.9% as compared with the previous year, and an increase of 0.3 percentage point in terms of growth rate. The domestic consumption market was very active, and the domestic demand growth was strong. Total retail sales of consumer goods in the whole year amounted to RMB8,921.0 billion, representing an increase of 16.8% as compared with the previous year.

The amount of total imports and exports of goods in the whole year of 2007 was approximately US$2,173.8 billion, representing a growth of 23.5% as compared with the previous year. Of these, exports of goods amounted to US$1,218.0 billion, representing a growth of 25.7%; imports of goods amounted to US$955.8 billion, representing a growth of 20.8%. Exports outweighed imports by US$262.2 billion, representing an increase of US$84.7 billion as compared with the previous year. The exports growth was higher than that of the imports, demonstrating the robust development of foreign trade. However, growth of the textile industry of the People's Republic of China (the "PRC") declined at a relatively larger degree while exports are growing stably. In 2007, total foreign trade exports of textile products and clothing in China amounted to US$175.62 billion, representing a growth of 19.1% as compared with the previous year, and a drop of approximately 6.0 percentage points compared with approximately 25.1% in 2006. Of these, aggregate exports of textile products and clothing amounted to approximately US$72.06 billion, representing a growth of 28.7% as compared with the previous year, and a drop of 7.5 percentage points in growth rate.

From January to November 2007, the textile industrial output value of large scale enterprises in the whole industry was RMB2,678.66 billion, representing a growth of approximately 23.5% as compared with the corresponding period of the previous year. The profit amounted to RMB106.35 billion, representing a growth of approximately 38.5%. However, the

CHAIRMAN'S STATEMENT

continual appreciation of Renminbi, the decrease in export tax refund rate, the continued increase in energy prices, the moderate increase in cotton prices together with the nation's tightened monetary policy continued to have an impact on the industry, and raised challenges to the Group's overall operations.

By leveraging on the effective operating strategies and strong core competitiveness, Weiqiao Textile continued to maintain a leading position in the industry under the challenging operating environment of the industry. For the year ended 31 December 2007, the Group's turnover was approximately RMB18,590,000,000, representing a decrease of 6.2% as compared with 2006. Profit attributable to shareholders was over RMB1,868,000,000, representing an increase of 10.9% as compared with 2006. Earnings per share were RMB1.56. The Board recommended the payment of a final dividend of RMB0.5005 per share for the year ended 31 December 2007.

During the Year, with the Group's active efforts in driving technological improvement, enhancing the level of equipment and facilities and optimizing the portfolio of products and improving both the grade and the quality of its products, gross profit of the products continued to be maintained at a remarkable level within the industry, with an overall gross profit margin of 14.3%.

Looking ahead, the textile industry in China will continue to see coexistence of challenges and opportunities. In particular the appreciation of Renminbi, the adjustment of the export tax refund policy and new Labor Contract Law will have a comparatively distinct impact. The production costs of cotton, labor and energy will likely rise due to an increase in demand, and that the Group's operating cost and operating profit will face greater pressure.

However, with the Memorandum of Understanding on China-EU Textile Trade taking effect from 1 January 2008, the EU completely removed the quantitative limit on the exports of 10 types of textile products from China, and there will be an increase in the number of textile products exported to the market from China. As for the domestic market, it is believed that the vast domestic consumption market will become another favorable factor for the textile industry. Generally speaking, the Group remains prudently optimistic about the overall environment and prospect of the enterprise and the industry.

China's economic development has driven the growth in the domestic demand. According to the market demand, Weiqiao Textile will expand the domestic market share so as to seize market opportunities. For the overseas market, the Group will continue to leverage on the advantages of the economy of scale and product portfolio to expand the geographical coverage of its business, improve both the level and the quality of its products, and strengthen its development in the medium- and high-end markets.

Meanwhile, the Group believes that the textile industry in China will continue to pursue its course in technological reform and industrial enhancement. With more fierce competition, there will be opportunities for market consolidation in the industry in the future. As a leader in the industry, the Group will continue to upgrade production technology, improve production equipment and facilities, produce more high value-added products and medium- and high-end products, improve internal management, control production costs stringently, enhance per capita efficiency and strengthen the core competitiveness of the Company, thereby to maintain its leading position in the industry.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, investors and business partners for their continuous trust and support, and to the staff for their contribution and relentless efforts devoted to the long-term development of the Group in the past year, and hope to continue our mutual development and growth with the Group in the days to come. The Directors believe that with their faithful devotion, Weiqiao Textile will continue to maintain its core competitive strength, maximise the utilisation of its potentials to achieve good results, and create values to all shareholders in the fast-changing market competition.

Zhang Hongxia
Chairman

Shandong, the PRC
28 March 2008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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2007, the entire textile industry in China maintained steady growth. According to the statistics of the Statistics Centre of China National Textile and Apparel Council, sales revenue for the country's large-scale textile enterprises from January to November 2007 was RMB2,678.657 billion, representing an increase of 23.50% as compared with the previous year; total profit was RMB106.3 billion, representing an increase of 38.54% as compared with the previous year. The proportion of domestic sales of the products of relevant enterprises to the country's sales production value in the textile industry amounted to 75.04%, and an increase of 2.27 percentage point in terms of growth rate, as compared with the previous year. The above figures demonstrated the strong trend of the increase in domestic demand.

Meanwhile, exports of textile products and clothing in China grew steadily but with a decline in the growth rate. According to the statistics of China Customs, exports of textile products and clothing for 2007 amounted to US$175.6 billion, representing an increase of 19.11% as compared with last year, while the growth rate dropped by 6 percentage points. Exports of cotton textile products and clothing amounted to US$72.063 billion, representing an increase of 28.69% as compared with last year, while the growth rate dropped by 7.5 percentage points.

During the Year, the purchase price of cotton showed a steady rising trend, the average price during the core purchase period was higher than in the same period of last year. Cotton A Index in China once increased to approximately RMB14,843 per ton in August, but cotton prices were confined to narrow movements subsequently and reached approximately RMB14,171 per ton in December 2007, representing an increase of about 5% over that in January 2007. Cotlook A index rose from US$60.42 cent per pound in January 2007 to US$70.46 cent per pound in December 2007, representing an increase of approximately 16.6%. The rising cotton prices created pressure on the control of core costs in the industry.

During the Year, the appreciation of Renminbi, the adjustment of export tax refund policy and the increase in the cost of raw materials all posed certain challenges for the textile industry in China. Export faced hidden worries of shrinkage and the rise in production cost, which led to more intense market competition and the closure of some small scale manufacturers, thus speeding up consolidation in the industry.

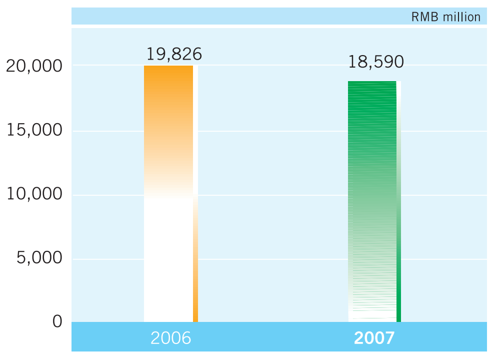
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

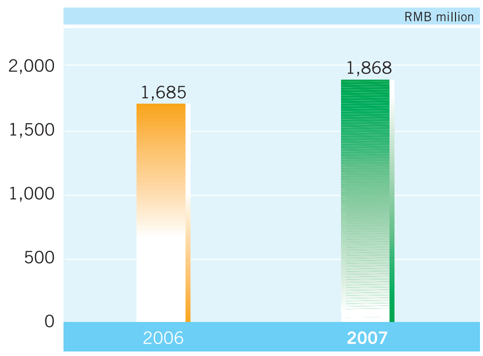
Weiqiao Textile, being the largest cotton textile manufacturer in China in terms of the scale of production and an upstream manufacturer in the production chain, is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim.

In 2007, leveraging on its strong economy of scale and technological transformation, improving equipment and facilities, optimising product mix, and successfully increasing operating efficiency, Weiqiao Textile achieved steady operating results in the challenging textile market.

Revenue



Profit attributable to shareholders of the Company

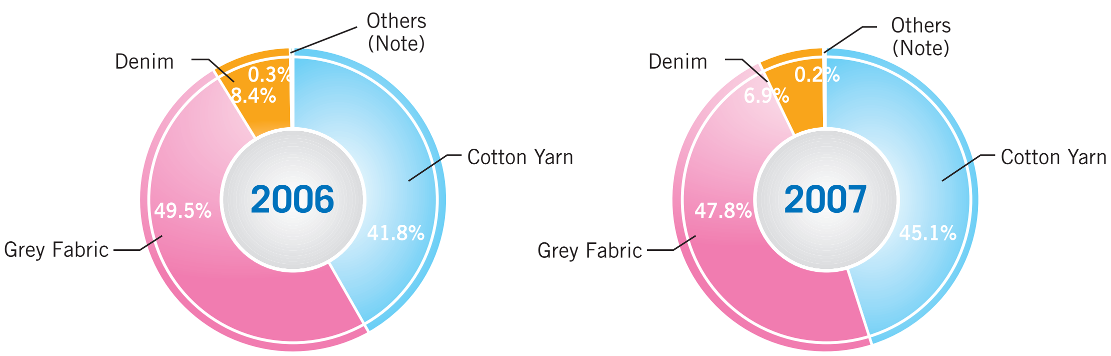


For the twelve months ended 31 December 2007, the Group's revenue decreased by 6.2% when compared with the same period last year. The main reasons were: (1) the appreciation of Renminbi, a decrease in the export tax refund rate, a reduction in the demand in the textile market as a result of macroeconomic controls, and the poor textile market conditions for the whole year; (2) as the Company re-construct part of the first production area of the Weiqiao production base, part of the facilities had been disposed and relocated, which had affected the production volume of products.

For the twelve months ended 31 December 2007, net profit attributable to shareholders of the Company increased by 10.9% over last year. The main reasons were: (1) the tax concessions obtained by the Group in respect of purchases of PRC manufactured machinery and equipment resulted in an increase in net profits of approximately RMB390,000,000; (2) the Group had adopted the new Chinese Accounting Standards whereby welfare expenses payable in prior years were written back, resulted in an increase in net profits of approximately RMB358,000,000.

The chart below is a comparison of the proportion of revenue by products for the years ended 31 December 2006 and 2007:

Proportion of revenue by products

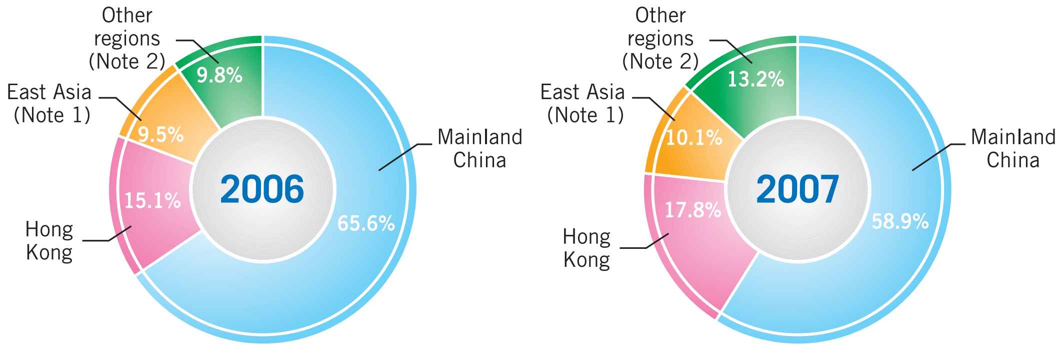


Note: Others include cotton linter and cotton seed

The proportion of sales revenue from the three categories of products of the Group to the total revenue was basically equivalent to that for 2006.

The chart below is a comparison of the Group's revenue in terms of geographical locations for the years ended 31 December 2006 and 2007:

Proportion of revenue by geographical locations



Note 1: East Asia comprises Japan and South Korea

Note 2: Other regions mainly comprise Taiwan, Southeast Asia, the US and Europe

For the year ended 31 December 2007, the domestic sales of the Group dropped slightly, which was attributable to the slowdown of export by domestic textile exporters during the year.

As at 31 December 2007, the Group had a total of four production bases, namely:

1. Weiqiao Production Base (The First, the Second and the Third Production Areas);

2. Binzhou Production Base (the First Production Area and the Second Production Area of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"));

3. Weihai Production Base (Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park")); and

4. Zouping Production Base (The First Industrial Park of Zouping, the Second Industrial Park of Zouping and the Third Industrial Park of Zouping).

All of the above production bases are located in Shandong Province in the PRC, with a total gross floor area of approximately 4,460,000 sq.m.

In 2007, the Group's production volume of cotton yarn, grey fabric and denim were appoximately 891,000 tons, 1,646,000,000 meters and 180,000,000 meters, respectively, which were basically equivalent to that of 2006.

During the year under review, the Group continued to actively expand its market share and explored new market. As at 31 December 2007, the Group had a total of 8,000 domestic customers and over 780 overseas customers, representing a growth of 6.7% and 8.3%, respectively, as compared with last year.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to its major product categories for the years ended 31 December 2006 and 2007:

Product	For the year ended 31 December 2006			For the year ended 31 December 2007		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*
Cotton yarn	8,291,334	1,126,550	13.6	8,384,946	1,119,056	13.3
Grey fabric	9,811,971	1,872,157	19.1	8,895,921	1,275,527	14.3
Denim	1,668,749	311,541	18.7	1,274,368	260,117	20.4
Others	54,100	12,842	23.7	34,351	7,671	22.3
	19,826,154	3,323,090	16.8	18,589,586	2,662,371	14.3

For the twelve months ended 31 December 2007, the Group's gross profit margin decreased to 14.3%. The decrease was mainly attributable to a decrease in the gross profit margin as the Group implemented a sales strategy of cutting prices according to market conditions in response to a decline in market demand under the unfavourable factors of the appreciation of Renminbi, the reduction in the tax refund rate and the macroeconomic control policy.

For the year ended 31 December 2007, the gross profit margin of cotton yarn was basically equivalent to that for the last year; the decrease in the gross profit margin of grey fabric was attributable to a reduction in selling prices by the Group amidst poor market conditions; the increase in the gross profit margin of denim was attributable to the increase in the production volume of some high value added products by the Group in accordance with market demand.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 14.2% to approximately RMB410,000,000 for the year ended 31 December 2007 from approximately RMB359,000,000 for the previous year. Transportation cost increased by 16.4% to approximately RMB320,000,000 from approximately RMB275,000,000 for 2006 due to an increase in unit transportation cost as a result of an increase in domestic oil prices. Sales commission decreased by 5.6% to approximately RMB34,000,000 from approximately RMB36,000,000 for 2006. This was attributable to a reduction in the payment of commission as a result of a decrease in sales volume through agents as the Group further stepped up its efforts in developing the market on its own.

Administrative expenses

Administrative expenses for the year ended 31 December 2007 amounted to approximately RMB197,000,000, representing an increase of 11.3% as compared with approximately RMB177,000,000 in the previous year. This was mainly attributable to the increase of staff benefits.

Finance costs

For the year ended 31 December 2007, finance costs of the Group were approximately RMB726,000,000, basically equivalent to that for last year. This was attributable to the fact that the reduction in interest expenses due to a decrease in the Group's interest-bearing bank borrowings was basically offset against the increase in interest expenses caused by an increase in lending rates of financial institutions.

Liquidity and financial resources

As at 31 December 2007, cash and cash equivalents of the Group were approximately RMB4,014,000,000, representing a decrease of 4.7% as compared with cash and cash equivalents of approximately RMB4,210,000,000 as at 31 December 2006.

For the year ended 31 December 2007, capital expenditure of the Group was approximately RMB1,278,000,000, which were mainly used for the technological reform of existing production facilities so as to increase the production capacity for high value added products. The above funds for capital expenditure were mainly derived from net cash inflow from operating activities. For the year ended 31 December 2007, the net cash inflow from the Group's operating activities was approximately RMB2,143,000,000.

For the year ended 31 December 2007, average accounts receivable turnover days were approximately 18 days, up from 13 days for last year. The increase in accounts receivable was attributable to the extension of the accounts receivable turnover period as a result of an increase in the Group's export revenue, of which foreign customers mainly made the payment by the letter of credit.

For the year ended 31 December 2007, inventory turnover days of the Group increased slightly to 82 days from 79 days for last year.

Net profit attributable to shareholders of the company and earnings per share

Net profit attributable to shareholders of the Company was approximately RMB1,868,000,000 for the year ended 31 December 2007, representing an increase of 10.9% as compared with approximately RMB1,685,000,000 of last year.

For the year ended 31 December 2007, the basic earnings per share of the Company were RMB1.56.

Capital structure

The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2007, the debts of the Group included interest-bearing bank borrowings and long term payable to the Holding Company totalling approximately RMB9,227,000,000. Cash and cash equivalents were approximately RMB4,014,000,000. The gearing ratio was 38.7% (2006: 46.7%) (Total debt (Including interest-bearing bank borrowings, net of cash and cash equivalents and long term payable to the Holding Company) divided by net asset value.)

As at 31 December 2007, 32.7% of the Group's bank borrowings was subject to fixed interest rates while the remaining 67.3% was subject to floating interest rates.

As at 31 December 2007, the Group's borrowings were mainly denominated in Renminbi and US dollars, in which 38.1% of the Group's borrowings were denominated in US dollars. Cash and cash equivalents were mainly held in Renminbi and US dollars in which 4.5% of the cash and cash equivalents was held in US dollars.

Employee and remuneration policy

As at 31 December 2007, the Group had a total of approximately 135,000 employees, representing a decrease of approximately 17,000 employees as compared with last year. The decrease in the number of employees was mainly attributable to a reduction in the amount of labour used as a result of the technological reform of its existing facilities undertaken by the Group. During the year, total staff cost was approximately RMB2,258,000,000, representing 12.1% of the revenue. Employees were remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages were reviewed by its management on a regular basis. Bonuses and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and motivate staff to achieve better performance. During the year, the Group provided training to staff members according to their respective job functions and skills requirements, such as training sessions on safety and various skills.

Details of the Group's pledged assets

Details are set out in note 28 of the financial statements.

Exposure to foreign exchange risk

The import and export of the Group were settled in US dollars and part of bank borrowings and deposit are denominated in US dollars. The term of payment for the import of raw materials and borrowings denominated in US dollars of the Group are generally longer than the term of payment by the Group's foreign customers. For the year ended 31 December 2007, the Group recognised net foreign exchange gains of RMB226,000,000. The Group has not experienced any significant difficulties or impact on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believe that the Group will have sufficient foreign currencies to meet its requirements.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group's contingent liabilities not provided for in the financial statements were undue letter of credit issued amounting to approximately RMB53,000,000.

TAXATION

Taxation of the Group decreased by 36.0% from approximately RMB617,000,000 for 2006 to approximately RMB395,000,000 for 2007. This was attributable to the fact that the Group obtained a tax concession of approximately RMB390,000,000 for the purchases of PRC manufactured machinery and equipment. The tax concession obtained in 2006 was approximately RMB163,000,000.

POST BALANCE SHEET EVENTS

During the 5th Session of the Tenth National People´s Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Implementation of the New Corporate Income Tax Law is expected to have a positive impact on the Group's earnings.

At the extraordinary general meeting of the Company held on 18 March 2008, the assets transfer agreement dated 14 January 2008 between the Company and the immediate holding company, Shandong Weiqiao Chuangye Group Company Limited ("Holding Company"), was approved, pursuant to which the Company will acquire thermal power assets from the Holding Company for a total consideration of RMB2,210,000,000 (equivalent to HK$2,376,344,000).

FUTURE OUTLOOK

Looking ahead, under the market environment full of challenges and opportunities, the Group believes that Weiqiao Textile can rely on its own strength to capture the opportunities and develop the domestic and overseas markets at the same time. Weiqiao Textile will strive to expand the market of medium and high-end products to maintain and strengthen its position as the first-choice supplier in China and even around the would for international purchasers so as to improve profitability. In the meantime, the Group will continue to consolidate the outstanding image of the "Weiqiao" brandname, actively upgrade its production facilities and improve operating efficiency, and strengthen cost control so as to enhance its core competitiveness.

We will continue to make efforts to build a more powerful brandname of Weiqiao, promote a more heathy and stable development of the Group and to continuously create value for the shareholders.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DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 36, is the Chairman and general manager of the Company. She graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. She is a qualified political administrator. She obtained a Master degree in business administration for senior management from Dalian Polytechnic University (大連理工大學) on 7 July 2006, and is responsible for supervising the Group's general operation and formulating the Group's business strategies, as well as overseeing the Group's production and marketing of the Group's products. She joined the Company in 1999. She was appointed and re-elected as a director at the Company's annual general meeting held on 6 June 2006. She has over thirteen years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as the deputy head and head of the technical division as well as the director of the production technical department. She had also been the deputy general manager and general manager of the Holding Company, director of Binzhou Weiqiao Property (濱州魏橋置業有限公司), chairman of Shandong Weilian Printing & Dyeing Company Limited (山東魏聯印染有限公司) ("Weilian Print") and director and general manager of Shandong Weiqiao Bleaching-dyeing Company Limited (山東魏橋漂染有限公司) ("Weiqiao Bleach"). She is currently also a non-executive director of the Holding Company (from 2 May 2001 onward and as a director from 14 April 1998 to 1 May 2001), a director of Binzhou Industrial Park (from 26 November 2001), a director and general manager of Shangdong Weiqiao Mianye Company (山東魏橋棉業有限公司) ("Weiqiao Mianye") (from 29 September 2003), the chairman and general manager of Shandong Luteng Textile Company Limited (山東魯藤紡織有限公司) ("Luteng Textile") (from 12 September 2002), the chairman and general manager of Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) ("Binteng Textile") (from 9 March 2004) as well as the chairman of Weihai Industrial Park (威海工業園) (from 30 January 2004). Currently, Ms. Zhang is also the vice chairman of the 5th session of the Hongkong General Chamber of Textiles Ltd. Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her sister.

Zhang Yanhong

Ms. Zhang Yanhong, aged 32, graduated from Shandong University and obtained a professional diploma in computer and application, and further obtained a professional diploma in computer application from the People's University in 1996, a senior diploma in Innovative Management MIA from senior research class in Tsinghua University in 2006 and an executive master degree of business administration from Dalian Polytechnic in July 2006. She was appointed as a director at the extraordinary general meeting of the Company held on 6 November 2006. Ms. Zhang has over seven years of management experience in the cotton textile industry. Ms. Zhang has been the general manager of Weihai Weiqiao (威海魏橋) since May 2000, and has been the general manager of Weihai Industrial Park from October 2002. Mr. Zhang Shiping and Ms. Zhang Hongxia are the father and sister of Ms. Zhang, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Qi Xingli

Mr. Qi Xingli, aged 43, is the deputy general manager and financial controller of the Company. He graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He oversees the Group's finance and accounting functions. He joined the Company in 1999. He was appointed and was re-elected as a director at the Company's annual general meeting held on 6 June 2006. He has over nineteen years of experience in the cotton textile industry. He previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as deputy head of the accounting department. He had also been a deputy director and director of the financial division, deputy general manager and director of the Holding Company as well as general manager of the Company. He is currently also the supervisor of Weihai Weiqiao (from 25 July 2001) as well as the director of Binzhou Industrial Park (from 26 November 2001).

Zhao Suwen

Ms. Zhao Suwen, aged 34, is the company secretary of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a diploma in business administration. She is a qualified economist. She oversees the Group's finance and accounting functions together with Mr. Qi Xingli and is also responsible for board secretarial duties. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 6 June 2006. She has over nine years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as an accountant for about five years and as a finance manager of the Company.

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 61, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. He was appointed and re-elected as a director at the Company's annual general meeting held on 6 June 2006. He previously held the positions of workshop supervisor, head of the production division, deputy head and head of No. 5 Oil and Cotton Factory, party secretary and head of Zouping County Weiqiao Cotton Spinning Factory (鄒平縣 位橋棉紡織廠), the general manager of the Holding Company, the chairman of the Company, the chairman of Weilian Print, Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd. the chairman of Shandong Weiqiao Tekuanfu Co., Ltd. ("Tekuanfu"), the chairman of Shandong Weiqiao Garment Co., Ltd., ("Weiqiao Garment"), the chairman of Binzhou Weiqiao Aluminum Technology Co., Ltd. and the chairman of Shandong Weiqiao Elite Garment Co., Ltd. ("Elite Garment") He is currently the chairman of Shandong Weiqiao Dyeing Company Limited (山東位橋染織有限公司) ("Weiqiao Dyeing") (from 27 July 1994), the party secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) ("ZCSU") (from 8 March 1998), the chairman of the Holding Company (from 14th April, 1998), the chairman of Weihai Weiqiao (from 25 July 2001), the director of Binzhou Industrial Park (from 26 November 2001), director of Weiqiao Bleach (from 28 June 2003). He is also the chairman of Shandong Weiqiao Hongyuan Home Textile Co., Ltd. ("Hongyuan Home Textile") (山東魏橋宏源家紡有限公司), and Weihai Xijiao Thermal Power Co., Ltd. ("Xijiao Thermal Power") (威海西郊熱電有限公司). Mr. Zhang Shiping was a representative of the Ninth and Tenth National People's Congress. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

Wang Zhaoting

Mr. Wang Zhaoting, aged 43, graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He joined the Company in 2002. He was appointed and re-elected as a director at the Company's annual general meeting on 6 June 2006. He previously worked at No. 5 Oil and Cotton Factory and was engaged in the procurement and management of cotton. He had been the deputy head of the business division at No. 5 Oil and Cotton Factory as well as the deputy head of the cotton procurement division of the Holding Company. He is currently also head of the matarial procurement division of the Holding Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 53, graduated from the Waterloo University in Canada and obtained a Bachelor degree in mathematics. Mr. Chan has been the executive director of China Golden Development Holdings Limited (中國金展控股有限公司), and has been the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), executive director of HSBC Asset Management Ltd. (匯豐投資管理有限公司) , member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), member of the Consumers Litigation Fund Executive Committee (消費者訴訟基金執行委員會), president of the Rotary Club of Tsim Sha Tsui East (國際扶輪社香港尖沙咀東), director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), board member of Hong Kong Ocean Park (香港海洋公園董事局), chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會), and the director, general manager and chief investment officer of Dao Heng Fund Management Co., Ltd. (道亨基金管理有限公司), chairman of China Sub-Committee of the Hong Kong Investment Funds Association (香港投資基金公會中國事務委員會), member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會). He is currently the chairman and chief executive officer of Capital Focus Asset Management Limited (滙駿資產管理有限公司) and the independent non-executive director of Kenfair International (Holdings) Limited (建發國際(控股)有限公司). He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting held on 6 June 2006, with the term of his appointment effective from 6 June 2006.

Xu Wenying

Mr. Xu Wenying, aged 56, graduated from Tianjin Institute of Light Industry (天津輕工業學院) and obtained a diploma in light and chemical industry machinery. He is a qualified professor level senior engineer. He has been the engineer, deputy workshop director, technical section chief, deputy factory director and chief engineer in Huhehaote Inner Mongolia Chemical Fibre Factory (呼和浩特內蒙古化學纖維廠), deputy section chief of the technical transformation section of the planning department of the Ministry of Textile Industry (紡織工業部) (subsequently renamed as China General Chamber of Textile (中國紡織總會)), and deputy secretary general of China National Textile and Apparel Association ("CNTAC") (中國紡織工業協會). He is currently the deputy director of the industry department of the CNTAC, chairman of China Cotton Textile Association (中國棉紡織行業協會), chairman of China Yarn Dyed Weaving Association (中國色織行業協會), director of the Textile Products Technological Improvement Consultation Services Centre (紡織企業技術進步諮詢服務中心) and independent director of Black Peony (Group) Company Limited (黑牡丹(集團)股份有限公司). He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting on 6 June 2006, with the term of his appointment effective from 27 June 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wang Naixin

Mr. Wang Naixin, aged 56, graduated from Qufu Teachers College (曲阜師範學院) and obtained a diploma in politics. He is qualified as a professor. Since 1993, he has been teaching and researching on several areas, such as corporate management, sales and marketing as well as training in the textile industry. He is currently the party secretary in Binzhou Teacher's College (濱州師範專科學校) (from 8 February 2001). He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting held on 6 June 2006, with the term of his appointment effective from 6 June 2006.

SUPERVISORS

Liu Mingping

Mr. Liu Mingping, aged 40, graduated from Binzhou Local Vocational School (濱州地區供銷職工中專學校) and obtained a diploma in corporate management. He had been the workshop supervisor of No. 5 Oil and Cotton Factory, the factory head of the No. 3 Spinning Factory of Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠三紡), the deputy general manager of Binzhou Weiqiao Textile Company Limited (濱州魏橋紡織有限公司), the head of the equipment division and the head of the corporate management department of the Holding Company. He is currently the inspector of the corporate planning division of the Company. He was appointed and re-elected as a Supervisor at the Company's annual general meeting held on 6 June 2006.

Lu Tianfu (Independent Supervisor)

Mr. Lu Tianfu, aged 73, graduated from Shanghai Dynamic Machinery Special School (上海動力機械專科學校) specialising in diesel engine. He is a qualified senior engineer. He has been a technician in Jinan Diesel Engine Factory (濟南柴油機廠), a supervisor of Educational Research Room of Shandong Supply and Marketing Cooperation School (山東供銷合作學校教研室), a technician, an engineer, a senior engineer, a department head, a manager and a deputy supervisor of Shandong Binzhou Supply and Marketing Cooperative (山東省濱州地區供銷合作社), committee member and deputy chief of Shandong Binzhou Local Intermediate Engineer Technician Assessment Committee (山東省濱州地區中級工程技術職稱評委會) as well as consultant to general manager of Shandong Bohai Oil & Grease Industry Co. (山東渤海油脂工業公司). He was appointed and re-elected as an independent Supervisor at the Company's annual general meeting held on 6 June 2006. He does not currently hold any other position in the Group.

Wang Wei (Independent Supervisor)

Ms. Wang Wei, aged 67, graduated from Qingdao Weaving School (青島紡織專科學校) and obtained a diploma specialising in cotton spinning. She is a qualified senior engineer. She has been the workshop supervisor at Xinjiang Urumqi "July 1" First Cotton Weaving Plant (新疆烏魯木齊市「七一」第一棉紡織廠), workshop supervisor and engineer of Shandong Lingyi Cotton Weaving Factory (山東省臨沂棉紡織廠), engineer of Shandong Weaving Industrial Office Education Division (山東省紡織工業廳教育處), manager of Shandong Weaving Industrial Office Cotton Textile Dyeing and Printing Co. (山東省紡織工業廳棉紡織印染公司), supervisor of the coordinating office of the Shandong Weaving Industrial Office (山東省紡織工業廳協作辦), manager and senior engineer of Shandong Weaving Industrial Office Economy and Technology Development Co. (山東省紡織工業廳經濟技術開發公司), general manager and senior engineer of Shandong Weaving Industrial Office Weaving Industry Group Co. (山東省紡織工業廳紡織實業總公司) as well as head and chief engineer of the production technical division of Shandong Weaving Industrial Office (山東省紡織工業廳生產技術處). She was appointed and re-elected as an independent Supervisor at the Company's annual general meeting on 6 June 2006. She does not currently hold any other position in the Group.

SENIOR MANAGEMENT

Wang Guoming (Deputy General Manager)

Mr. Wang Guoming, aged 36, graduated from the College of Adult Education of Qingdao University with a diploma in textile engineering management. He has over 11 years of management experience in the cotton textile industry. He had served as the Director, Deputy Factory Director and Factory Director of the woven fabrics workshop of the Company and the Deputy General Manager of Zouwei Third Production Area (From April 1996 to September 2002). He is currently also the Head of Materials Supply Division of the Company (from September 2002). On 31 August 2007, he was appointed as the Deputy General Manager of the Company.

Zhao Weijian (Head of Accounting)

Mr. Zhao Weijian, aged 37, graduated from Shandong University in 1992. He is currently the head of accounting of the Company (from 10 September 2004). He has been the supervisor of Economic Development Investment Company of Zouping County (鄒平縣財政局經濟開發投資公司), auditor of Shandong Binzhou Accounting Finance, Zouping Office (山東濱州會計師事務所鄒平分所), audit officer of Zouping Jianxin Certified Public Accountants Ltd. (鄒平鑒鑫會計師事務所). He is assisted by Mr. Mak Wai Ho, who is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2007.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2007 and the financial position of the Group and the Company as at 31 December 2007 are set out on pages 52 to 54 and pages 59 to 60 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.5005 per share for the year ended 31 December 2007, to shareholders of the Company on the register of members at the close of business on 30 April 2008. There was no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends. This recommendation has been incorporated in the audited financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2003, 2004 and 2005, and from the audited consolidated financial statements of the Group for the year ended 31 December 2006 and the year ended 31 December 2007 on pages 52 to 54, is set out below:

Results

	For the year ended 31 December				
	2003 *RMB'000*	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	**2007** ***RMB'000***
Revenue	6,560,470	11,088,224	13,584,389	19,826,154	**18,589,586**
Cost of sales	(5,350,157)	(9,231,047)	(11,340,259)	(16,503,064)	**(15,927,215)**
Gross profit	1,210,313	1,857,177	2,244,130	3,323,090	**2,662,371**
Other income and gains	74,120	159,022	189,536	350,250	**466,921**
Selling and distribution costs	(148,375)	(275,899)	(344,868)	(358,816)	**(410,222)**
Administrative expenses	(89,703)	(143,524)	(151,059)	(177,341)	**(196,971)**
Write-back of unutilised welfare provision	—	—	—	—	**534,362**
Other expenses	(35,116)	(59,509)	(81,788)	(109,609)	**(57,821)**
Financial cost	(157,797)	(290,383)	(420,167)	(720,003)	**(726,014)**
Profit before tax	853,442	1,246,884	1,435,784	2,307,571	**2,272,626**
Tax	(305,674)	(420,405)	(187,390)	(616,745)	**(394,521)**
Profit for the year	547,768	826,479	1,248,394	1,690,826	**1,878,105**
Attributable to:					
Equity holders of the parent	541,672	825,535	1,242,473	1,685,405	**1,868,471**
Minority interests	6,096	944	5,921	5,421	**9,634**
	547,768	826,479	1,248,394	1,690,826	**1,878,105**

Assets and liabilities

	As at 31 December				
	2003 *RMB'000*	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	**2007** ***RMB'000***
Total assets	11,339,925	16,388,853	24,704,766	26,140,632	**26,748,676**
Total liabilities	6,682,539	10,228,695	14,783,418	14,018,831	**13,276,020**

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2007 are set out in Note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of changes in the Company's share capital during the year ended 31 December 2007, together with the reasons therefor, are set out in Note 32 to the financial statements.

The Company does not have any share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company has redeemed, purchased or sold any of its own listed securities during the year ended 31 December 2007, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended 31 December 2007.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2007 are set out in Note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, in accordance with the PRC Company Law and the PRC Accounting Standards and Regulations, an amount of about RMB6,673,000,000 stood to the credit of the Company's capital reserve account, and an amount of about RMB918,000,000 stood to the credit of the Company's statutory reserve funds. In addition, according to the Company's Articles of Association, the Company had retained profits of about RMB4,014,000,000 for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, sales to the Group's five largest customers accounted for 13.1% of the Group's total sales for the year ended 31 December 2007, sales to its largest customer accounted for 5.7% of the Group's total sales for the year ended 31 December 2007.

During the year ended 31 December 2007, purchases from the Group's five largest suppliers accounted for 28.3% of the Group's total purchases for the year ended 31 December 2007, purchases from the Group's largest supplier accounted for 14.2% of the Group's total purchases for the year ended 31 December 2007.

The Group has sold certain products to and from certain companies with the same ultimate controlling shareholder of the Company, details of which are set out in the section headed "Connected Transactions" below.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers each of the independent non-executive Directors to be independent.

EMOLUMENTS OF DIRECTORS

There was no arrangement under which a Director has waived or agreed to waive any emoluments. Details of emoluments of Directors are set out in Note 8 to the financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and Supervisors of the Company (excluding the independent Supervisors) 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 has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Company's Articles of Association, each Director and Supervisor is eligible for re-election upon expiration of his/her term of office.

Save as mentioned above, the Company has not entered into any service contract with any of the Directors and Supervisors which is terminable by the Company within one year without payment of compensation other than statutory compensation.

The Directors and Supervisors as at the date of this report and their respective term of office are as follows:

Executive Directors:

Zhang Hongxia	Until 6 June 2009
Zhang Yanhong	Until the date of annual general meeting of 2008
Qi Xingli	Until 6 June 2009
Zhao Suwen	Until 6 June 2009

Non-executive Directors:

Zhang Shiping	Until 6 June 2009
Wang Zhaoting	Until 6 June 2009

Independent non-executive Directors:

Wang Naixin	Until 6 June 2009
Xu Wenying	Until 27 June 2009
Chan Wing Yau, George	Until 6 June 2009

Supervisors:

Liu Mingping	Until 6 June 2009
Lu Tianfu *(Note)*	Until 6 June 2009
Wang Wei *(Note)*	Until 6 June 2009

Note: Independent Supervisor

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the directors, supervisors and senior management are set out on page 21 to page 25 in this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 36, headed "Related Party Transactions", to the financial statements and the section headed "Connected Transactions" below, none of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during or at the end of 2007.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 36, headed "Related Party Transactions", to the financial statements and the section headed "Connected Transactions" below, there is no contract of significance between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries) or among the controlling shareholders of the Company (or any of its subsidiaries), and there is no contract of significance for the provision of services to the Company (or any of its subsidiaries) by a controlling shareholder of the Company (or any of its subsidiaries).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as known to any Directors, Supervisors or chief executive 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 of Hong Kong Limited ("Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("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 of the Company ("Domestic Shares"):

Shareholders	Number of Domestic Shares *(Note 1)*	Approximate percentage of total issued domestic share capital as at 31 December 2007 *(%)*	Approximate percentage of total issued share capital as at 31 December 2007 *(%)*
Shandong Weiqiao Chuangye Group Company Limited（山東魏橋創業集團有限公司）("Holding Company")	738,895,100 *(Note 2)*	94.64	61.86
Zouping County Supply and Marketing Corporation Union（鄒平縣供銷合作社聯合社）("ZCSU")	738,895,100 *(Note 3)*	94.64	61.86
CITIC Trust & Investment Co., Ltd.（中信信託投資有限責任公司）	738,895,100 *(Note 4)*	94.64	61.86

Long positions in the H Shares ("H Shares") of the Company:

	Number of H Shares *(Note 5)*	Approximate percentage of total issued H share capital as at 31 December 2007 *(%)*	Approximate percentage of total issued share capital as at 31 December 2007 *(%)*
Brandes Investment Partners, L.P.	62,213,500 *(Note 6)* *(Long position)*	15.04 (L)	5.21
The Bank of New York Mellon Corporation	53,817,700 *(Note 7)* *(Long position)*	13.01 (L)	4.51
The Bank of New York	50,784,304 *(Note 8)* *(Long position)*	12.28 (L)	4.25
	36,787,404 *(Lending pool)*	8.89 (P)	3.08
The Bank of New York Mellon Corporation	50,026,304 *(Note 9)* *(Long position)*	12.09 (L)	4.19
	36,095,464 *(Lending pool)*	8.73 (P)	3.02
ABN AMRO Mellon Global Securities Services BV	37,294,302 *(Note 10)* *(Long position)*	9.02 (L)	3.12
	36,162,464 *(Lending pool)*	8.74 (P)	3.03
Mellon Bank NA	37,294,302 *(Note 11)* *(Long position)*	9.02 (L)	3.12
	36,162,464 *(Lending pool)*	8.74 (P)	3.03
Mellon Financial Corporation	36,974,700 *(Note 12)* *(Long position)*	8.94 (L)	3.10
AllianceBernstein L.P.	34,563,500 *(Note 13)* *(Long position)*	8.36 (L)	2.89
UBS AG	21,744,178 *(Note 14)* *(Long position)*	5.26 (L)	1.82
	1,454,000 *(Short position)*	0.35 (S)	0.12
Templeton Investment Counsel, LLC	20,802,930 *(Note 15)* *(Long position)*	5.03 (L)	1.74

Notes:

1. Unlisted shares.
2. Pursuant to an equity transfer agreement entered into between Mr. Qi Xingli and the Holding Company dated 9 December 2007, Mr. Qi Xingli has transferred his 2,010,000 Domestic Shares to the Holding Company. Pursuant to an equity transfer agreement entered into between Mr. Zhang Shixue and the Holding Company dated 9 December 2007, Mr. Zhang Shixue has transferred his 17,532,000 Domestic Shares to the Holding Company. Prior to the aforesaid transfers, the Holding Company held 719,353,100 Domestic Shares; immediately after the aforesaid transfers, the Holding Company held 738,895,100 Domestic Shares.
3. These 738,895,100 Domestic Shares in which ZCSU was deemed interested under the SFO were directly held by the Holding Company, in which ZCSU had a controlling interest.
4. These 738,895,100 Domestic Shares in which CITIC Trust Co., Ltd. was deemed interested under the SFO were directly held by the Holding Company, in which ZCSU had a controlling interest. CITIC Trust Co., Ltd. is a trustee of ZCSU.
5. Shares listed on the Main Board of the Stock Exchange.
6. 62,213,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
7. 53,770,200 H Shares in which The Bank of New York Mellon Corporation, with the registered office situated at Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, which was directly owned by MAM(MA) Trust, which was in turn directly owned by MAM(DE) Trust. MAM(DE) Trust was directly owned by the Bank of New York Mellon Corporation. 47,500 H Shares in which The Bank of New York Mellon Corporation was deemed interested under the SFO were directly held by Mellon Bank, NA, which was directly owned by The Bank of New York Mellon Corporation.
8. 37,938,802 H Shares in which The Bank of New York was deemed interested under the SFO were directly held by The BNY Mellon Asset Servicing BV, which was a corporation 50% controlled by The Bank of New York. 12,845,502 H Shares was held by The Bank of New York as custodian corporation/approved lending agent.
9. 37,180,802 H shares in which the Bank of New York Mellon Corporation, with the registered office situated at One Wall Street, New York, New York 10286, was deemed interested under SFO were directly held by ABN AMRO Mellon Global Securities Services BV which is a corporation 50% controlled by Mellon Bank NA, the whole subsidiary of Bank of New York Mellon Corporation. 12,845,502 H shares in which the Bank of New York Mellon Corporation was deemed interested under SFO were directly held by The Bank of New York which is a corporation wholly controlled by the Bank of New York Mellon Corporation.
10. 37,294,302 H Shares were held by ABN AMRO Mellon Global Securities Services BV as a custodian corporation/approved lending agent.
11. 37,294,302 in which Mellon Bank NA was deemed interested under SFO were directly held by ABN AMRO Mellon Global Securities Services BV which is a corporation 50% controlled by Mellon Bank NA.
12. 24,706,700 H shares in which Mellon Financial Corporation was deemed interested under SFO were directly held by the Boston Company Asset Management LLC, an corporation directly and wholly controlled by MAM (MA) Holding Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is directly and wholly controlled by Mellon Financial Corporation.
13. 1,193,000 H shares in which AllianceBernstein L.P. was deemed interested under SFO were directly held by AllianceBernstein Corporation of Delaware which is a corporation wholly controlled by AllianceBernstein L.P. 757,900 H shares and 435,100 H shares in which AllianceBernstein L.P. was deemed interested under SFO were directly held by AllianceBernstein Limited and AllianceBernstein Investment Management Australia Limited respectively which is a corporation wholly controlled by AllianceBernstein Corporation of Delaware.
14. 1,781,500 of the H Shares was held by UBS AG as a person having a security interest in shares. Long positions in 1,454,000 and 2,790 H Shares in which UBS AG was deemed interested under the SFO were directly held by UBS Securities LLC. and UBS Bank (Canada), respectively, both of which were directly owned by UBS AG. Short position in 1,454,000 H Shares in which UBS AG was deemed interested under the SFO were directly held by UBS Securities LLC..
15. 20,802,930 H Shares were held by Templeton Investment Counsel, LLC in its capacity as investment manager.

Save as disclosed above, as at 31 December 2007, so far as is known to the Directors, Supervisors or chief executive 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 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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2007, 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 of the Company:

	Type of interest	**Number of Domestic Shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2007** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2007** *(%)*
Zhang Hongxia (Executive Director/Chairman)	Beneficial	17,700,400	2.27	1.48
Qi Xingli (Executive Director)	Beneficial	6,042,500	0.77	0.51
Zhang Shiping (Non-executive Director)	Beneficial	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 as at 31 December 2007 *(%)*
Zhang Shiping (Non-executive Director)	Holding Company	Beneficial	23.52
Zhang Hongxia (Executive Director)	Holding Company	Beneficial and spouse (Note 1)	5.73 (Note 1)
Zhang Yanhong (Executive Director)	Holding Company	Beneficial	1.63
Qi Xingli (Executive Director)	Holding Company	Beneficial	0.75
Wang Zhaoting (Non-executive Director)	Holding Company	Beneficial	0.25
Zhao Shuwen (Executive Director)	Holding Company	Beneficial	0.38
Liu Mingping (Supervisor)	Holding Company	Beneficial	0.14

Note 1: The 48,000,000 Shares in the Holding Company were beneficially held by Ms. Zhang Hongxia, while the 43,676,000 Shares in which Ms. Zhang Hongxia is deemed to be interested under the SFO are interests directly held by Mr. Yang Congsen, the husband of Ms. Zhang Hongxia.

Save as disclosed above, as at 31 December 2007, none of the Directors, Supervisors or the chief executive of the Company had an interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) entered in the register required to be kept by the Company puresuant ot 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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year ended 31 December 2007.

CONNECTED TRANSACTIONS

Related party transactions as set out in Note 36 to the financial statements also constituted connected transactions under the Listing Rules, and required to be disclosed under Rule 14A of the Main Board Listing Rules.

Details of the connected transactions of the Group for the year ended 31 December 2007 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules, except for the continuing connected transactions regarding the supply of cotton yarn and grey fabric by the Group to Parent Group and the supply of cotton yarn and grey fabric by the Group to Itochu, the announcement for which was issued late.

During the year ended 31 December 2007, certain transactions were entered into between the Group and the following connected persons of the Company:

1. The 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. Weiqiao Bleach is 40% owned by Holding Company. Weilian Print is a 73% owned subsidiary of Holding Company. Weiqiao Dyeing is a 60% owned subsidiary of Holding Company. Shandong Hengfu Knitting Co., Ltd. is a 60% owned subsidiary of Holding Company. Hongyuan Home Textile is a 60% owned subsidiary of Holding Company. Tekuanfu is a 90% owned subsidiary of Holding Company. Weiqiao Clothes is a 67.32% owned subsidiary of Holding Company. Elite Garment is a 55% owned subsidiary of Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. is a 100% owned subsidiary of the Holding Company. Xijiao Thermal Power is a 100% owned subsidiary of the Holding Company. As the above ten companies are associates of a promoter/substantial shareholder of the Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Itochu Corporation ("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.

Under the Listing Rules, the transactions between the Company and the above connected persons constituted connected transactions of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

Set out below is a summary of the non-exempt connected transactions under the Listing Rules ("Non-Exempt Connected Transactions"):

SUPPLY OF COTTON YARN AND GREY FABRIC BY THE GROUP TO HOLDING COMPANY, ITS SUBSIDIARIES AND ASSOCIATES ("PARENT GROUP")

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003 ("Supply Agreement"). In September 2003, Hong Kong 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 grey fabric by the Group to Parent Group under the Supply Agreement. The waiver was granted for a term of three financial years ended 31 December 2005. Pursuant to the automatic renewal mechanism of the Supply Agreement, it was renewed for a further three years on 25 August 2006, pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn and grey fabric to Parent Group for the production of downstream cotton textile products. The prices of cotton yarn and grey fabric supplied by the Group to Parent Group were determined by reference to the prices at which comparable types of cotton yarn and grey fabric were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC. An announcement regarding the above continuing connected transaction was issued on 28 December 2006.

SUPPLY OF COTTON YARN AND GREY FABRIC BY THE GROUP TO ITOCHU

The Group supplied cotton yarn and grey fabric to Itochu on normal commercial terms in order to maintain a close business relationship with Itochu. In September 2003, Hong Kong 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 grey fabric by the Group to Itochu under the arrangement as disclosed in the Prospectus. The waiver was granted for a term of three financial years ended 31 December 2005. The Company entered into a raw material supply agreement with Itochu on 28 December 2006, pursuant to which both parties ratified and confirmed the supply cotton yarn and grey fabrics by the Group to Itochu since 1 January 2006, and the Company agreed to continue to supply or procure its subsidiaries to continue to supply cotton yarn and grey fabrics to Itochu. The prices at which cotton yarn and grey fabric were supplied by the Group to Itochu were determined by reference to the prices at which comparable types of cotton yarn and grey fabric were sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business. An announcement regarding the above continuing connected transaction was issued on 28 December 2006.

SUPPLY OF ELECTRICITY AND STEAM BY THE HOLDING COMPANY TO THE GROUP

On 25 August 2003, the Company and the Holding Company entered into a supply of electricity and steam agreement pursuant to which the Holding Company agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the agreement. The Group was therefore able to obtain a stable supply of energy for its operations. The price at which electricity was provided to the Group by Holding Company was the lower of either RMB0.35 per kWh or the market price. The price at which steam was provided to the Group by Holding Company was the lower of either RMB60 per ton or the market price.

On 13 May 2005, the Company and Holding Company entered into a supplemental agreement for the purpose of specifying the pricing bases under the above supply of electricity and steam agreement.

PROVISION OF PROCESSING SERVICES BY PARENT GROUP TO THE GROUP

On 25 August 2003, the Company and the Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003. Pursuant to the automatic renewal mechanism of the agreement, it was renewed for a further three years on 25 August 2006. However, the Parent Group has ceased providing and will not provide cotton yarn and grey fabric downstream processing services (e.g. dyeing, bleaching and printing) to the Group. There has been no provision of processing services by Parent Group to the Group for the year of 2007.

ACQUISITION OF THERMAL POWER ASSETS FROM HOLDING COMPANY BY THE COMPANY

On 13 August 2005, the Company entered into the asset transfer agreement with the Holding Company, pursuant to which the Company has agreed to acquire the thermal power assets (the "Thermal Power Assets") from the Holding Company for an aggregate consideration of RMB3,000,000,000 (equivalent to about HK$2,879,000,000). The acquisition was completed in October 2005. After the acquisition, the Group owns and operates by itself the Thermal Power Assets, which have an installed capacity of about 660 MW and steam generation capacity of about 1,240 tons per hour, respectively.

LEASE OF LAND USE RIGHTS BY HOLDING COMPANY TO THE COMPANY

The Company and Holding Company entered into eight leasing agreements pursuant to which, Holding Company agreed to lease to the Company land use rights in respect of land respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, and the land use rights in respect of land located to the east of Zouping County in the economic development zone of Zouping County, Shandong Province, the PRC, for the Company's operations, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

(i) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental expense of RMB454,900 for the land relating to the Weiqiao First Production Area.

(ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental expense of RMB868,000 for the land relating to the Weiqiao First Production Area.

(iii) Land use rights lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, at an annual rental expense of RMB888,700 for the land relating to the Weiqiao Second Production Area.

(iv) Land use rights lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, at an annual rental expense of RMB1,503,000 for the land relating to the Weiqiao Third Production Area.

(v) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,167,000 for the land relating to the Zouping Economic Development Zone.

(vi) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB994,100 for the land relating to the Zouping Economic Development Zone.

(vii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,000,000 for the land relating to the Zouping Economic Development Zone.

(viii) Land use right lease agreement dated 2 November 2005, with commencement date and expiry date on 31 October 2005 and 31 October 2025 respectively, at an annual rental expense of RMB2,699,000 for the land relating to the thermal power assets acquired from the Holding Company.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their business in Zouping County, Shandong Province, the PRC.

ESTABLISHMENT OF SHANDONG WEIQIAO CHUANGYE FINANCE COMPANY LIMITED

On 17 March 2005, the Company entered into a promoters' agreement with Binzhou Industrial Park, Weihai Weiqiao, Holding Company, Weiqiao Dyeing, and Weilian Print, to establish Shandong Weiqiao Chuangye Finance Company Limited ("SWCF"), for the purpose of providing financial services to Holding Company and its subsidiaries, subject to approval by China Banking Regulatory Commission ("CBRC").

The registered capital of SWCF would be RMB400,000,000.

The establishment of SWCF is subject to the obtaining of the relevant approval of CBRC and registration with the local administration for industry and commerce. Upon establishment, SWCF will be owned as to 6.25% by the Company, 3.75% by Binzhou Industrial Park, 2.5% by Weihai Weiqiao, 68.75% by Holding Company, 12.5% by Weiqiao Dyeing, and 6.25% by Weilian Print.

SUPPLY OF EXCESS ELECTRICITY BY THE COMPANY TO HOLDING COMPANY

The Company and Holding Company entered into the supply of excess electricity agreement pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual electricity consumption, to Holding Company for a term commencing from 31 October 2005 and ending on 31 December 2007 (both dates inclusive).

The price at which excess electricity is supplied to Holding Company by the Company shall be RMB0.45 per kWh or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, whichever is higher. If any applicable mandatory price for the supply of electricity is prescribed by the government, it would be adopted instead.

Further details of the Non-Exempt Connected Transactions are set out in the Prospectus and the Company's announcements dated 17 October 2003, 17 March 2005, 13 May 2005, 13 August 2005 and 28 December 2006, respectively.

FIGURES FOR THE YEAR ENDED 31 DECEMBER 2007

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2007:

Transaction nature	Aggregate value for the year ended 31 December 2007 *(RMB'000)*
1. Supply of cotton yarn and cotton fabric	
(a) by the Group to the Parent Group	**888,218**
(b) by the Group to Itochu	**48,342**
2. Supply of electricity and steam by Holding Company to the Group	**82,894**
3. Lease of land use rights by Holding Company to the Group	**11,574**
4. Supply of excess electricity by the Company to Holding Company	**132,067**

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent non-executive Directors have reviewed the Non-Exempt Connected Transactions and confirmed that each of the Non-Exempt Connected Transactions was:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;

(iii) entered into either in accordance with the relevant agreement governing such transactions or where there were no such agreements, on terms no less favourable than those available to or from independent third parties, as applicable; and

(iv) was within the relevant annual cap which had been agreed with Hong Kong Stock Exchange.

RETIREMENT SCHEME

Details of the retirement scheme of the Group are set out in Note 7 to the financial statements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiries with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

CODE ON CORPORATE GOVERNANCE

Except for the deviation as set out on page 43 of this annual report, the Company has applied the principles of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, and has been in compliance with all the code provisions for the year ended 31 December 2007.

PUBLIC FLOATING

Pursuant to the information that is publicly available to the Company, and so far as the Directors are aware as at the latest practicable date prior to the issue of this annual report, the Company has sufficient public floating as required under Rule 8.08 of the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") in compliance with the Code of Best Practices for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An Audit Committee meeting was held on 28 March 2008 to review the Group's annual report and financial statements and provide advice and recommendations to the board of directors of the Company.

INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2007. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the forthcoming annual general meeting.

The Company has not changed the auditors for the five years ended 31 December 2007.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
28 March 2008

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

During the reporting period, the Supervisory Committee have strictly complied with the principle of fidelity, and seriously discharged its duties in accordance with the Company Law of the PRC, the Articles of Association and other relevant provisions, enhanced the effect of supervision and protected the Shareholders' interests and the Company's benefits. I would like to report on behalf of the Supervisory Committee on the works of the Supervisory Committee in 2007 as follows:

1. Works of the Supervisory Committee

In 2007, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

(1) On 30 March 2007, the third meeting of the 3rd Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, "The Working Report of the Supervisory Committee for 2006", "The Audited Financial Report for the Year Ended 31 December 2006", "The Profit Distribution Proposal for 2006" and "The Financial Report on the Final Account for 2006" were reviewed and approved;

(2) On 31 August 2007, the 4th meeting of the 3rd Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, the reviewed report for the six months ended 30 June 2007 issued by Ernst & Young was discussed and approved;

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2007

(1) The Company had complied with the relevant requirements under the Listing Rules of the Hong Kong Stock Exchange and the Articles of Association, and carried out serious supervision and inspection on aspects like the convening procedures of Board meetings and general meetings of shareholders, implementation of general meetings of shareholders by the Board of Directors, discharge of duties by the Company's senior management, internal management system of the Company.

The Company's operations had strictly complied with the Company Law, Articles of Association and the relevant provisions of the laws and regulations. The Directors and senior management of the Company honestly and dilligently discharged their duties, and no violation of the laws, regulations and the Articles of Association and no activities that harmed the interests of the Company had been discovered during the discharge of their duties.

(2) The Supervisory Committee had reviewed and inspected the financial system and financial situation of the Company, and considered that the financial report for 2007 truly reflected the financial position and operation results of the Company, and the audit report with unqualified opinion issued by Ernst & Young was true and fair.

(3) Management of the connected transactions of the Company continued to improve and regularise, and the transactions had been controlled within the cap as approved by the Hong Kong Stock Exchange.

In 2008, the Supervisory Committee will continue to inspect the financial situations of the Company and the compliance of connected transactions in strict accordance with the Company Law, the Articles of Association and the relevant requirements, and supervise the senior management to discharge the duties in the Company and carry out the various jobs satisfactorily.

By order of the Supervisory Committee
Chairman of the Supervisory Committee
Lu Tianfu

Shandong, the PRC
28 March 2008

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

Being a company registered and listed in Hong Kong, the Company has been dedicated in the enhancement of the level of its internal control by setting up a stable and reasonable organizational by setting up a stable and reasonable management structure. The Board and the management are responsible for setting up a stable and reasonable management structure and code of corporate governance, and strictly implementing the code, in order to improve the management system and transparency of the Company, protect shareholders' interests and create long-term values to shareholders. The terms of the Company's code on corporate governance practices are no less exacting than the provisions as set out in the "Code on Corporate Governance Practices" (the "Code") under Appendix 14 of the "Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Other than the deviation from Code Provision A.2.1 of the Code (Information regarding the above deviation is set out below under "Chairman and Chief Executive Officer"), the Company has complied with all the code provisions as set out in the code under Appendix 14 of the Listing Rules for the year ended 31 December 2007.

SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 of the Listing Rules.

Having made specific enquiry of all directors, the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and the Company's Code of Conduct regarding Securities Transactions by the Directors.

THE BOARD OF DIRECTORS

As at 31 December 2007, the Board of the Company comprised four executive directors, two non-executive directors and three independent non-executive directors.

The Board members are as follows:

Chairman

Ms. Zhang Hongxia

Executive Directors

Ms. Zhang Yanhong
Mr. Qi Xingli
Ms. Zhao Suwen

Non-executive Directors

Mr. Zhang Shiping
Mr. Wang Zhaoting

Independent Non-executive Directors

Mr. Chan Wing Yau, George
Mr. Xu Wenying
Mr. Wang Naixin

The Board is accountable to the general meeting, and is responsible for convening general meetings, implementing resolutions of the general meetings; formulating operating plans and investment plans of the Company; formulating annual financial budgets, final accounts of the Company; formulating profit distribution plan of the Company (including the plan for the distribution of final dividends) and the plan to make up losses; formulating the plans to increase or reduce the registered capital of the Company and the issue of the Company's debentures; formulating the plans for the Company's merger, demerger and dissolution; to decide on the deployment of the internal management bodies of the Company; to appoint or remove the Company's general manager, and to appoint or remove the Company's deputy general manager and financial controller pursuant to the nomination of the general manager, and to decide their remunerations; to formulate the Company's basic management system; to formulate the plans for the amendment to the Articles of Association; and subject to compliance with the relevant requirements of the state, to decide the level of salaries, welfare and incentives measures of the Company; to decide other significant operation and administrative matters not required to be decided by the general meeting under the Articles of Association; to formulate major acquisition or disposal plans of the Company and other duties as provided by the Articles of Association.

The general manager is accountable to the Board, and is responsible to take lead in the management of the Company's production operations, to organise the implementation of the resolutions of the Board; to organise the implementation of the Company's annual operation plans and investment plans; to formulate the deployment plans for the Company's internal management bodies; to formulate the Company's basic management system; to formulate the Company's basic rules and regulations; to propose for the appointment or removal of the Company's deputy manager and financial controller; appointment or removal of the management personnel other than those required to be appointed or removed by the Board; other duties as conferred by the Articles of Association.

The Company Secretary is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The Company Secretary also keeps the minutes of meetings of the Board and its committees. The members of the Board held four meetings during the year.

Records of attendance in Board meetings held by the Board during the year:

Members	**Attendace rate of Board Meetings held in 2007**
Ms. Zhang Hongxia	4/4
Ms. Zhang Yanhong	4/4
Mr. Qi Xingli	4/4
Ms. Zhao Suwen	4/4
Mr. Zhang Shiping	4/4
Mr. Wang Zhaoting	4/4
Mr. Chan Wing Yau, George	2/4
Mr. Xu Wenying	2/4
Mr. Wang Naixin	2/4

All the independent non-executive directors are independent from the Company and any of its subsidiaries.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The Chairman and chief executive officer of the Company is Ms. Zhang Hongxia.

The responsibility of the Chairman is to manage the Board, while the responsibility of the chief executive officer is to management the business of the Company, which is set out in the Code of Corporate Governance of the Company.

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

Each of the non-executive directors and independent non-executive directors of the Company has signed an appointment letter with the Company for a term of 3 years respectively.

By reference to the guidelines as set out in Rule 3.13 of the Listing Rules, the Company confirms the independence of all the independent non-executive directors.

SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee

Each committee may decide upon all matters within its terms of reference and authority.

A. AUDIT COMMITTEE

The Audit Committee was established on 9 January 2003. At present, the Audit Committee is comprised of three independent non-executive directors.

The composition of the Audit Committee

Mr. Chan Wing Yau, George
Mr. Xu Wenying
Mr. Wang Naixin

The following resolutions were passed on 30 March 2007 after due consideration by members of the Audit Committee:

(1) to consider and approve the report of the Directors of the Company for the year 2006;

(2) to consider and approve the audited financial statements of the Company for the year ended 31 December 2006;

(3) to consider and approve the profit distribution plan of the Company for 2006;

(4) to consider and approve the re-appointment of Ernst & Young Hua Ming as the Company's domestic auditors for the year ended 31 December 2007 and Ernst & Young as the Company's international auditors for the year ended 31 December 2007;

(5) to consider and approve any matters relating to connected transactions of the Company.

On 30 August 2007, after due consideration, the following issues were reviewed by members of the Audit Committee present at the meeting:

(1) The Audit Committee reviewed the information as set out in the accounts of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 (the "Interim Accounts"), including financial statements, Report of Directors, Chairman's Statement and Management Analysis and Discussion, and confirmed that the quality of the reviewed profit and such materials were complete, accurate and fair;

(2) The accounting policy adopted in the financial statement for the six months ended 30 June 2007 was the appropriate accounting policy;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2007 for which accurate figures are unavailable, the Audit Committee has reviewed and confirmed the estimations and the relevant basis of calculations in respect of such portion made by the management of the Company;

(4) The financial statements for the six months ended 30 June 2007 have fully disclosed all the relevant issues, and such disclosure has fairly reflected the nature of the transactions without any misleading contents; and

(5) The Audit Committee has reviewed and confirmed that the interim financial report has been prepared in compliance with the HK GAAP and the financial reporting standards issued by HKICPA, and its principle accounting policies have been consistently implemented.

Having been reviewed by the members of the Audit Committee present at the meeting, the following resolution was passed: to review and approve the Interim Accounts.

Roles and functions

The Audit Committee is mainly responsible for:

(1) providing advice and recommendations to the Board on the appointment, re-appointment and dismissal of the external auditors, approving the remuneration and recruitment terms of the external auditors as well as dealing with issues relating to the resignation or dismissal of the external auditors (in case the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Company should set out in the Corporate Governance Report the statement of the Committee in which their opinions are clearly stated as well as the reasons for the Board's disagreement with such opinions);

(2) reviewing and overseeing the independence and objectiveness of the external auditors and the effectiveness of audit procedures as per appropriate standards; the Audit Committee should discuss with the external auditors before commencement of the audit, the nature and scope of the audit, and the reporting responsibilities and ensure the co-ordination between different firms of auditors if more than one auditing firms are engaged;

(3) formulating and implementing policies on non-audit services provided by the external auditors;

(4) overseeing the completeness of the financial statements, annual reports and accounts, and interim reports of the Company as well as reviewing significant opinions relating to financial reporting set out in those statements and reports. In reviewing the annual reports, accounts and interim reports to be presented to the Board, the Committee should pay special attention to the following matters:

(i) any changes in accounting policies and practices;

(ii) areas where significant judgment is involved;

(iii) significant adjustments arising as a result of audit;

(iv) any assumptions on the continuous operation of the Company and any qualified opinions;

(v) whether the accounting standards and principles have been complied with; and

(vi) whether the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and other laws and regulations relating to financial reporting have been complied with;

(5) in respect of (4) above:

(i) The members of the Committee should keep in contact with the Board, senior management and the person appointed as the qualified accountant of the Company. The Committee should meet at least once a year with the auditors of the Company; and

(ii) The Committee should consider any significant or extraordinary items reflected or should be reflected in those reports and accounts, and consider, if thought fit, any issues raised by the qualified accountant, compliance officer or auditors of the Company;

(6) reviewing the Company's financial control, internal control and risk management systems;

(7) discussing with the management the internal control systems and ensuring the management has performed its responsibilities to establish effective internal control systems;

(8) conducting research on own initiatives, or according to the request of the Board, in respect of findings of major investigations of internal control matters and the management's response;

(9) ensuring co-ordination between the relevant Company personnel and external auditors, and to ensure that the internal audit mechanism is adequately resourced and has appropriate standing within the issuer, and to review and monitor the effectiveness of the internal audit function under the circumstance that an internal audit function exists;

(10) reviewing the Group's financial and accounting policies and practices;

(11) reviewing the external auditors' auditing progress report, and any significant doubt raised by the auditors to the management in respect of accounting records, financial accounts or control systems and the management's feedback in this respect;

(12) ensuring the Board's timely response to the matters set out in the external auditors' auditing progress report;

(13) reporting to the Board in respect of the matters set out in code provisions of the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules;

(14) reviewing the following arrangements made by the Company: employees of the Company can raise concerns in strict confidence on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made to enable the Company to conduct a fair and independent investigation and take proper measures;

(15) acting as a primary channel between the Company and the external auditors, and monitoring their working relation; and

(16) reporting to the Board in respect of the matters mentioned above.

Minutes of meetings

The Audit Committee held two meetings during the year ended 31 December 2007. The following is the meeting attendance record of its members:

Committee Members	Attendance of Audit Committee meetings held in the year ended 31 December 2007
Mr. Chan Wing Yau, George (Chairman of the Audit Committee)	2/2
Mr. Xu Wenying	2/2
Mr. Wang Naixin	2/2

The Audit Committee had meetings with the external auditors during the year to discuss the review of interim and the auditing of annual financial statements.

In case the Audit Committee is in doubt about the financial statements and the control system of the Company, the management should provide the Audit Committee members with all the relevant details, analysis and supporting documents, so as to ensure that Audit Committee members can have access to all relevant information and provide appropriate recommendations to the Board.

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 February 2005. At present, the Remuneration Committee is comprised of an executive director and two independent non-executive directors.

One meeting was held by the Remuneration Committee for the year ended 31 December 2007. The following is the meeting attendance record of its members:

Committee Members	Attendance of the Remuneration Committee meeting held in 2007
Members of the Remuneration Committee	
Ms. Zhang Hongxia (Chairman of the Remuneration Committee)	1/1
Mr. Xu Wenying	1/1
Mr. Wang Naixin	1/1

Roles and Functions

The terms of reference of the Remuneration Committee include the following specific duties:

(1) to make recommendations to the Board on the overall remuneration policy and structure relating to directors and senior management of the Company, and provide advice in relation to the establishment of regular and transparent procedures for formulating such remuneration policy;

(2) to determine the specific remuneration package of all executive directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board regarding the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and the desirability of performance-based remuneration;

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;

(4) to review and approve the compensation payable to executive directors and senior management for any loss or termination of their office or appointment, and to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(6) to ensure none of the directors nor any of their associates shall determine their own remuneration.

NOMINATION OF DIRECTORS

The Company currently has certain criteria upon which its directors are selected and elected. Such criteria include professional knowledge and industry experience, personal conduct, integrity and skills, as well as an undertaking to allocate sufficient time to deal with the Company's affairs.

The list of candidates of Directors is proposed for approval at general meetings by way of resolutions. Such resolutions can be proposed by the Board of Directors, the Supervisory Committee or Shareholders individually or collectively holding 5% or more of the total voting shares of the Company.

EXTERNAL AUDITORS

The external auditors are responsible for presenting independent opinions on the financial statements of the Group according to the results of their auditing work, and reporting to the Company on the same. Apart from providing annual auditing service, the external auditors of the Company also review the interim results of the Company and provide other non-audit service.

For the year ended 31 December 2007, Ernst & Young and Ernst & Young Hua Ming, the external auditors, have provided the Group with the following service:

	2007
	RMB'000
Interim review service	1,750
Annual audit service	5,100
Other non-audit service	200

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors is responsible for the effectiveness of the internal control system. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the Company will maintain and monitor the internal control system on a going-concern basis.

SHAREHOLDERS' RIGHTS

The Company is committed to ensure better protection of shareholders' interests. The Company maintains contact with its shareholders through annual general meetings or other general meetings, and encourages shareholders to attend those meetings.

Notice of general meeting is sent by mail to the registered shareholders of the Company.

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who do not intend or are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

Shareholders or investors can make enquiry of our Company and give suggestion through the following:

Tel: (021) 64278173
Postal Address: Room 33H, Shangshi Tower
18 Caoxi North Road, Shanghai, China

INVESTORS RELATIONS

The Company maintains a two-way communication channel to report the performance of the Company to its shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be despatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Hong Kong Stock Exchange. The Company also communicates and discloses its latest business development plan via road shows, seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to the public at the same time, price-sensitive information will be released in the form of announcements in accordance with the Listing Rules.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

TO THE SHAREHOLDERS OF WEIQIAO TEXTILE COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Weiqiao Textile Company Limited set out on pages 52 to 139, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
28 March 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**18,589,586**	19,826,154
Cost of sales		**(15,927,215)**	(16,503,064)
Gross profit		**2,662,371**	3,323,090
Other income and gains	5	**466,921**	350,250
Selling and distribution costs		**(410,222)**	(358,816)
Administrative expenses		**(196,971)**	(177,341)
Write-back of unutilised welfare provision	6(a)	**534,362**	—
Other expenses		**(57,821)**	(109,609)
Finance costs	10	**(726,014)**	(720,003)
PROFIT BEFORE TAX	6	**2,272,626**	2,307,571
Tax	11	**(394,521)**	(616,745)
PROFIT FOR THE YEAR		**1,878,105**	1,690,826
Attributable to:			
Equity holders of the parent	12	**1,868,471**	1,685,405
Minority interests		**9,634**	5,421
		1,878,105	1,690,826
DIVIDEND			
Proposed final	13(b)	**597,813**	525,531
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic - for profit for the year	14	**RMB1.56**	RMB1.43

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**16,099,869**	15,947,476
Prepaid land lease payments	16	**126,225**	129,041
Other intangible assets	17	**5,701**	6,901
Deferred tax assets	31	**70,088**	121,044
Total non-current assets		**16,301,883**	16,204,462
CURRENT ASSETS			
Inventories	19	**3,587,791**	3,577,564
Trade receivables	20	**902,185**	693,838
Amounts due from related parties	22	**1**	5,044
Amount due from the immediate holding company	22	**1,579**	—
Prepayments, deposits and other receivables	21	**96,437**	56,046
Derivative financial instruments	27	**5,983**	5,524
Pledged deposits	23	**154,080**	106,526
Non-pledged time deposits maturing over three months	23	**1,684,688**	1,281,914
Cash and cash equivalents	23	**4,014,049**	4,209,714
Total current assets		**10,446,793**	9,936,170
CURRENT LIABILITIES			
Trade payables	24	**1,375,533**	788,543
Bills payable	25	**649,151**	660,000
Amounts due to related parties	22	**16,882**	9,260
Amount due to the immediate holding company	22	**37,793**	162,798
Other payables and accruals	26	**761,942**	1,390,308
Derivative financial instruments	27	**219**	9,742
Interest-bearing bank loans, current portion	28	**4,278,627**	3,940,242
Long term payable to the immediate holding company, current portion	29	**—**	137,103
Tax payable		**965,295**	954,170
Dividend payable		**104,223**	67,708
Deferred income, current portion	30	**7,651**	5,151
Total current liabilities		**8,197,316**	8,125,025

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	**2007** ***RMB'000***	2006 *RMB'000*
NET CURRENT ASSETS		**2,249,477**	1,811,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,551,360**	18,015,607
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	28	**4,948,133**	5,789,384
Deferred income	30	**124,798**	96,340
Deferred tax liabilities	31	**5,773**	8,082
Total non-current liabilities		**5,078,704**	5,893,806
Net assets		**13,472,656**	12,121,801
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	**1,194,389**	1,194,389
Reserves	33	**11,578,477**	10,307,819
Proposed final dividend	13(b)	**597,813**	525,531
		13,370,679	12,027,739
Minority interests		**101,977**	94,062
Total equity		**13,472,656**	12,121,801

Zhang Hong Xia
Executive Director

Qi Xing Li
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent								
	Issued capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	1,125,453	5,884,786	325,203	317,760	1,850,801	323,005	9,827,008	94,340	9,921,348
Dividend relating to additional issuance of shares (a)	—	—	—	—	(19,785)	19,785	—	—	—
Final 2005 dividend declared	—	—	—	—	—	(342,790)	(342,790)	—	(342,790)
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(5,699)	(5,699)
Transfer of the statutory public welfare fund to the statutory surplus reserve (b)	—	—	317,760	(317,760)	—	—	—	—	—
Issue of additional H shares	68,936	791,174	—	—	—	—	860,110	—	860,110
Share issue expenses	—	(1,994)	—	—	—	—	(1,994)	—	(1,994)
Profit for the year	—	—	—	—	1,685,405	—	1,685,405	5,421	1,690,826
Proposed final 2006 dividend	—	—	—	—	(525,531)	525,531	—	—	—
Transfer from retained profits to capital reserve (c)	—	4,086	—	—	(4,086)	—	—	—	—
Transfer from retained profits	—	—	176,474	—	(176,474)	—	—	—	—
At 31 December 2006	1,194,389	6,678,052(e)	819,437(e)	—(e)	2,810,330(e)	525,531	12,027,739	94,062	12,121,801

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent							
	Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	1,194,389	6,678,052	819,437	2,810,330	525,531	12,027,739	94,062	12,121,801
Final 2006 dividend declared	—	—	—	—	(525,531)	(525,531)	—	(525,531)
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,719)	(1,719)
Profit for the year	—	—	—	1,868,471	—	1,868,471	9,634	1,878,105
Proposed final 2007 dividend (note 13(b))	—	—	—	(597,813)	597,813	—	—	—
Transfer from capital reserve to retained profits(d)	—	(4,672)	—	4,672	—	—	—	—
Transfer from retained profits	—	—	153,221	(153,221)	—	—	—	—
At 31 December 2007	1,194,389	6,673,380(e)	972,658(e)	3,932,439(e)	597,813	13,370,679	101,977	13,472,656

(a) On 4 April 2006, the board of directors resolved to propose a final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,125,452,500 amounting to RMB323 million. During the annual general meeting held on 6 June 2006, the shareholders approved the final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,194,389,000 as shown on the Register of Members on 4 May 2006, including the additional issuance of 68,936,500 H shares issued on 10 March 2006 with the additional dividend amounting to RMB19.8 million. The final 2005 dividend was then declared and amounted to RMB343 million.

(b) Pursuant to the revised the People's Republic of China Company Law ("PRC Company Law") which was approved on 27 October 2005 and the Notice of Caiqi [2006]67 dated 15 March 2006 issued by the Ministry of Finance, appropriation to the statutory public welfare fund is no longer needed with effect from 1 January 2006, and the balance of the statutory public welfare fund is required to be transferred to the statutory surplus reserve.

(c) One of the subsidiaries, Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"), has received government grants of approximately RMB106 million (note 30) which were credited to the capital reserve in accordance with the accounting principles generally accepted in the People's Republic of China ("PRC GAAP") as a non-distributable reserve. In accordance with HKAS 20, these government grants were treated as deferred income and recognised in the consolidated income statement over the expected useful lives of the relevant items of property, plant and equipment to which the grants were related by equal annual instalments. The Group's share of deferred income recognised in the consolidated income statement during the year was then transferred to the capital reserve.

(d) In accordance with the new Chinese Accounting Standards ("CAS") effective from 1 January 2007, the government grants received as mentioned in note (c) was no longer required to be credited to capital reserve. The deferred income recognised in the consolidated income statements of prior years in accordance with HKAS 20 and transferred to capital reserve was then transferred back to retained profits in current year.

(e) These reserve accounts comprise the consolidated reserves of RMB11,578,477,000 (2006: RMB10,307,819,000) in the consolidated balance sheet as at 31 December 2007.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,272,626**	2,307,571
Adjustments for:			
Finance costs	10	**726,014**	720,003
Bank interest income	5	**(84,393)**	(51,177)
Recognition of deferred income	5	**(6,447)**	(4,148)
Losses on disposal of items of property, plant and equipment	6	**10,048**	1,967
Fair value losses/(gains), net:			
Derivative financial instruments - transactions not qualifying as hedges	6	**(9,982)**	6,357
Depreciation	6	**1,082,963**	995,255
Foreign exchange differences, net	6	**(226,310)**	(109,394)
Amortisation of intangible assets	6	**1,200**	1,200
Recognition of prepaid land lease payments	6	**2,816**	2,796
(Reversal of provision)/provision against inventories	6	**(124,350)**	99,859
		3,644,185	3,970,289
Decrease/(increase) in inventories		**114,123**	(32,195)
Increase in trade receivables		**(262,326)**	(131,566)
(Increase)/decrease in prepayments, deposits and other receivables		**(35,859)**	439,969
Increase in net amounts to related parties		**12,665**	485,948
Increase/(decrease) in trade payables		**476,183**	(1,324,537)
(Decrease)/increase in bills payable		**(10,849)**	70,700
(Decrease)/increase in other payables and accruals		**(605,512)**	531,664
Decrease in amount due to the immediate holding company		**(126,584)**	(138,496)
Cash generated from operations		**3,206,026**	3,871,776
Interest paid		**(727,951)**	(616,511)
PRC corporate income tax paid		**(334,749)**	(282,589)
Net cash inflow from operating activities		**2,143,326**	2,972,676

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**77,725**	51,177
Purchases of items of property, plant and equipment		**(1,277,518)**	(2,985,525)
Proceeds from disposal of items of property, plant and equipment		**13,598**	291
Purchase of land use rights		**—**	(1,566)
Receipt of government grants	30	**37,405**	22,072
Increase in non-pledged time deposits maturing over three months		**(402,774)**	(127,874)
Decrease/(increase) in pledged deposits		**(47,554)**	405,612
Net cash outflow from investing activities		**(1,599,118)**	(2,635,813)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of H shares	32	**—**	860,110
Share issue expenses	32	**—**	(1,994)
New bank loans		**5,994,854**	7,705,539
Repayment of bank loans		**(6,236,540)**	(7,550,380)
Dividends paid to equity shareholders of the parent		**(489,016)**	(313,599)
Dividends paid to minority shareholders		**(1,719)**	(5,699)
Net cash (outflow)/inflow from financing activities		**(732,421)**	693,977
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(188,213)**	1,030,840
Cash and cash equivalents at beginning of year		**4,209,714**	3,185,935
Effect of foreign exchange rate changes, net		**(7,452)**	(7,061)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**4,014,049**	4,209,714
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**3,795,203**	3,953,465
Non-pledged time deposits with original maturity of less than three months when acquired		**218,846**	256,249
	23	**4,014,049**	4,209,714

BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**12,382,808**	12,160,472
Investments in subsidiaries	18	**1,200,891**	1,200,891
Deferred tax assets	31	**31,747**	71,916
Total non-current assets		**13,615,446**	13,433,279
CURRENT ASSETS			
Inventories	19	**2,680,917**	2,749,067
Trade receivables	20	**842,100**	659,765
Bills receivable		**4,749**	—
Amounts due from subsidiaries	18	**1,101,500**	1,245,392
Amounts due from related parties	22	**1**	136
Prepayments, deposits and other receivables	21	**83,682**	45,569
Derivative financial instruments	27	**5,983**	5,524
Pledged deposits	23	**77,062**	94,727
Non-pledged time deposits maturing over three months	23	**1,684,688**	1,281,914
Cash and cash equivalents	23	**3,687,438**	3,959,693
Total current assets		**10,168,120**	10,041,787
CURRENT LIABILITIES			
Trade payables	24	**1,119,186**	710,197
Bills payable	25	**477,300**	500,000
Amounts due to subsidiaries	18	**206,498**	130,125
Amounts due to related parties	22	**15,602**	10,536
Other payables and accruals	26	**524,105**	1,021,114
Derivative financial instruments	27	**219**	9,742
Interest-bearing bank loans, current portion	28	**3,184,145**	2,984,426
Amount due to the immediate holding company	22	**36,858**	100,644
Long term payable to the immediate holding company, current portion	29	**—**	137,103
Tax payable		**820,257**	871,258
Dividend payable		**104,223**	67,708
Total current liabilities		**6,488,393**	6,542,853

BALANCE SHEET

31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
NET CURRENT ASSETS		**3,679,727**	3,498,934
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,295,173**	16,932,213
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	28	**4,493,133**	5,211,384
Deferred income		**2,400**	—
Total non-current liabilities		**4,495,533**	5,211,384
Net assets		**12,799,640**	11,720,829
EQUITY			
Issued capital	32	**1,194,389**	1,194,389
Reserves	33	**11,007,438**	10,000,909
Proposed final dividend	13(b)	**597,813**	525,531
Total equity		**12,799,640**	11,720,829

Zhang Hong Xia
Executive Director

Qi Xing Li
Executive Director

1. CORPORATE INFORMATION

The registered office of Weiqiao Textile Company Limited (the "Company") is located at No.34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the People's Republic of China (the "PRC").

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the manufacture and sale of cotton yarn, grey fabrics and denim in the PRC and overseas.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Group are Shandong Weiqiao Chuangye Group Company (the "Holding Company"), a limited liability company established in the PRC, and Zouping County Supply and Marketing Corporation Union ("ZCSU"), a collectively-owned enterprise formed in the PRC, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 38 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group has not issued any equity instruments to its employees, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with assessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) HK(IFRIC) - Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*HKFRS 2 - Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programs*[3]
HK(IFRIC)-Int 14	*HKAS19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when these costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

The Company has unilateral control over the Group's joint ventures, Shandong Luteng Textile Company Limited ("Luteng Textile") and Shandong Binteng Textile Company Limited ("Binteng Textile") since their incorporation on 12 September 2002 and 12 March 2004, respectively.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expenses categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and annual depreciation rates used for this purpose are as follows:

	Estimated useful life	Annual depreciation rate
Buildings	6 - 40 years	2.4% to 16.0%
Machinery and equipment	3 - 33 years	2.9% to 32.0%
Others	4 - 10 years	9.5% to 24.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under such operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "*Revenue recognition*" below.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (e.g., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of the insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance amount. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the consolidated income statement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when the contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. These hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except :

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and used tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except :

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, where the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) electricity and steam income, when electricity or steam has been supplied;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Retirement benefits schemes

The Company and its subsidiaries participate in defined contribution retirement schemes organised by the local government authorities in the PRC. Employees holding city and township residency are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company and its subsidiaries are required to make contributions to the retirement schemes at a rate of 20% of the total salaries of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the consolidated income statement of the Group as they become payable in accordance with the rules of the schemes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 7.05% for 2007 and 6.31% for 2006, respectively, is applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currency transactions

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation of fair value of financial derivatives

The Group estimates the fair value of financial derivatives based on financial modelling which requires various sources of information and assumptions.

Realisability of deferred tax assets

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for the provision for inventories and trade receivables, the difference in depreciation for tax purposes, fair value adjustments of assets and liabilities and government grants recognised as deferred income to the extent that it is probable (i.e. more likely than not) that future taxable profits will be available to utilise deferred tax assets. Recognition primarily involves judgement regarding the future performance of the particular legal entity in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised. The carrying amount of deferred tax assets is reviewed at each balance sheet date to assess the realisation of deferred tax assets.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each balance sheet date, based on changes in circumstances.

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Impairment of inventories

Management reviews the condition of the inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items. Management reassesses the estimation on each balance sheet date.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarn, grey fabrics and denim. The Group conducts the majority of its business activities in four geographical areas, namely, Mainland China, Hong Kong, East Asia (comprising Japan and South Korea) and others. All of the Group's assets are located in Mainland China.

An analysis by geographical segment, as determined by the location of the Group's operations, is as follows:

Year ended 31 December 2007

	Sales to external customers *RMB'000*	Cost of sales *RMB'000*	Gross profit *RMB'000*
Mainland China	10,954,790	9,256,899	1,697,891
Hong Kong	3,303,638	2,880,314	423,324
East Asia	1,876,398	1,659,631	216,767
Others	2,454,760	2,130,371	324,389
	18,589,586	15,927,215	2,662,371

Year ended 31 December 2006

	Sales to external customers *RMB'000*	Cost of sales *RMB'000*	Gross profit *RMB'000*
Mainland China	13,001,266	10,675,055	2,326,211
Hong Kong	2,987,167	2,570,974	416,193
East Asia	1,893,886	1,620,638	273,248
Others	1,943,835	1,636,397	307,438
	19,826,154	16,503,064	3,323,090

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, after allowances for trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	Notes	Group 2007 RMB'000	Group 2006 RMB'000
Revenue			
Sales of textile goods		**18,589,586**	19,826,154
Other income			
Bank interest income		**84,393**	51,177
Compensation from suppliers on supply of sub-standard goods		**50,848**	70,037
Penalty income from employees		**5,950**	6,808
Recognition of deferred income	30	**6,447**	4,148
Revenue on plant and equipment leasing		**667**	1,000
Others		**15,249**	2,228
		163,554	135,398
Gains			
Sales of electricity and steam		**158,246**	224,490
Less: cost thereon		**(114,881)**	(146,810)
Gains on sales of electricity and steam		**43,365**	77,680
Gains on sales of waste and spare parts		**9,481**	21,905
Foreign exchange differences, net		**226,310**	109,394
Realised gains on derivative financial instrument transactions		**14,229**	5,873
Fair value gains, net:			
Derivative financial instrument - transactions not qualifying as hedges	27	**9,982**	—
		303,367	214,852
		466,921	350,250

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group 2007 RMB'000	Group 2006 RMB'000
Cost of goods sold		15,856,126	16,373,711
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
Wages, salaries and social security costs		2,193,807	2,367,452
Retirement benefits scheme contributions		59,869	34,707
		2,253,676	2,402,159
Depreciation	15	1,082,963	995,255
Recognition of prepaid land lease payments	16	2,816	2,796
Repairs and maintenance		448,576	341,405
Losses on disposal of items of property, plant and equipment		10,048	1,967
Amortisation of intangible assets	17	1,200	1,200
Auditors' remuneration		7,267	6,549
Directors' and supervisors' remuneration	8	4,084	4,932
Foreign exchange differences, net	5	(226,310)	(109,394)
(Reversal of provision)/provision against inventories		(124,350)	99,859
Realised gains on derivative financial instruments transactions	5	(14,229)	(5,873)
Fair value (gains)/losses, net:			
Derivative financial instruments - transactions not qualifying as hedges	5, 27	(9,982)	6,357
Write-back of unutilised welfare provision (a)		(534,362)	—
Research and development costs included in:			
Wages and Salaries		6,653	6,695
Consumption of consumables		14,085	13,184
		20,738	19,879
Minimum lease payments under operating leases:			
Land and buildings		22,094	16,902

6. PROFIT BEFORE TAX (continued)

(a) Prior to 1 January 2007, the Group was required to provide the welfare provision based on 14% of the employees' total salaries and had intention to utilise the welfare provided in the future. However, under the new CAS, effective from 1 January 2007, the 14% welfare provision is no longer to be provided. The Group reassessed the status of actual utilisation of welfare provision and reversed the excess unutilised provision this year.

7. RETIREMENT BENEFITS

The aggregate contribution of the Group to a retirement benefits scheme was approximately RMB60 million for the year ended 31 December 2007 (2006: RMB35 million). As at 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Fees	**3,849**	3,794
Other emoluments:		
Salaries, allowances and benefits in kind	**224**	1,098
Retirement benefits scheme contributions	**11**	40
	235	1,138
	4,084	4,932

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

There was no emolument paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2006: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

	Fees *RMB'000*	Salaries, allowance and benefits in kind *RMB'000*	Total *RMB'000*
2007			
Mr. Wang Naixin	**107**	**—**	**107**
Mr. Xu Wenying	**135**	**—**	**135**
Mr. Chan Wing Yau, George	**581**	**—**	**581**
	823	**—**	**823**
2006			
Mr. Wang Naixin	50	6	56
Mr. Xu Wenying	120	20	140
Mr. Chan Wing Yau, George	613	120	733
	783	146	929

There were no other emoluments and benefits payable to the independent non-executive directors in 2007.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2007				
Executive directors:				
Mr. Zhang Bo*	—	—	—	—
Ms. Zhang Hongxia	1,115	43	2	1,160
Mr. Qi Xingli	600	41	2	643
Ms. Zhao Suwen	515	33	2	550
Ms. Zhang Yanhong**	515	37	3	555
	2,745	154	9	2,908
Non-executive directors:				
Mr. Zhang Shiping	100	—	—	100
Mr. Wang Zhaoting	91	—	—	91
	191	—	—	191
	2,936	154	9	3,099
2006				
Executive directors:				
Mr. Zhang Bo*	693	196	6	895
Ms. Zhang Hongxia	1,000	317	8	1,325
Mr. Qi Xingli	600	179	8	787
Ms. Zhao Suwen	400	113	6	519
Ms. Zhang Yanhong**	61	43	6	110
	2,754	848	34	3,636
Non-executive directors:				
Mr. Zhang Shiping	100	18	—	118
Mr. Wang Zhaoting	67	9	—	76
	167	27	—	194
	2,921	875	34	3,830

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

* Mr. Zhang Bo resigned as an executive director of the Company with effect from 11 September 2006.

** Ms. Zhang Yanhong was appointed as an executive director of the Company with effect from 6 November 2006.

(c) Supervisors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement benefits scheme contributions *RMB'000*	Total *RMB'000*
2007				
Mr. Liu Mingping	30	34	2	66
Mr. Lu Tianfu	30	—	—	30
Ms. Wang Wei	30	36	—	66
	90	70	2	162
2006				
Mr. Liu Mingping	30	35	6	71
Mr. Lu Tianfu	30	3	—	33
Ms. Wang Wei	30	39	—	69
	90	77	6	173

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2006: five directors), details of whose remuneration are set out in note 8 above.

10. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans		
wholly repayable within five years	**732,792**	676,474
Less: Interest capitalised	**(14,675)**	(13,300)
	718,117	663,174
Other finance costs:		
Increase in discounted amounts of long term payable		
to the immediate holding company	**7,897**	56,829
	726,014	720,003

11. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	RMB'000	*RMB'000*
Current – Mainland China	**345,874**	676,667
Deferred (note 31)	**48,647**	(59,922)
Total tax charge for the year	**394,521**	616,745

11. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the locations in which the Company, its subsidiaries and joint ventures are situated to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2007		2006	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**2,272,626**		2,307,571	
Tax at PRC statutory tax rate	**749,967**	**33.0**	761,498	33.0
Expenses not deductible for tax	**7,004**	**0.3**	15,638	0.7
Tax loss not recognised	**4,965**	**0.2**	1,997	0.1
Tax exemption (note (a))	**(4,620)**	**(0.2)**	(3,313)	(0.1)
Tax concessions in respect of purchase of PRC manufactured machinery and equipment (note (b))	**(390,152)**	**(17.1)**	(163,378)	(7.1)
Change in tax rates (note (c))	**20,581**	**0.9**	—	—
Others	**6,776**	**0.3**	4,303	0.2
Tax charge at the Group's effective rate	**394,521**	**17.4**	616,745	26.8

Under the PRC income tax law, the companies (except for Shandong Luteng Textile Company Limited ("Luteng Textile") and Shandong Binteng Textile Company Limited ("Binteng Textile")) comprising the Group are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC GAAP.

11. TAX (continued)

Note:

(a) Being Sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to a State CIT rate of 30% and a local CIT rate of 3%. With regard to State CIT, they are entitled to a full exemption for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. With regard to local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption commencing from 2003 and 2004, respectively. Luteng Textile and Binteng Textile were entitled to a 50% reduction in State CIT for the current year.

(b) The amount represents a tax concession, approved by the local tax bureau, in respect of purchases of PRC manufactured machinery and equipment. The tax concession is calculated at 40% of the purchase cost of PRC manufactured machinery and equipment for prior years, and is limited to the amount of increase in income tax for the current year compared with the tax amount of the preceding year.

(c) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB1,604 million (2006: RMB1,606 million) which has been dealt with in the financial statements of the Company (note 33).

13. PROFIT APPROPRIATIONS

(a) Under the PRC Company Law and the respective companies' articles of association, net profit after tax as determined in accordance with PRC GAAP can only be distributed as dividends after making up prior years' cumulative losses, if any, and making allowance for the following statutory reserve funds, which cannot be used for purposes other than those created and non-distributable as cash dividends:

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile and Binteng Textile, are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be recognised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after such usage.

13. PROFIT APPROPRIATIONS (continued)

(ii) Statutory public welfare fund

Before 2006, in accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile and Binteng Textile, were required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory public welfare fund, which will be used to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items remained with the respective companies now comprising the Group.

Pursuant to the revised PRC Company Law which was approved on 27 October 2005 and the Notice of Caiqi [2006]67 dated 15 March 2006 issued by the Ministry of Finance, appropriation to the statutory public welfare fund is no longer needed with effect from 1 January 2006, and the balance of the statutory public welfare fund is required to be transferred to the statutory surplus reserve.

The directors of the respective companies resolved to appropriate 10% of the profit attributable to shareholders, determined in accordance with PRC GAAP, to the statutory reserve funds for the years ended 31 December 2007 and 2006.

(iii) General reserve fund, employee's bonus and welfare fund and enterprise expansion fund

In accordance with the PRC Joint Venture Law, dividends can be distributed by Luteng Textile and Binteng Textile after allowance has been made by offsetting any prior years' losses out of the annual statutory net profit after tax, determined in accordance with PRC GAAP, and allocations to the statutory reserve funds, which comprise a general reserve fund, an employee's bonus and welfare fund and an enterprise expansion fund. The amounts of transfer to the various statutory reserve funds are determined at the discretion of the boards of directors of Luteng Textile and Binteng Textile.

13. PROFIT APPROPRIATIONS (continued)

(b) Dividend

	2007 RMB'000	2006 RMB'000
Proposed final – RMB0.5005 (2006: RMB0.440) per share	597,813	525,531

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed (i.e. Hong Kong Financial Reporting Standards).

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,868,471	1,685,405

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,194,389,000	1,181,546,036

The weighted average number of ordinary shares in issue during 2006 used in the basic earnings per share calculations for 2006 has been adjusted to reflect the issue of 68,936,500 H shares by way of placing on 10 March 2006 (note 32).

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007					
At 1 January 2007:					
Cost	4,706,760	13,747,693	70,960	145,081	18,670,494
Accumulated depreciation	(226,135)	(2,475,518)	(21,365)	—	(2,723,018)
Net carrying amount	4,480,625	11,272,175	49,595	145,081	15,947,476
At 1 January 2007, net of accumulated depreciation	4,480,625	11,272,175	49,595	145,081	15,947,476
Additions	85,129	207,240	10,829	955,804	1,259,002
Disposals	—	(23,120)	(526)	—	(23,646)
Depreciation provided during the year	(118,618)	(955,934)	(8,411)	—	(1,082,963)
Transfers	505,717	376,916	—	(882,633)	—
At 31 December 2007, net of accumulated depreciation	4,952,853	10,877,277	51,487	218,252	16,099,869
At 31 December 2007:					
Cost	5,297,606	14,257,120	81,097	218,252	19,854,075
Accumulated depreciation	(344,753)	(3,379,843)	(29,610)	—	(3,754,206)
Net carrying amount	4,952,853	10,877,277	51,487	218,252	16,099,869

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2006					
At 1 January 2006:					
Cost	3,844,703	12,044,210	44,720	292,312	16,225,945
Accumulated depreciation	(122,548)	(1,592,809)	(14,697)	—	(1,730,054)
Net carrying amount	3,722,155	10,451,401	30,023	292,312	14,495,891
At 1 January 2006, net of accumulated depreciation	3,722,155	10,451,401	30,023	292,312	14,495,891
Additions	43,339	312,750	26,498	2,066,511	2,449,098
Disposals	—	(2,070)	(188)	—	(2,258)
Depreciation provided during the year	(103,587)	(884,930)	(6,738)	—	(995,255)
Transfers	818,718	1,395,024	—	(2,213,742)	—
At 31 December 2006, net of accumulated depreciation	4,480,625	11,272,175	49,595	145,081	15,947,476
At 31 December 2006:					
Cost	4,706,760	13,747,693	70,960	145,081	18,670,494
Accumulated depreciation	(226,135)	(2,475,518)	(21,365)	—	(2,723,018)
Net carrying amount	4,480,625	11,272,175	49,595	145,081	15,947,476

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2007					
At 1 January 2007:					
Cost	3,683,309	10,417,450	60,071	49,471	14,210,301
Accumulated depreciation	(183,411)	(1,850,690)	(15,728)	—	(2,049,829)
Net carrying amount	3,499,898	8,566,760	44,343	49,471	12,160,472
At 1 January 2007, net of accumulated depreciation	3,499,898	8,566,760	44,343	49,471	12,160,472
Additions	82,206	206,808	9,824	778,422	1,077,260
Disposals to subsidiaries	—	(8,042)	—	—	(8,042)
Disposals	—	(19,671)	(526)	—	(20,197)
Depreciation provided during the year	(94,191)	(726,144)	(6,350)	—	(826,685)
Transfers	393,234	376,880	—	(770,114)	—
At 31 December 2007, net of accumulated depreciation	3,881,147	8,396,591	47,291	57,779	12,382,808
At 31 December 2007:					
Cost	4,158,749	10,922,883	69,204	57,779	15,208,615
Accumulated depreciation	(277,602)	(2,526,292)	(21,913)	—	(2,825,807)
Net carrying amount	3,881,147	8,396,591	47,291	57,779	12,382,808

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
At 1 January 2006:					
Cost	3,005,988	9,035,268	35,476	29,377	12,106,109
Accumulated depreciation	(102,797)	(1,190,094)	(10,721)	—	(1,303,612)
Net carrying amount	2,903,191	7,845,174	24,755	29,377	10,802,497
At 1 January 2006, net of accumulated depreciation	2,903,191	7,845,174	24,755	29,377	10,802,497
Additions	31,748	189,159	24,595	1,875,369	2,120,871
Disposals to subsidiaries	—	(11,996)	—	—	(11,996)
Disposals	—	(2,070)	—	—	(2,070)
Depreciation provided during the year	(80,614)	(663,209)	(5,007)	—	(748,830)
Transfers	645,573	1,209,702	—	(1,855,275)	—
At 31 December 2006, net of accumulated depreciation	3,499,898	8,566,760	44,343	49,471	12,160,472
At 31 December 2006:					
Cost	3,683,309	10,417,450	60,071	49,471	14,210,301
Accumulated depreciation	(183,411)	(1,850,690)	(15,728)	—	(2,049,829)
Net carrying amount	3,499,898	8,566,760	44,343	49,471	12,160,472

At 31 December 2007, certain of the Group's buildings, machinery and equipment with a value of approximately RMB8,864 million (2006: RMB8,219 million) were pledged to secure certain of the Group's bank loans (note 28).

The carrying amount of construction in progress included capitalised interest of RMB14.7 million (2006: RMB13.3 million) in the current year (note 10) prior to being transferred to buildings, and machinery and equipment.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Carrying amount at 1 January	**131,857**	133,087
Additions	**—**	1,566
Recognised during the year	**(2,816)**	(2,796)
Carrying amount at 31 December	**129,041**	131,857
Current portion included in prepayments, deposits and other receivables	**(2,816)**	(2,816)
Non-current portion	**126,225**	129,041

The leasehold lands are held under long term leases and are situated in the PRC.

At 31 December 2007, certain of the Group's land use rights with a net carrying amount of approximately RMB91 million (2006: RMB93 million) were pledged to secure certain of the Group's bank loans (note 28).

17. OTHER INTANGIBLE ASSETS

The intangible assets of the Group represent technology rights of US$1,450,000 (equivalent to approximately RMB12 million) injected by a minority shareholder to a subsidiary of the Company as its capital contribution in September 2002.

	2007 *RMB'000*	2006 *RMB'000*
At 1 January:		
Cost	**12,001**	12,001
Accumulated amortisation	**(5,100)**	(3,900)
Net carrying amount	**6,901**	8,101
At 1 January, net of accumulated amortisation	**6,901**	8,101
Amortisation provided during the year	**(1,200)**	(1,200)
At 31 December, net of accumulated amortisation	**5,701**	6,901
At 31 December:		
Cost	**12,001**	12,001
Accumulated amortisation	**(6,300)**	(5,100)
Net carrying amount	**5,701**	6,901

18. INVESTMENTS IN SUBSIDIARIES

Details of the interests in subsidiaries of the Company are set out below:

	2007 *RMB'000*	2006 *RMB'000*
Unlisted investments, at cost	**1,200,891**	1,200,891
Amounts due from subsidiaries	**1,101,500**	1,245,392
Amounts due to subsidiaries	**(206,498)**	(130,125)
	2,095,893	2,316,158

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries and joint ventures of the Company as at 31 December 2007 are as follows:

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interests directly attributable to the Company	Principal activities
Subsidiaries					
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, the PRC 25 July 2001	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarn and fabrics
Binzhou Industrial Park	Binzhou, the PRC 26 November 2001	Limited liability company	RMB600,000,000	98.5	Production and sale of cotton yarn and fabrics
Shandong Weiqiao Mianye Company Limited	Zouping, the PRC 30 September 2003	Limited liability company	RMB5,000,000	92	Purchase, processing and sale of raw cotton, cotton seeds and lint cotton
Weihai Weiqiao Industrial Park Company Limited ("Weihai Industrial Park")	Weihai, the PRC 30 January 2004	Limited liability company	RMB260,000,000	99.8	Production and sale of cotton yarn and fabrics
Joint ventures					
Luteng Textile	Zouping, the PRC 12 September 2002	Sino-foreign equity joint venture	US$9,790,000	75	Production and sale of polyester yarn and related products
Binteng Textile	Zouping, the PRC 12 March 2004	Sino-foreign equity joint venture	US$15,430,000	75	Production and sale of compact yarn and related products

19. INVENTORIES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	915,837	1,373,129
Work in progress	717,882	736,605
Semi-finished goods	663,262	610,217
Finished goods	1,173,498	616,999
Consumables	112,050	72,926
Consigned materials for processing	5,262	—
Raw materials in transit	—	167,688
	3,587,791	3,577,564

	Company	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	768,191	1,151,577
Work in progress	549,659	563,694
Semi-finished goods	396,906	370,548
Finished goods	875,427	426,100
Consumables	85,331	53,531
Consigned materials for processing	5,403	15,929
Raw materials in transit	—	167,688
	2,680,917	2,749,067

20. TRADE RECEIVABLES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**925,293**	716,946
Impairment	**(23,108)**	(23,108)
	902,185	693,838

	Company	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**863,730**	681,395
Impairment	**(21,630)**	(21,630)
	842,100	659,765

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers with a long term relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**894,169**	686,039
3 to 6 months	**3,176**	2,745
6 months to 1 year	**3,208**	674
1 to 2 years	**1,632**	4,380
	902,185	693,838

20. TRADE RECEIVABLES (continued)

	Company	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**834,084**	651,966
3 to 6 months	**3,176**	2,745
6 months to 1 year	**3,208**	674
1 to 2 years	**1,632**	4,380
	842,100	659,765

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**23,108**	23,730
Amount written off as uncollectible	**—**	(622)
At 31 December	**23,108**	23,108

	Company	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**21,630**	22,252
Amount written off as uncollectible	**—**	(622)
At 31 December	**21,630**	21,630

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB23,108,000 (2006: RMB23,108,000) with a carrying amount of RMB23,108,000 (2006: RMB23,108,000). The Group does not hold any collateral or other credit enhancements over these balances.

20. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Neither past due nor impaired	**739,304**	628,648
Less than 2 month past due	**154,865**	57,391
More than 2 months past due	**8,016**	7,799
	902,185	693,838

	Company	
	2007	2006
	RMB'000	*RMB'000*
Neither past due nor impaired	**687,703**	594,692
Less than 2 month past due	**146,381**	57,274
More than 2 months past due	**8,016**	7,799
	842,100	659,765

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2007	2006
	RMB'000	*RMB'000*
Prepayments to suppliers	**86,562**	52,725
Prepaid land lease payments, current portion	**2,816**	2,816
Interest receivable	**6,668**	—
Other receivables and prepayments	**391**	505
	96,437	56,046

	Company	
	2007	2006
	RMB'000	*RMB'000*
Prepayments to suppliers	**76,929**	45,484
Interest receivable	**6,668**	—
Other receivables and prepayments	**85**	85
	83,682	45,569

None of these assets is either past due or impaired. The financial assets included in these balances relate to receivables for which there was no recent history of default.

22. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/RELATED PARTIES

The balances with the immediate holding company are unsecured, interest-free and have no fixed repayment terms. The balances with related parties are unsecured, interest-free and have specific repayment terms.

23. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS MATURING OVER THREE MONTHS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**3,795,203**	3,953,465
Time deposits	**2,057,614**	1,644,689
	5,852,817	5,598,154
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(154,080)**	(106,526)
Non-pledged time deposits maturing over three months	**(1,684,688)**	(1,281,914)
Cash and cash equivalents	**4,014,049**	4,209,714

	Company	
	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**3,468,593**	3,703,444
Time deposits	**1,980,595**	1,632,890
	5,449,188	5,336,334
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(77,062)**	(94,727)
Non-pledged time deposits maturing over three months	**(1,684,688)**	(1,281,914)
Cash and cash equivalents	**3,687,438**	3,959,693

At the balance sheet date, the cash and bank balances of the Group donominated in Renminbi amounted to RMB3,632,396,000 (2006: RMB3,835,141,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchang Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of one day to six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents, the pledged time deposits and the non-pledged time deposits maturing over three months approximate to their fair values .

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date of transferring the significant risks and rewards of ownership of raw materials and items of property, plant and equipment to the Group, is as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**857,853**	627,038
3 to 6 months	**217,179**	64,151
6 months to 1 year	**240,014**	64,524
Over 1 year	**60,487**	32,830
	1,375,533	788,543

	Company	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**709,458**	553,676
3 to 6 months	**189,299**	60,565
6 months to 1 year	**170,655**	64,324
Over 1 year	**49,774**	31,632
	1,119,186	710,197

Trade payables are non-interest-bearing and most of the balances are payable in six months.

25. BILLS PAYABLE

	Group	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**452,551**	290,000
3 to 6 months	**196,600**	370,000
	649,151	660,000

	Company	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**377,300**	210,000
3 to 6 months	**100,000**	290,000
	477,300	500,000

Certain of the Group's bills payable amounting to RMB16.6 million as at 31 December 2007 were drawn by Weihai Weiqiao in favour of the Company and were discounted with banks by the Company prior to 31 December 2007 (2006: Nil).

Certain of the Group's bills payable amounting to RMB155.3 million as at 31 December 2007 were drawn by Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2007 (2006: RMB160 million).

Certain of the Group's bills payable amounting to RMB477.3 million as at 31 December 2007 were drawn by Company in favour of Binzhou Industrial Park and were discounted with banks by Binzhou Industrial Park prior to 31 December 2007 (2006: RMB430 million).

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Payroll payable	**219,579**	206,288
Welfare payable	**—**	549,046
Other taxes payable	**30,354**	183,022
Accruals	**67,630**	77,145
Other payables	**444,379**	374,807
	761,942	1,390,308

	Company	
	2007	2006
	RMB'000	*RMB'000*
Payroll payable	**162,588**	150,926
Welfare payable	**—**	418,993
Other taxes payable	**(7,555)**	139,455
Accruals	**67,630**	74,714
Other payables	**301,442**	237,026
	524,105	1,021,114

Other payables are non-interest-bearing.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	Assets		Liabilities	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest rate swaps	**5,983**	5,524	**219**	9,742

The carrying amounts of the interest rate swaps of the Group and the Company are the same as their fair values.

During the year, the increase in the fair value of interest rate swap derivatives amounting to RMB9,982,000 was credited to the consolidated income statement. During the prior year, the increase and decrease in the fair values of non-hedging currency derivatives and interest rate swap derivatives amounting to RMB1,323,000 and RMB7,680,000, respectively, were credited and charged to the consolidated income statement respectively.

28. INTEREST-BEARING BANK LOANS

	Contractual interest rate	Maturity	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Current:						
Unsecured	(a)	2008	**2,159,818**	1,667,945	**2,064,336**	1,350,431
Secured	(b)	2008	**2,118,809**	2,272,297	**1,119,809**	1,633,995
			4,278,627	3,940,242	**3,184,145**	2,984,426
Non-current:						
Unsecured	(c)	2009-2010	**1,739,868**	2,832,453	**1,519,868**	2,622,453
Secured	(d)	2009-2012	**3,208,265**	2,956,931	**2,973,265**	2,588,931
			4,948,133	5,789,384	**4,493,133**	5,211,384
			9,226,760	9,729,626	**7,677,278**	8,195,810

(a) The interest rates of these loans range from 6.2319% to 8.7480% per annum, at three-month LIBOR+1.4%, at six-month LIBOR+1.1% and at one-year SIBOR+1.75%.

(b) The interest rates of these loans range from 5.5800% to 9.7110% per annum, at three-month LIBOR+2.0% and at three-month LIBOR+2.5%.

(c) The interest rates of these loans range from 6.4125% to 8.7480% per annum, at three-month LIBOR+1.4% , at six-month LIBOR+1.1% and at three-month SIBOR+1.75%.

(d) The interest rates of these loans range from 5.5800% to 9.4770% per annum and at one-year LIBOR+2.8%.

28. INTEREST-BEARING BANK LOANS (continued)

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**4,278,627**	3,940,242	**3,184,145**	2,984,426
In the second year	**2,661,753**	2,458,388	**2,470,754**	2,146,388
In the third to fifth years, inclusive	**2,286,380**	3,330,996	**2,022,379**	3,064,996
	9,226,760	9,729,626	**7,677,278**	8,195,810

(i) Other than certain of the Group's bank loans in the aggregate amount of US$481 million (equivalent to RMB3,514 million) as at 31 December 2007 (2006: US$485 million (equivalent to RMB3,787 million)), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,252 million (2006: RMB5,229 million) were secured by certain of the Group's buildings, machinery and equipment, and land use rights (prepaid land lease payments) of an aggregate value of approximately RMB8,955 million (2006: RMB8,312 million) as at 31 December 2007.

(iii) Certain of the Group's bank loans up to RMB75 million (2006: Nil) were secured by certain of Binzhou Industrial Park's trade receivables from the Company of approximately RMB95 million (2006: Nil) as at 31 December 2007, which has been eliminated in the consolidated balance sheet.

(iv) Weihai Civil Aviation Industrial Company Limited, the minority shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao of up to approximately RMB9 million (2006: RMB10 million) as at 31 December 2007.

(v) Liu Guangmin, the minority shareholder of Weiqiao Industrial Park, guaranteed bank loans of Weihai Industrial Park of up to approximately RMB0.47 million (2006: RMB0.55 million) as at 31 December 2007.

(vi) The Company guaranteed bank loans of certain of its subsidiaries up to approximately RMB296 million (2006: RMB344 million) as at 31 December 2007.

28. INTEREST-BEARING BANK LOANS (continued)

Other interest rate information:

Group

	2007		2006	
	Fixed rate *RMB'000*	Floating rate *RMB'000*	Fixed rate *RMB'000*	Floating rate *RMB'000*
Bank loans:				
Unsecured	1,380,610	2,519,076	783,396	3,717,002
Secured	1,633,851	3,693,223	2,312,603	2,916,625
	3,014,461	6,212,299	3,095,999	6,633,627

Company

	2007		2006	
	Fixed rate *RMB'000*	Floating rate *RMB'000*	Fixed rate *RMB'000*	Floating rate *RMB'000*
Bank loans:				
Unsecured	1,100,128	2,484,076	403,396	3,569,488
Secured	864,851	3,228,223	1,594,301	2,628,625
	1,964,979	5,712,299	1,997,697	6,198,113

28. INTEREST-BEARING BANK LOANS (continued)

The carrying amounts of the Group's and the Company's current bank loans approximate to their fair values. The carrying amounts and fair value of the Group's non-current bank loans are as follows:

	Carrying amounts		Fair value	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**590,000**	1,218,800	**566,524**	1,195,358
Floating rate bank loans	**4,358,133**	4,570,584	**4,358,133**	4,570,584
	4,948,133	5,789,384	**4,924,657**	5,765,942

The fair value of the Company's secured bank loans (non-current portion) with a carrying amount of RMB2,973 million (2006: RMB2,589 million) was RMB2,957 million (2006: RMB2,567 million) at the balance sheet date.

29. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

	Group and Company	
	2007	2006
	RMB'000	*RMB'000*
Amounts repayable within one year classified as current liabilities	**—**	137,103

The Group repaid the amount due to the immediate holding company in 2007.

The long term payable to the immediate holding company as at 31 December 2006 was unsecured and interest-free.

30. DEFERRED INCOME

Deferred income recognised in the consolidated balance sheet, arising from the government grants received by the Company and Binzhou Industrial Park, are as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**101,491**	83,567
Addition	**37,405**	22,072
Recognised as income during the year	**(6,447)**	(4,148)
At 31 December	**132,449**	101,491
Portion classified as current liabilities	**(7,651)**	(5,151)
Non-current portion	**124,798**	96,340

Binzhou Industrial Park received government grants during prior years and the current year amounting to RMB106 million and RMB35 million, respectively. The grants were provided by the Finance Bureau of Binzhou City for the purpose of providing support for the development of Binzhou Industrial Park and for product development. Since Binzhou Industrial Park fulfilled the conditions attaching to the government grants, which were confirmed by the Finance Bureau of Binzhou City, the Group recognised the government grants as deferred income over the expected useful lives of the relevant fixed assets to which the grants related by equal annual instalments.

The Company received government grants during the current year amounting to RMB2.4 million (2006: Nil). The grants were provided by the Finance Bureau of Binzhou City for the purpose of providing support for the pollution prevention project of the Company. Since the Company has not fulfilled the conditions attaching to the government grants as of 31 December 2007, these government grants were not recognised as income in 2007.

31. DEFERRED TAX

The movements in the deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
At 1 January	**121,044**	61,422	**71,916**	19,655
(Charged)/credited to the consolidated income statement during the year	**(50,956)**	59,622	**(40,169)**	52,261
At 31 December	**70,088**	121,044	**31,747**	71,916
Deferred tax liabilities				
At 1 January	**8,082**	8,382	**—**	—
Credited to the consolidated income statement during the year	**(2,309)**	(300)	**—**	—
At 31 December	**5,773**	8,082	**—**	—
(Charged)/credited to the consolidated income statement, net (note 11)	**(48,647)**	59,922	**(40,169)**	52,261

31. DEFERRED TAX (continued)

The principal components of the Group's and the Company's deferred tax are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
Tax deductible loss	**2,442**	—	**2,442**	—
Provision against inventories	**14,680**	60,413	**9,525**	45,474
Impairment of trade receivables	**5,777**	7,626	**5,408**	7,138
Net fair value (gains)/losses of derivative financial instruments	**(1,441)**	1,392	**(1,441)**	1,392
Government grants recognised as deferred income	**33,113**	33,492	**600**	—
Interest capitalisation on fixed assets, net of related depreciation	**(6,928)**	(9,877)	**(6,928)**	(9,877)
Difference in depreciation expenses for tax purposes	**4,155**	2,651	**3,851**	2,442
Others	**18,290**	25,347	**18,290**	25,347
At 31 December	**70,088**	121,044	**31,747**	71,916
Deferred tax liabilities				
Interest capitalisation on fixed assets, net of related depreciation	**5,773**	8,082	**—**	—
At 31 December	**5,773**	8,082	**—**	—

There was no material unprovided deferred tax during the year.

32. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Shares		
Registered, issued and fully paid:		
780,770,000 (2006: 780,770,000) domestic shares of RMB1.00 each	**780,770**	780,770
413,619,000 (2006: 413,619,000) H shares of RMB1.00 each	**413,619**	413,619
	1,194,389	1,194,389

The Company does not have any share option scheme.

In 2006, 68,936,500 H shares of the Company with a par value of RMB1.00 each were issued to the public by way of placing at a price of HK$12.05 (equivalent to approximately RMB12.49) per H Share. These H shares were listed on the Hong Kong Stock Exchange in March 2006.

A summary of the transactions during the current and prior year with reference to the above movement of the Company's ordinary share capital is as follows:

	Number of shares in issue	Issued share capital RMB'000	Capital reserve account RMB'000	Total RMB'000
At 1 January 2006	1,125,452,500	1,125,453	5,884,199	7,009,652
Issue of H shares	68,936,500	68,936	791,174	860,110
Share issue expenses	—	—	(1,994)	(1,994)
At 1 January 2007	1,194,389,000	1,194,389	6,673,379	7,867,768
At 31 December 2007	1,194,389,000	1,194,389	6,673,379	7,867,768

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the prior and current year are presented in the consolidated statement of changes in equity on pages 55 to 56 of these financial statements.

Company

	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
At 1 January 2006	5,884,199	302,019	302,019	1,662,642	323,005	8,473,884
Final 2005 dividend declared	—	—	—	—	(342,790)	(342,790)
Dividend relating to additional issuance of shares	—	—	—	(19,785)	19,785	—
Issue of H Shares (note 32)	791,174	—	—	—	—	791,174
Share issue expenses (note 32)	(1,994)	—	—	—	—	(1,994)
Transfer of the statutory public welfare fund to the statutory surplus reserve	—	302,019	(302,019)	—	—	—
Profit for the year (note 12)	—	—	—	1,606,166	—	1,606,166
Transfer from retained profits	—	167,909	—	(167,909)	—	—
Proposed final 2006 dividend (note 13(b))	—	—	—	(525,531)	525,531	—
At 1 January 2007	6,673,379	771,947	—	2,555,583	525,531	10,526,440
Final 2006 dividend declared	—	—	—	—	(525,531)	(525,531)
Profit for the year (note 12)	—	—	—	1,604,342	—	1,604,342
Transfer from retained profits	—	146,254	—	(146,254)	—	—
Proposed final 2007 dividend (note 13(b))	—	—	—	(597,813)	597,813	—
At 31 December 2007	6,673,379	918,201	—	3,415,858	597,813	11,605,251

34. CONTINGENT LIABILITIES

At the balance sheet date, the Group's and the Company's contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Letters of credit issued	**52,933**	128,342

	Company	
	2007	2006
	RMB'000	*RMB'000*
Letters of credit issued	**52,933**	128,342
Guarantees given to banks in connection with facilities granted to subsidiaries	**295,570**	344,210
	348,503	472,552

35. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group and the Company had the following capital commitments, principally for construction in progress, the acquisition of items of property, plant and equipment and equity investments:

	Group	
	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for	**469,358**	573,534
Authorised, but not contracted for	**—**	89,914
	469,358	663,448

	Company	
	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for	**398,278**	548,534
Authorised, but not contracted for	**—**	89,914
	398,278	638,448

35. COMMITMENTS (continued)

(b) Operating lease commitments

At the balance sheet date, the Group and the Company had the following total future minimum lease payments under non-cancellable operating leases in respect of land and buildings:

	Group	
	2007 RMB'000	2006 RMB'000
Within one year	23,401	19,237
In the second to fifth years, inclusive	91,857	75,800
After five years	278,840	238,048
	394,098	333,085

	Company	
	2007 RMB'000	2006 RMB'000
Within one year	23,340	19,176
In the second to fifth years, inclusive	91,614	75,558
After five years	278,251	237,399
	393,205	332,133

36. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with the members of ZCSU. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among the wholly unrelated parties. Related parties refer to entities of which ZCSU is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

In addition to the transactions and balances disclosed in notes 22 and 29 to these financial statements during the year, the Group had the following transactions with related parties:

(a) Transactions with related parties

Name of related party	Relationship with the Company	Nature of transactions	2007 RMB'000	2006 RMB'000
The Holding Company	The immediate holding company	Expenses on provision of electricity and steam	59,898	75,051
		Expenses on land use right and property leasing	22,094	16,902
		Revenue on supply of electricity	132,067	206,372
		Revenue on plant and equipment leasing	167	—
Weihai Xijiao Thermal Power Company Limited	A fellow subsidiary*	Expenses on provision of electricity and steam	22,996	—
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarn	64,489	205,544
		Revenue on plant and equipment leasing	500	1,000
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	377,054	257,677
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of the Holding Company	Sale of cotton yarn	50,173	19,594
Shandong Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarn	59,812	58,807
Shandong Weiqiao Hongyuan Home Textile, Ltd.	A fellow subsidiary	Sale of grey fabrics	4,758	14,408

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Name of related party	Relationship with the Company	Nature of transactions	2007 RMB'000	2006 RMB'000
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	300,571	77,156
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	2,282	—
		Sale of denim	2,315	1,146
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	1,437	582
		Sale of denim	8,062	—
Shandong Weiqiao Jiajia Home Textile Co., Ltd.	A fellow subsidiary*	Sale of grey fabrics	27,642	—

* These two companies are fully owned by the Holding Company.

Supply agreement with the Holding Company

In preparation for the listing of the Company, the Company and the Holding Company entered into a supply agreement (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 grey fabrics to the Holding Company and its subsidiaries other than the companies now comprising the Group (collectively referred to as the "Holding Group"); and (ii) the Holding Company has agreed to supply cotton to the Group and to provide, or procure its subsidiaries and/or associates to provide, cotton yarn and grey fabrics downstream processing services to the Group, for a term of three years commencing from 25 August 2003.

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Supply agreement with the Holding Company (continued)

On 28 December 2006 and 15 January 2007, the Company made an announcement and a circular, respectively, on "Continuing Connected Transactions (Supply of Cotton Yarn and Grey Fabric)". According to the announcement and the circular (collectively, the "Announcements"), the Company announced, that on 25 August 2006, it has renewed the Old Supply Agreement dated 25 August 2003 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 (the "Renewed 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 grey fabric by the Group to the Holding Group as well as the provision of cotton yarn and grey fabric downstream processing activities by the Holding Group to the Group but does not apply to the supply of cotton (including lint cotton and tailings) by the Holding Company to the Group. In the Announcements, the Company also disclosed that it has complied with the reporting requirements but not the announcement and independent shareholders' approval requirements under the Listing Rules in respect of the transactions under the Renewed Supply Agreement. Pursuant to an ordinary resolution in an extraordinary general meeting on 2 March 2007, among others, the continuing connected transactions carried out by the Company during the year ended 31 December 2006 under the Renewed Supply Agreement with the 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 and also, the estimated maximum values of the annual aggregate supply of cotton yarn and grey fabric by the Group to the Holding Group as set out in the Announcements for each of the three years ending 31 December 2008 were approved, ratified and confirmed by the independent shareholders.

Electricity and steam agreement with the Holding Company

In the preparation for the listing of the Company, the Company and the Holding Company entered into a supply of electricity and steam agreement on 25 August 2003. Pursuant to the agreement, the Holding Company agreed to supply electricity and steam to the Group, at the lower of the market price and RMB0.35 per kWh (including VAT at the rate of 17%) for electricity, and at the lower of the market price and RMB60 per ton (including VAT at the rate of 13%) for steam. Pursuant to the supplemental agreement of the supply of electricity and steam dated 31 May 2005, it was agreed that if the aggregate amount of electricity and steam to be purchased by the Group from the Holding Company in any financial year of the Company were equal to or less than that purchased for the financial year ended 31 December 2004 (the "Planned Electricity and Steam Purchase"), the price for the Planned Electricity and Steam Purchase shall be either the lower of RMB0.35 per kWh (including VAT at the rate of 17%) and RMB60 per ton (including VAT at the rate of 13%) or the then prevailing market price. The price for any excess purchase shall be adjusted, but must not be higher than the then prevailing market price.

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Electricity and steam agreement with the Holding Company (continued)

On 13 August 2005, the Company entered into an asset transfer agreement (the "Assets Transfer Agreement") with the Holding Company to acquire the thermal power assets at an aggregate consideration of RMB3,000,000,000: RMB2,710,000,000 by way of allotment and issuance of 250,000,000 domestic shares; and RMB290,000,000 by two cash instalments payable in 2007. On 27 October 2005, the Company obtained the new business license indicating the increased registered capital of the Company from the Shandong Provincial Administration Bureau for Industry and Commerce, entering the completion of the Asset Transfer Agreement (the "Completion").

After Completion, the Company supplied electricity and steam to itself and several subsidiaries, however, the subsidiaries of the Company, Weihai Weiqiao and Weihai Industry Park continued to purchase electricity and steam from the Holding Company.

Upon Completion, the Company and the Holding Company entered into a supply of excess electricity agreement on 2 November 2005, pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual consumption, to the Holding Company for a term commencing from the date of Completion and ending on 31 December 2007. The price at which the excess electricity is supplied to the Holding Company by the Group shall be RMB0.45 per kWh (including VAT at the rate of 17%) or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid (the price is currently ranging from RMB0.37 per kWh to RMB0.40 per kWh), whichever is higher. However, if any applicable mandatory price for the electricity is announced by the PRC government, the mandatory price would be adopted instead.

Lease agreements with the Holding Company

As at 31 December 2007, the Group has entered into twelve property lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the twelve agreements are summarised as follows:

(i) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental of RMB454,900 for the land relating to Weiqiao First Production Area.

(ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental of RMB868,000 for the land relating to Weiqiao First Production Area.

(iii) Land use rights lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, at an annual rental of RMB888,700 for the land relating to Weiqiao Second Production Area.

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

(iv) Land use rights lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, at an annual rental of RMB1,503,000 for the land relating to Weiqiao Third Production Area.

(v) Land use rights lease agreement dated 13 September 2002 with the commencement date and expiry date on 13 September 2002 and 13 September 2022, respectively, at an annual rental of RMB60,700 for the land relating to a production plant of Luteng Textile.

(vi) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental of RMB2,167,000 for the land relating to the Zouping Industrial Park Area.

(vii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental of RMB994,100 for the land relating to the Zouping Industrial Park Area.

(viii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental of RMB2,000,000 for the land relating to the Zouping Industrial Park Area.

(ix) Operating lease agreement dated 31 January 2005 with the commencement date and expiry date on 1 February 2005 and 1 February 2010, respectively, at an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

(x) Land use rights lease agreement dated 2 November 2005 with the commencement date and expiry date on 31 October 2005 and 31 October 2025, respectively, at an annual rental of RMB2,699,000, which is subject to adjustment, for the land relating to the thermal power assets acquired from the Holding Company.

(xi) Land use rights lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, at an annual rental of RMB7,001,000 for the land relating to the Zouping Industrial Park Area.

(xii) Land use rights lease agreement dated 8 April 2007 with the commencement date and expiry date on 24 April 2007 and 24 April 2027, respectively, at an annual rental of RMB4,164,000 for the land relating to the Zouping Industrial Park Area.

36. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties included in the consolidated balance sheet

	Due from related parties		Due to related parties	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**1,579**	—	**37,793**	299,901
Fellow subsidiaries	**—**	5,044	**16,882**	7,980
An associate of the Holding Company	**1**	—	**—**	1,280

(c) Compensation of key management personnel of the Group:

	2007	2006
	RMB'000	*RMB'000*
Short term employee benefits	**4,256**	5,100
Post-employment benefits	**13**	68
Share-based payments	**—**	—
Total compensation paid to key management personnel	**4,269**	5,168

Further details of directors' and supervisor's remuneration are included in note 8 to the financial statements.

The related party transactions mentioned above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amount of each of the categories of financial instruments as at the balance sheet date are as follows:

	Group					
Financial assets	2007			2006		
	Held for trading RMB'000	Loans and receivables RMB'000	Total RMB'000	Held for trading RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables	—	902,185	902,185	—	693,838	693,838
Amounts due from related parties	—	1	1	—	5,044	5,044
Amount due from the immediate holding company	—	1,579	1,579	—	—	—
Financial assets included in prepayments, deposits and other receivables	—	93,621	93,621	—	53,230	53,230
Derivative financial instruments	5,983	—	5,983	5,524	—	5,524
Pledged deposits	—	154,080	154,080	—	106,526	106,526
Non-pledged time deposits maturing over three months	—	1,684,688	1,684,688	—	1,281,914	1,281,914
Cash and cash equivalents	—	4,014,049	4,014,049	—	4,209,714	4,209,714
	5,983	6,850,203	6,856,186	5,524	6,350,266	6,355,790

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Group 2007 Held for trading RMB'000	2007 Financial liabilities at amortised cost RMB'000	2007 Total RMB'000	2006 Held for trading RMB'000	2006 Financial liabilities at amortised cost RMB'000	2006 Total RMB'000
Trade payable	—	1,375,533	1,375,533	—	788,543	788,543
Bills payable	—	649,151	649,151	—	660,000	660,000
Amounts due to related parties	—	16,882	16,882	—	9,260	9,260
Amount due to the immediate holding company	—	37,793	37,793	—	162,798	162,798
Financial liabilities included in other payables and accruals	—	663,958	663,958	—	1,100,852	1,100,852
Derivative financial instruments	219	—	219	9,742	—	9,742
Interest-bearing bank loans	—	9,226,760	9,226,760	—	9,729,626	9,729,626
Long term payable to the immediate holding company, current portion	—	—	—	—	137,103	137,103
Dividend payable	—	104,223	104,223	—	67,708	67,708
	219	12,074,300	12,074,519	9,742	12,655,890	12,665,632

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amount of each of the categories of financial instruments as at the balance sheet date are as follows (continued):

Company

Financial assets	2007 Held for trading RMB'000	2007 Loans and receivables RMB'000	2007 Total RMB'000	2006 Held for trading RMB'000	2006 Loans and receivables RMB'000	2006 Total RMB'000
Trade receivables	—	842,100	842,100	—	659,765	659,765
Bills receivable	—	4,749	4,749	—	—	—
Amounts due from subsidiaries	—	1,101,500	1,101,500	—	1,245,392	1,245,392
Amounts due from related parties	—	1	1	—	136	136
Financial assets included in prepayments, deposits and other receivables	—	83,682	83,682	—	45,569	45,569
Derivative financial instruments	5,983	—	5,983	5,524	—	5,524
Pledged deposits	—	77,062	77,062	—	94,727	94,727
Non-pledged time deposits maturing over three months	—	1,684,688	1,684,688	—	1,281,914	1,281,914
Cash and cash equivalents	—	3,687,438	3,687,438	—	3,959,693	3,959,693
	5,983	7,481,220	7,487,203	5,524	7,287,196	7,292,720

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial liabilities	2007 Held for trading RMB'000	2007 Financial liabilities at amortised cost RMB'000	2007 Total RMB'000	2006 Held for trading RMB'000	2006 Financial liabilities at amortised cost RMB'000	2006 Total RMB'000
Trade payable	—	1,119,186	1,119,186	—	710,197	710,197
Bills payable	—	477,300	477,300	—	500,000	500,000
Amounts due to subsidiaries	—	206,498	206,498	—	130,125	130,125
Amounts due to related parties	—	15,602	15,602	—	10,536	10,536
Financial liabilities included in other payables and accruals	—	464,031	464,031	—	788,763	788,763
Derivative financial instruments	219	—	219	9,742	—	9,742
Interest-bearing bank loans	—	7,677,278	7,677,278	—	8,195,810	8,195,810
Amount due to the immediate holding company	—	36,858	36,858	—	100,644	100,644
Long term payable to the immediate holding company	—	—	—	—	137,103	137,103
Dividend payable	—	104,223	104,223	—	67,708	67,708
	219	10,100,976	10,101,195	9,742	10,640,886	10,650,628

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the Company's management periodically analyses and formulates strategies to manage the Group's exposure to financial risk. Generally, the Group introduces conservative strategies on its risk management. The Group's accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage the mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These interest rate swaps can reduce part of interest rate risk of the underlying debt obligations to some extent.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase in basis points	**Decrease in profit before tax** *RMB'000*
2007		
RMB	**50**	**18,688**
United States dollar	**50**	**12,374**
		31,062
2006		
RMB	50	16,803
United States dollar	50	16,366
		33,169

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales, purchases and bank loans of the Group in United States dollars. Approximately 74% or US$91 million (2006: 69% or US$61 million) of the Group's trade receivables are denominated in the United States dollars, whilst 28% or US$53 million (2006: 15% or US$15 million) of the Group's trade payables and 38% or US$481 million (2006: 39% or US$485 million) of bank loans are denominated in United States dollars. Since the trade receivables due from the overseas sales denominated in United States dollars usually will be settled within one month whereas purchases and bank loans denominated in United States dollars are repaid over a longer period, the Group has benefited from the appreciation of Renminbi during these two years.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in US$ rate	**Increase/ (decrease) in profit before tax**
	%	*RMB'000*
2007		
If RMB strengthens against United States dollar	**(5)**	**153,141**
If RMB weakens against United States dollar	**5**	**(153,141)**
2006		
If RMB strengthens against United States dollar	(5)	166,079
If RMB weakens against United States dollar	5	(166,079)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the possibility that the counterparty of a transaction is unwilling or unable to fulfil its obligation and the Group thereby suffers financial loss.

The credit limits of trade receivables are determined and monitored by management on an ongoing basis. In addition, at each balance sheet date, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for unrecoverable amounts. Therefore, the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and certain derivative instruments, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 34 to the financial statements.

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed. At the balance sheet date, the Group's trade receivables from the Group's largest customer and the five largest customers, were 11% (2006: 17%) and 25% (2006: 33%), respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through bank loans. The Group's policy is that not more than 50% of borrowings should mature in any 12-month period. 46% of the Group's debts would mature in less than one year as at 31 December 2007 (2006: 41%) based on the carrying value of borrowings reflected in the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007			
	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade payables	1,318,232	57,301	—	1,375,533
Bills payable	196,600	452,551	—	649,151
Amounts due to related parties	16,882	—	—	16,882
Financial liabilities included in other payables and accruals	615,008	48,950	—	663,958
Derivative financial instruments	219	—	—	219
Interest-bearing bank loans	1,438,663	2,839,964	4,948,133	9,226,760
Amount due to the immediate holding company	37,793	—	—	37,793
Dividend payable	104,223	—	—	104,223
	3,727,620	3,398,766	4,948,133	12,074,519

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

	2006			
	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade payables	699,633	88,910	—	788,543
Bills payable	370,000	290,000	—	660,000
Amounts due to related parties	9,260	—	—	9,260
Financial liabilities included in other payables and accruals	1,038,886	61,966	—	1,100,852
Derivative financial instruments	9,742	—	—	9,742
Interest-bearing bank loans	931,493	3,008,749	5,789,384	9,729,626
Amount due to the immediate holding company	162,798	—	—	162,798
Long term payable to the immediate holding company	—	137,103	—	137,103
Dividend payable	67,708	—	—	67,708
	3,289,520	3,586,728	5,789,384	12,665,632

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2007			
	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade payables	1,104,592	14,594	—	1,119,186
Bills payable	100,000	377,300	—	477,300
Amounts due to subsidiaries	206,498	—	—	206,498
Amounts due to related parties	15,602	—	—	15,602
Financial liabilities included in other payables and accruals	415,509	48,522	—	464,031
Derivative financial instruments	219	—	—	219
Interest-bearing bank loans	1,285,182	1,898,963	4,493,133	7,677,278
Amount due to the immediate holding company	36,858	—	—	36,858
Dividend payable	104,223	—	—	104,223
	3,268,683	2,339,379	4,493,133	10,101,195

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company (continued)

	2006			
	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade payables	621,289	88,908	—	710,197
Bills payable	290,000	210,000	—	500,000
Amounts due to subsidiaries	130,125	—	—	130,125
Amounts due to related parties	10,536	—	—	10,536
Financial liabilities included in other payables and accruals	750,401	38,362	—	788,763
Derivative financial instruments	9,742	—	—	9,742
Interest-bearing bank loans	769,813	2,214,613	5,211,384	8,195,810
Amount due to the immediate holding company	100,644	—	—	100,644
Long term payable to the immediate holding company	—	137,103	—	137,103
Dividend payable	67,708	—	—	67,708
	2,750,258	2,688,986	5,211,384	10,650,628

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. The Group's objective is to maintain a gearing ratio between 35% to 65%. Net debt includes interest-bearing bank borrowings and a long term payable to the immediate holding company, less cash and cash equivalents. The gearing ratios as at the balance sheet dates were as follows:

	2007 *RMB'000*	2006 *RMB'000*
Interest-bearing bank borrowings	**9,226,760**	9,729,626
Long term payable to the immediate holding company	**—**	137,103
Less: Cash and cash equivalents	**(4,014,049)**	(4,209,714)
Net debt	**5,212,711**	5,657,015
Total equity	**13,472,656**	12,121,081
Gearing ratio	**38.7%**	46.7%

39. POST BALANCE SHEET EVENT

On 14 January 2008, the Company made an announcement regarding the discloseable and connected transaction as well as continuing connected transactions under which,

(i) the Company entered into an asset transfer agreement with the Holding Company, pursuant to which the Company has agreed to acquire certain of the thermal power assets for an aggregate consideration of RMB2,210,000,000.

Upon completion, the Group would have continuing connected transactions with the Holding Company whereby:

(ii) the Company would lease from the Holding Company the land use rights in respect of the land on which the Thermal Power Plants are currently located;

(iii) the Holding Company will purchase from the Company electricity which is in excess of the Group's actual electricity consumption, at a rate to be agreed upon between both parties, from the date of completion to 31 December 2010.

At the extraordinary general meeting held on 18 March 2008, the resolution of the Company to approve the asset transfer agreement, the supply of excess electricity agreement, the continuing connected transactions contemplated under the supply of excess electricity agreement and the proposed annual caps thereon were duly passed. The leasing transaction constitutes a continuing connected transaction of the Company. It is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirements under the Listing Rules.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2008.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Weiqiao Textile Company Limited (the "**Company**") for the year ended 31 December 2007 will be held at 9:00 a.m. on 30 May 2008 at the conference hall on the Fourth Floor, Company Office Building, No. 1 Wei Fang Lu, Economic Development Zone, Zouping County, Shandong Province, the People's Republic of China (the "**PRC**") for the following purposes:

ORDINARY RESOLUTIONS

1. to consider and approve the Consolidated Audited Financial Statements of the Company, the Report of the Board of Directors of the Company, the Report of the Supervisory Committee of the Company, the Report of the Final Accounts of the Company and the Report of the International Auditors, for the year ended 31 December 2007;

2. to consider and approve the profit distribution proposal of the Company and the relevant declaration and payment of a final dividend for the year ended 31 December 2007;

3. to consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2008;

4. to consider and approve, the re-appointment of Ernst & Young Hua Ming as the Company's domestic auditors for the year ending 31 December 2008 and Ernst & Young as the Company's international auditors for the year ending 31 December 2008 and the granting of the authorisation to the Board of Directors of the Company to determine their remuneration;

5. to consider and approve the appointment of Ms. Zhao Suhua ("**Ms. Zhao**") (details of Ms. Zhao are disclosed in note (I)) as a non-executive director of the Company for a term commencing from the date of 2007 Annual General Meeting until the date of the Annual General Meeting for the year ending 31 December 2010, and that the Board is authorised to determine the remuneration of Ms. Zhao;

6. to consider and approve the appointment of Ms. Wang Xiaoyun ("**Ms. Wang**") (details of Ms. Wang are disclosed in note (J)) as a non-executive director of the Company for a term commencing from the date of 2007 Annual General Meeting until the date of the Annual General Meeting for the year ending 31 December 2010, and that the Board is authorised to determine the remuneration of Ms. Wang; and

7. to consider and approve other business, if any.

In respect of special business, to consider and, if thought fit, to approve the following resolutions as special resolutions:

SPECIAL RESOLUTIONS

8. “**THAT**:

(1) there be granted to the Board of Directors of the Company, an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares. Such unconditional general mandate can be exercised once or more than once during the Relevant Period, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of shares, whether Domestic Shares or H Shares, allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Board of Directors of the Company pursuant to such mandate, shall not exceed:

(i) in the case of Domestic Shares, 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and

(ii) in the case of H Shares, 20 per cent of the aggregate nominal amount of H Shares of the Company in issue, in each case as of the date of this Resolution; and

(c) the Board of Directors of the Company shall only exercise its power under such mandate in accordance with the Company Law of the PRC and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC governmental authorities are obtained; and

(2) contingent on the Board of Directors of the Company resolving to issue shares pursuant to sub-paragraph (1) of this Resolution, the Board of Directors of the Company be authorised to:

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including (without limitation):

(i) determine the class and number of shares to be issued;

(ii) determine the issue price of the new shares;

(iii) determine the opening and closing dates of the new issue;

(iv) determine the use of proceeds of the new issue;

(v) determine the class and number of new shares (if any) to be issued to the existing shareholders;

(vi) make or grant such offers, agreements and options as may be necessary in the exercise of such powers; and

(vii) in the case of an offer or allotment of shares to the shareholders of the Company, exclude shareholders who are resident outside the PRC or the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") on account of prohibitions or requirements under overseas laws or regulations or for some other reason(s) which the Board of Directors of the Company considers necessary or expedient;

(b) increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, register the increased capital with the relevant authorities in the PRC and make such amendments to the Articles of Association of the Company as it thinks fit so as to reflect the increase in the registered capital of the Company; and

(c) make all necessary filings and registrations with the relevant PRC, Hong Kong and/or other authorities.

For the purposes of this Resolution:

"**Domestic Shares**" means domestic invested shares in the share capital of the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC investors;

"**H Shares**" means the overseas listed foreign invested shares in the share capital of the Company, with a par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars; and

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(b) the expiration of the 12-month period following the passing of this Resolution; or

(c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting."

By Order of the Board
Zhao Suwen
Executive Director and Company Secretary

Shandong, the PRC
15 April 2008

As at the date of this notice, the Board of Directors of the Company is comprised of Ms. Zhang Hongxia, Ms. Zhang Yanhong, Mr. Qi Xingli, Ms. Zhao Suwen 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.

Notes:

(A) The H Share register of the Company will be closed from 1 May 2008, to 30 May 2008 (both days inclusive), during which no transfer of H Shares will be effected. In order to be entitled to attend and vote at the Annual General Meeting, share transfer documents should be lodged with the Company's H Shares share registrar not later than 4:00 p.m. on 30 April 2008.

In order to qualify for the proposed final dividend, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 30 April 2008.

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 Annual General Meeting, must complete the reply slips for attending the Annual General Meeting 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 Annual General Meeting, i.e. no later than 10 May 2008.

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

First Floor
Company Office Building
No. 1 Wei Fang Lu
Economic Development Zone
Zouping County
Shandong Province
People's Republic of China
Tel: (86) 543 4162222
Fax: (86) 543 4162000

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting (or at any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year ended 31 December 2007.

(D) 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.

(E) 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 certified copy of that power of attorney or other authority (such certification to be made by a notary public), must be delivered to the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited, on the 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time for holding the Annual General Meeting or any adjournment thereof in order for such documents to be valid.

(F) 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 Annual General Meeting. Notes (C) to (D) 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 Annual General Meeting or any adjournment, thereof in order for such documents to be valid.

(G) If a proxy attends the Annual General Meeting 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 Annual General Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of the company other than its legal representative to attend the Annual General Meeting, 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.

(H) Set out below is the procedure by which shareholders of the Company and the chairman of any shareholders' meeting of the Company 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."

(I) Details of Ms. Zhao Suhua, a candidate of the Company's new non-executive director, are as follows:

Ms. Zhao Suhua ("Ms. Zhao"), aged 38, is a candidate of the Company's non-executive director. Ms. Zhao was graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She has over ten years management experience in the cotton textile industry. She had been the supervisor of the production technical department and head of the production technical department of the Company (from May 2000 to February 2006), and is now the standing deputy general manager of the sales department of the Company (since February 2006).

Ms. Zhao has not held any other directorship in any other listed public companies in the last three years. Ms. Zhao is the elder sister of Ms. Zhao Suwen, an executive director of the Company. Other than that, Ms. Zhao does not have any relationship with any directors, the senior management, substantial shareholders or controlling shareholders of the Company. Ms. Zhao holds 3.09% of the interests in Shandong Weiqiao Chuangye Group Company Limited (the "Holding Company") (an associated corporation (as interpreted in Division XV of the Securities and Future Ordinance) of the Company), including 0.28% of beneficial interests and 2.81% of spouse interests (being held by Mr. Wei Yingzhao, the husband of Ms. Zhao). Save as the aforesaid, Ms. Zhao does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance or other information required to be disclosed in relation to Ms. Zhao in accordance with Rule 13.51(2) of the Listing Rules. Should the resolutions for her appointment been duly passed, during the term of appointment, Ms. Zhao will be paid RMB100,000 upon appointment as annual remuneration. Such remuneration is the same as the remuneration level of the other current directors of the Company. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders.

(J) Details of Ms. Wang Xiaoyun, a candidate of the Company's mew non-executive director, are as follows:

Ms. Wang Xiaoyun ("Ms. Wang"), aged 43, is a candidate of the Company's non-executive director. Ms. Wang was graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She has over thirteen years management experience in the cotton textile industry. She had been a workshop supervisor, deputy factory head, and deputy general manage of the production district of Zouwei Garden I (from January 2004 to February 2006). She is now the head of the production technical department of the Company (since February 2006).

Ms. Wang has not held any other directorship in any other listed public companies in the last three years. Ms. Wang does not have any relationship with any directors, the senior management or substantial or controlling shareholders of the Company. Ms. Wang holds 0.25% of the interests in the Holding Company (an associated corporation (as interpreted in Division XV of the Securities and Future Ordinance) of the Company). Save as the aforesaid, Ms. Wang does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance or other information required to be disclosed in relation to Ms. Wang in accordance with Rule 13.51(2) of the Listing Rules. Should the resolutions for her appointment been passed, during the term of appointment, Ms. Wang will be paid RMB100,000 upon appointment as remuneration. Such remuneration is the same as the remuneration level of the other current directors of the Company. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders.

(K) The Annual General Meeting is expected to last for half a day. Shareholders attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.