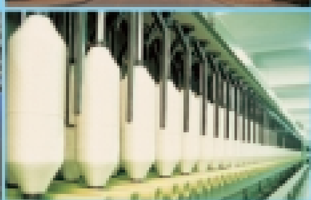
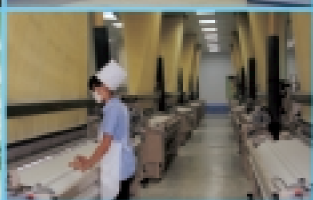
魏橋紡織股份有限公司
Weiqiao Textile Company Limited
(Stock Code : 2698)





Annual Report 08

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FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December *(RMB'000)*				
	2004	2005	2006	2007	**2008**
Revenue	11,088,224	13,584,389	19,826,154	18,589,586	16,453,087
Gross profit	1,857,177	2,244,130	3,323,090	2,662,371	1,430,734
Gross profit margin (%)	16.8	16.5	16.8	14.3	8.7
Profit before tax	1,246,884	1,435,784	2,307,571	2,272,626	720,589
Profit attributable to shareholders of the Company	825,535	1,242,473	1,685,405	1,868,471	596,212
Net profit margin (%)	7.5	9.1	8.5	10.1	3.6
Basic earnings per share (RMB)	0.97	1.35	1.43	1.56	0.50

(Prepared in accordance with the HK GAAP)

Assets and liabilities

	As at 31 December (RMB'000)				
	2004	2005	2006	2007	2008
Total assets	16,388,853	24,704,766	26,140,632	26,748,676	27,296,250
Equity	6,069,850	9,827,008	12,027,739	13,370,679	13,369,078
Total liabilities	10,228,695	14,783,418	14,018,831	13,276,020	13,830,749
Return on equity* (%)	15.5	15.6	15.4	14.7	4.5
Current ratio (times)	1.0	1.0	1.2	1.3	1.0
Accounts receivable turnover (days)	20	15	13	18	9
Inventory turnover (days)	106	117	79	82	92
Accounts payable turnover (days)	44	60	15	27	63

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
Zhao Suhua
Wang Xiaoyun

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

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LEGAL ADDRESS IN THE PRC

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Shandong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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LEGAL ADVISOR AS TO HONG KONG LAW

Morrison & Foerster LLP

INTERNATIONAL AUDITORS

Ernst & Young

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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Shops 1712-1716
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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 2008

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

INVESTOR RELATIONS

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INVESTOR & PR CONSULTANT

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FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date
27 March 2009

ANNUAL GENERAL MEETING

1 June 2009

DISTRIBUTION DATE OF FINAL DIVIDEND

25 June 2009

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 2008 (the "Year" or "Period under Review").

The global financial tsunami triggered by the US subprime crisis in 2008 had a heavy impact on the global economy. Although the Chinese government took decisive measures to sustain the stable development of the national economy by easing monetary policy, increasing infrastructure investment and expanding domestic demand in the second half of the year 2008, the growth of the Chinese economy slowed down under the influence of the economic recession in Europe and the US. According to the National Bureau of Statistics of China, Gross Domestic Product ("GDP") for 2008 was approximately RMB30,067 billion, representing a growth of approximately 9.0% as compared with the previous year, which was 4.0 percentage points lower than 2007.

The plunge of the global economy posed serious challenges for export. According to the information from the China Customs, the amount of total imports and exports in 2008 was approximately US$2,561.6 billion, representing a growth of 17.8% as compared with the previous year, and a drop of 5.7 percentage points in growth rate. Of these, the amount of exports was US$1,428.5 billion, representing a growth of 17.2%, which was a decline of 8.5 percentage points in growth rate; the amount of imports was US$1,133.1 billion, representing a growth of 18.5%, and a drop of 2.3 percentage points in growth rate. Due to such factors as the shrinking demand in the international market and the significant decrease in price of international primary commodities, the amount of imports in the fourth quarter of 2008 decreased by 8.8% as compared with the previous year, while growth in exports slowed to 4.3%. The slowed growth in imports and exports during the Year reflects the decrease in international trade activities.

With the "China-EU Textile Trade Memorandum of Understanding" taking effect from 1 January 2008, the EU completely removed the safeguard on the exports of 10 types of textile products from China, resulting in an increase in the number of textile products exported to such market from China. However, China's textile products and clothing trade recorded a substantial decrease in growth rate in the second half of 2008 as a result of the significant appreciation of Renminbi versus Euro and the deteriorating overseas economic environment. According to the China Customs, China's total exports of textile products and clothing for 2008 amounted to US$185.22 billion, representing an increase of approximately 8.2% as compared with last year, while the growth rate was 10.7 percentage points lower in 2008 than approximately 18.9% in 2007. Exports of cotton textile products and clothing amounted to US$71.769 billion, representing a decrease of 0.4% as compared with last year, and a decline of 29.1 percentage points in growth rate.

The Group encountered various challenges in both halves of the Year. The rapid fast appreciation of Renminbi versus US dollars, decrease in the export tax rebate rate, volatility in raw material and energy prices and the tightened monetary policy of the Chinese government raised challenges to the overall operation of the cotton textile industry in the first half of the year 2008. The continued slowdown of the global economy, significant appreciation of Renminbi versus Euro and the continued decrease in foreign demand also endangered the survival of the industry in the second half of the year 2008.

For the year ended 31 December 2008, the Group's revenue was approximately RMB16,453,000,000, representing a decrease of 11.5% as compared with 2007. Profit attributable to shareholders of the Company was RMB596,000,000, representing a decrease of 68.1% as compared with 2007. Earnings per share were RMB0.50. The board of directors of Company (the "Board") recommended the payment of a final dividend of RMB0.1569 (inclusive of tax) per share for the year ended 31 December 2008.

As the world's largest cotton textile manufacturer, the Group's products are sold to overseas markets and domestically in China and the Group was inevitably affected by the economic climate. In this extremely challenging market condition, the Group adopted the important operating principle of "Reduction in profits rather than giving up market share" and adopted the sales strategy of price reduction in 2008 to gain the Groups market share in the domestic and international markets, which further narrowed profit margins. Gross profit margin of the Group's products decreased to approximately 8.7% in 2008 as compared to approximately 14.3% in 2007. With active efforts in driving technological upgrading, enhancing the level of equipment and facilities and optimizing the portfolio of products, improving both the grade and the quality of its products and improving internal control, the Group has laid a solid foundation for capturing favourable market opportunities when the market revives in future.

Looking ahead, the operating environment of the textile industry in China remains very difficult. China's textile industry, which relies on exports, is first to be affected as the real economies of the European countries and the US have yet to be relieved from the recession and shrinkage of external demand. The Chinese government has raised the export tax rebate rate for certain textile products during the second half of 2008 and the first quarter of 2009 to 15%, and will further increase the export tax rebate rate to 16% in the second quarter of 2009. The stimulus plan for the textile industry was approved in principle at the Executive Meeting of the State Council of the People's Republic of China ("State Council") on 4 February 2009, aiming at adjusting and revitalizing China's textile industry through various specific measures such as expanding market and supporting industrial technological upgrading, to foster the healthy and stable development of Chinas textile industry. However, it will take some time for the overall macroeconomic environment to improve under the aforesaid measures, and the current situation can hardly be changed within a short period of time.

On the other hand, the Group believes that the difficult global economic condition also adds great pressure to domestic consumption. To overcome such unprecedented challenges, the State Council announced 10 policies for expanding domestic demand and promoting economic growth in November 2008 and promulgated a two-year economic stimulus plan with a total amount of RMB4 trillion, which aimed at stimulating the Chinese economy by expanding domestic demand. The Group believes that these measures will be beneficial for the development of the domestic consumer market and partly offset the adverse effect of the global economic recession.

The huge consumer market for textile products and clothing in China will provide the Group with development opportunities in the long term. Therefore, Weiqiao Textile will expand its domestic market share in light of market demand 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- to high-end markets.

As competition intensifies, there will be opportunities for market consolidation in the industry in the future and superior enterprises can take this opportunity to further expand their market share. 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, improve internal management, control production costs stringently, enhance per capita efficiency and strengthen the core competitiveness of the Group, so as to maintain its leading position in the industry.

Capitalising on the competitive edge of the Group's sound and comprehensive operation as well as our strong financial capability, we have confidence to overcome the current challenges in the market and further strengthen the Group's 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 the faithful devotion of everyone in the Group, Weiqiao Textile will continue to maintain its core competitive strength, maximise the utilization of its potential to achieve good results, and create value to all shareholders in the fast-changing market competition.

Zhang Hongxia
Chairman

Shandong, the PRC
27 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The financial tsunami originating from the US in 2008 resulted in a global economic recession. The Chinese economy also faced severe challenges and the export-reliant textile industry was generally affected and faced significant decrease in growth rate. According to the statistics of China Customs, China's total export of textile products and clothing in 2008 amounted to US$185.22 billion, representing an increase of 8.2% over last year, and a decrease of 10.7 percentage points in growth rate as compared with 2007. Of those, exports of cotton textile products and clothing amounted to US$71.769 billion, representing a decrease of 0.4% as compared with last year, and a decline of 29.1 percentage points in growth rate. Although the EU completely removed the safeguard on the export of 10 types of textile products from China with effect from 1 January 2008 and there was an increase in the number of textile products exported to the market from China, the situation of slowed export of textile products from China did not change for the better in the second half of the Year as a result of the impact of the significant appreciation of Renminbi versus Euro and the decrease in overall demand from the overseas market. In 2008, stimulation of domestic demand was the major supporting force to maintain a certain level of growth in the textile industry. According to the statistics of China Cotton Textile Association, for the period from January to November 2008, the proportion of products from large scale textile enterprises for domestic sale accounted for 76.2% of the total revenue from the principal operating business, representing an increase of 1.8 percentage points as compared with the previous year.

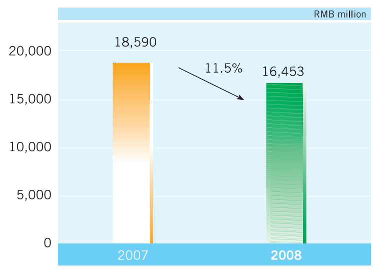
The average purchase price of cotton throughout the year of 2008 was flat as compared with the previous year. Purchase price of cotton remained high from January to August of 2008 but began to fall notably in September. Cotton A Index in China was approximately RMB13,664 per ton on the average in 2008, representing a decrease by 1.8% as compared with that of last year. Cotlook A index was US$71.39 cents per pound on the average, increasing by 10.2% as compared with the previous year. The fluctuation of cotton prices exerted pressure on the textile industry to control production cost.

During the Period under Review, the continued decrease in global commodity prices resulting from the deteriorating economic environment created a very difficult operation condition for China's textile industry. Although governments of all countries took active measures to stimulate the economy and prevent recession, the global demand continued to decrease. China's textile industry was of no exception and its operation conditions were very difficult. Some small enterprises were even forced to terminate their production, which accelerated the consolidation of the textile industry.

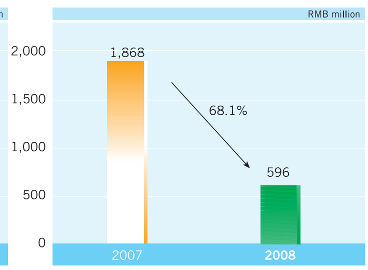
BUSINESS REVIEW

2008 was a very difficult year for China's cotton textile industry. The appreciation of Renminbi, the adjustment of export tax rebate policy and the increase in raw material prices created great pressure on production cost in the first half of the Year. To ensure its market share, the Group adopted the strategy of "Reduction in profits rather than giving up market share" and strived to secure a stable customer base for the Group and consolidate the Group's operating base through the sales strategy of price reduction. In the second half of the Year, the global financial crisis further deteriorated, foreign demand continued to decrease and the cotton textile market continued to be sluggish. In this difficult and changing market environment, Weiqiao Textiles operational results were also significantly affected.

Revenue



Profit attributable to shareholders of the Company

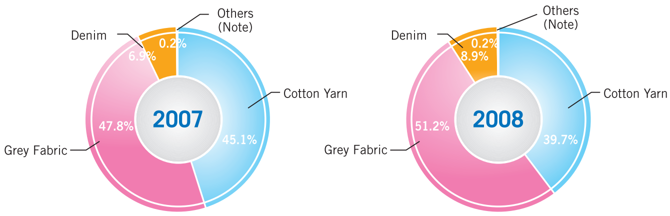


For the year ended 31 December 2008, the Group's revenue was approximately RMB16,453,000,000, representing a decrease of 11.5% when compared with last year. This was mainly attributable to the appreciation of Renminbi, the decrease in the export tax rebate rate, and the reduction in the demand in the textile market as a result of macroeconomic controls in the first half of 2008. In the second half of the Year, although the export tax rebate rate for certain textile products and clothing was raised from 11% to 14% and the Chinese government promulgated various economic policies to expand domestic demand and stimulate consumer spending, the textile product export market continued to shrink as a result of the weak global economic environment. The Group operated in an even more difficult position with a decrease in revenue.

For the year ended 31 December 2008, net profit attributable to shareholders of the Company was approximately RMB596,000,000, representing a decrease of 68.1% as compared with the previous year. Earnings per share were RMB0.50, representing a decrease of 67.9%. This was mainly attributable to the decrease in demand from the external textile product market, more intense competition in the domestic textile product market as a result of the effect of the general economic environment and the selling price reduction strategy adopted by the Group to gain the market share and client resources, leading to a decrease in profit margin.

The chart below is a comparison of the proportion of revenue by products for the years ended 31 December 2007 and 2008:

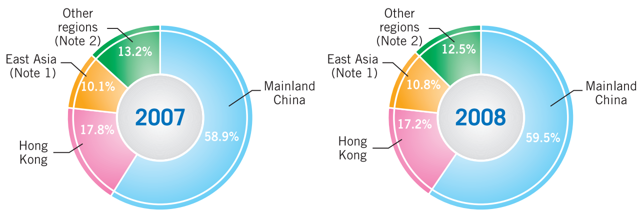
Proportion of revenue by products



Note: Others include cotton seed and other ancillary products.

For the year ended 31 December 2008, the proportion of revenue from grey fabric and denim increased as compared with last year. Such increase was mainly due to the adjustment of products' portfolio by the Group according to the change in market demand. And the revenue of cotton yarn decreased as compared to last year, which was mainly attributable to the continuous contraction of the cotton yarn export markets under the impact of the global financial crisis. In particular, demand for the knitwear market was sluggish with more intensive competition, the Company adopted price reduction strategy to boost sales, resulting in a decrease in the sales revenue from cotton yarn.

Proportion of revenue by geographical locations



Note 1: East Asia comprises Japan and South Korea

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

For the year ended 31 December 2008, the proportion of revenue generated from domestic sales and exports was basically equivalent to last year.

As at 31 December 2008, 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 China, with a total gross floor area of approximately 4,937,700 sq.m.

In 2008, the Group's production volume of cotton yarn, grey fabric and denim were approximately 819,000 tons, 1,452,000,000 meters and 167,000,000 meters, representing a decrease of 8.1%, 11.8% and 7.2%, respectively, as compared with last year. This was mainly attributable to an increase in medium-to-high-end products as a result of the adjustment made by the Group to the product portfolio in accordance with the market demand, which led to a slight decrease of production volume.

During the Period under Review, the Group continued to actively expand its market share and consolidate its customer base. As at 31 December 2008, the Group had a total of 8,300 domestic customers and over 810 overseas customers, both representing a growth of approximately 3.8% as compared with last year, reflecting the comprehensive sales network and well-founded customer base of the Group.

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 2007 and 2008:

	For the year ended 31 December 2007			**For the year ended 31 December 2008**		
	Revenue	Gross profit	Gross profit margin	**Revenue**	**Gross profit**	**Gross profit margin**
	RMB'000	*RMB'000*	*%*	***RMB'000***	***RMB'000***	***%***
Product						
Cotton yarn	8,384,946	1,119,056	13.3	**6,533,252**	**549,791**	**8.4**
Grey fabric	8,895,921	1,275,527	14.3	**8,426,382**	**678,805**	**8.1**
Denim	1,274,368	260,117	20.4	**1,458,345**	**201,420**	**13.8**
Others	34,351	7,671	22.3	**35,108**	**718**	**2.0**
	18,589,586	2,662,371	14.3	**16,453,087**	**1,430,734**	**8.7**

For the year ended 31 December 2008, the Group's gross profit margin decreased to 8.7%. The decrease was mainly attributable to the higher production cost of the Group's products as a result of the increase in energy and raw material costs on one hand. In addition, the slowing of the macroeconomic growth rate led to a decrease in demand from downstream enterprises for textile products. The Group adopted the strategy of price reduction, resulting in a significant decrease in overall profit margin.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by 15.6% to approximately RMB346,000,000 for the year ended 31 December 2008 from approximately RMB410,000,000 for the previous year. Transportation cost decreased by 15.9% to approximately RMB269,000,000 from approximately RMB320,000,000 for 2007, which was mainly attributable to a corresponding decrease in shipped products with a decline in revenue and a reduction in transportation costs per unit of the Group during the second half of the Year. Sales commission remained unchanged at its 2007 amounts of approximately RMB34,000,000.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2008 amounted to approximately RMB193,000,000, which was basically in line with approximately RMB197,000,000 recorded in the previous year.

Finance costs

For the year ended 31 December 2008, finance costs of the Group were approximately RMB697,000,000, representing a decrease of 4.0% as compared with RMB726,000,000 for 2007. This was mainly due to the decrease in interest expenses as a result of the reduction in the Group's interest-bearing bank borrowings. From September 2008, the decrease in lending rates of the domestic financial institutions also had an impact on interest expenses for the Year.

Liquidity and financial resources

As at 31 December 2008, cash and cash equivalents of the Group were approximately RMB2,644,000,000, representing a decrease of 34.1% as compared with cash and cash equivalents of approximately RMB4,014,000,000 as at 31 December 2007. It was mainly due to the purchase of the thermal power assets of the parent company Shandong Weiqiao Chuangye Group Limited ("Holding Company") by the Group in the first half year of 2008 for RMB2,210,000,000.

As at 31 December 2008, the Group's liquidity ratio (total current assets to total current liabilities) was 1.0, which was mainly attributed to the acquisition of thermal power assets from companies under the Group in March 2008 and the acquisition of thermal power assets from Zouping Gaoxin Thermal Assets Co., Ltd. (hereinafter referred to as Gaoxin Thermal Power) in September 2008 leading to a sharp reduction in the amount of current assets and an increase in current liabilities.

For the year ended 31 December 2008, the Group had a net cash outflow from investing activities of RMB1,847,000,000 and a net cash inflow from operating activities of RMB1,787,000,000. The Group principally satisfies its demand for operating capital with cash inflow from operation. The directors believe that the Group will maintain a sound and stable financial position, with sufficient liquid capital and financial resources to satisfy its business needs.

For the year ended 31 December 2008, average accounts receivable turnover days were approximately 9 days, as compared to 18 days for last year. This was mainly attributable to the contraction in external demand, the export revenue decreased in the second half of the year resulting in a decrease in the settlement of letters of credit, and the credit periods of the letters of credit are longer than the domestic credit periods.

For the year ended 31 December 2008, inventory turnover days of the Group increased to 92 days from 82 days for last year, mainly attributable to the reduction in market demand for textile products and the increase in the semi-finished products balance of the Group.

For the year ended 31 December 2008, the Group used financial instruments (mainly refer to interest rate swaps) to reduce the risks of changes in interest rates.

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

Net profit attributable to shareholders of the Company was approximately RMB596,000,000 for the year ended 31 December 2008, representing a decrease of 68.1% as compared with approximately RMB1,868,000,000 of last year.

For the year ended 31 December 2008, the basic earnings per share of the Company were RMB0.50.

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 2008, the debts of the Group mainly included interest-bearing bank borrowings totalling approximately RMB8,427,000,000. Cash and cash equivalents were approximately RMB2,644,000,000. The gearing ratio was 42.9% (2007: 38.7%) (Total debt (including interest-bearing bank borrowings deducted by net of cash and cash equivalents) divided by net asset value).

As at 31 December 2008, 25.0% of the Group's bank borrowings was subject to fixed interest rates while the remaining 75.0% was subject to floating interest rates.

The Group maintained a balance between the continuity and flexibility of capital by using bank borrowings. In any 12-month period, borrowings due shall not exceed 50.0% of total borrowings. On 31 December 2008, 40.0% of the Group's debt will become due within a year.

As at 31 December 2008, the Group's borrowings were mainly denominated in Renminbi and US dollars, of which 27.8% of the Group's borrowings were denominated in US dollars. Cash and cash equivalents were mainly held in Renminbi and US dollars of which 3.0% of the cash and cash equivalents was held in US dollars.

Employee and remuneration policy

As at 31 December 2008, the Group had a total of approximately 113,000 employees, representing a decrease of approximately 22,000 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 RMB2,175,000,000, representing 13.2% of the revenue. Employees were remunerated based on their performance, 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.

Exposure to foreign exchange risk

The imports and exports of the Group were settled in US dollars and a portion of bank borrowings and deposit are denominated in US dollars. The payment terms for the import of raw materials and borrowings denominated in US dollars of the Group are generally longer than the payment terms by the Group's foreign customers. For the year ended 31 December 2008, the Group recognized net foreign exchange gains of RMB158,000,000. 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.

Acquisition of Thermal Power Assets of the Holding Company

On 14 January 2008, the Company entered into an asset transfer agreement with Holding Company, pursuant to which the Company agreed to acquire the thermal power assets of Holding Company for an aggregate consideration of RMB2,210,000,000. The acquisition was approved at the general meeting of the Company held on 18 March 2008 and the aggregate consideration has been paid up in the first half of the Year.

Acquisition of Thermal Power Assets of Gaoxin Thermal Power

On 4 September 2008, the Company entered into an asset swap agreement with Zouping Gaoxin Thermal Power Co., Ltd. (the "Gaoxin Thermal Power"), pursuant to which the Company acquired the thermal power assets owned by Gaoxin Thermal Power at a consideration of RMB1,599,017,500, and transferred the assets making up the Weiqiao First Thermal Power Plant of the Company to Gaoxin Thermal Power for RMB291,476,160 as payment of part of the consideration, and the remaining consideration would be offset by supplying electricity to Gaoxin Thermal Power.

The thermal power assets had an installed capacity of about 420 MW and steam generation capacity of about 1,680 tons per hour in 2008. Pursuant to the supply of excess electricity agreement entered into between the Company and Gaoxin Thermal Power, the Company sold approximately 687,000,000 kWh of electricity to Gaoxin Thermal Power and received revenue of approximately RMB357,000,000 (inclusive of VAT) from electricity sales in 2008, which offset part of the remaining consideration.

Capital Commitment

As at 31 December 2008, the Group had authorised and contracted capital commitment of approximately RMB50,000,000 (2007: RMB469,000,000); and the Group had not any authorised but uncontracted capital commitment (2007: nil).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group's contingent liabilities not provided for in the financial statements were undue letter of credit issued amounting to approximately RMB86,000,000 (2007: RMB53,000,000).

TAXATION

Taxation of the Group decreased by 68.4% from approximately RMB395,000,000 for 2007 to approximately RMB125,000,000 for 2008. This decrease in tax was primarily due to the significant decrease in the Group's profit before tax during the period under review and the corporate income tax rate was reduced from 33% to 25% since the beginning of the year.

POST BALANCE SHEET EVENTS

The restructuring and revitalization plan for the textile industry aiming at adjusting and revitalizing China's textile industry through various specific measures such as expanding market Share and supporting industrial technological upgrading was approved in principle at the State Council's Executive Meeting on 4 February 2009. Proposals approved by the State Council include the following: explore the rural market and diversify the export market; set aside special funds in the new central investment with a focus on supporting the development of technology in spinning, weaving and chemical fiber dyeing and printing industries and fostering independent famous brands; accelerate the phase out of outdated manufacture processes and equipment with high energy consumption and pollution; optimize geographical distribution by promoting the production of textile products with high technology content and added value in eastern coastal areas and establishing a production base for cotton yarn, cotton fabric and cotton textile products in Xinjiang; and raise the export tax rebate rate for textile products and clothing from 14% to 15%. According to the "Notice relating to the increase in the rate of export tax rebate for light textile, electronic, information commodities etc." promulgated by the Ministry of Finance and the State Administration of Taxation, from 1 April 2009, the rate of export tax rebate for certain textile clothing will increase from 15% to 16%.

FUTURE OUTLOOK

We believe that the market environment will remain very challenging in 2009 and the prospect will continue to be subject to uncertainties. Although governments of all countries began to promulgate various economic stimulus policies in the second half of 2008 with an aim to stabilize overall development and revitalize the economy, the effect of such measures remain to be seen.

In this challenging market environment, Weiqiao Textile will continue to actively upgrade its production facilities and improve operating efficiency, and strengthen cost control so as to enhance the Group's core competitiveness. Weiqiao Textile will also strive to expand the market share of medium and high end products to maintain and strengthen its position as the first-choice supplier in China and around the world for international purchasers.

We will continue to make efforts to enhance the scale and strength of Weiqiao Textile, promote more healthy and stable corporate development of the Group and to continuously create value for the shareholders.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EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 37, 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, operation 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 fourteen 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 and 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 Limited (山東魏橋棉業有限公司) ("Weiqiao Mianye") (from 30 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 12 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 Limited. Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her sister.

Zhang Yanhong

Ms. Zhang Yanhong, aged 33, graduated from Shandong University and obtained a professional diploma in computer and application. She 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 eight years of management experience in the cotton textile industry. Ms. Zhang has been the general manager of Weihai Weiqiao (威海魏橋) since July 2001, and has been the general manager of Weihai Industrial Park from January 2004. Mr. Zhang Shiping and Ms. Zhang Hongxia are the father and sister of Ms. Zhang, respectively.

Qi Xingli

Mr. Qi Xingli, aged 44, 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 twenty 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 35, 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 ten 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. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 62, 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 44, 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.

Zhao Suhua

Ms. Zhao Suhua, aged 39, graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She joined the Company in 1999. She has over eleven years of 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 Suhua is the elder sister of Ms. Zhao Suwen.

Wang Xiaoyun

Ms. Wang Xiaoyun, aged 44, graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She joined the Company in 1999. She has over fourteen years of management experience in the cotton textile industry. She had been a quality control officer, workshop supervisor, deputy factory head of the Company, and deputy general manager 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).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 54, 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). He was appointed as an independent non-executive director at the Company's extraordinary general meeting held on 12 February 2003. 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 57, 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) (a company listed on the Shanghai Stock Exchange). He was appointed as an independent non-executive director at the Company's general meeting held on 27 June 2003. 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.

Wang Naixin

Mr. Wang Naixin, aged 57, 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 as an independent non-executive director at the Company's extraordinary general meeting held on 12 February 2003. 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 41, 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 as a supervisor at the Company's extraordinary general meeting held on 28 October 2002. 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 74, 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 as an independent supervisor at the Company's extraordinary general meeting held on 12 February 2003. 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 68, 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 as an independent supervisor at the Company's extraordinary general meeting held on 12 February 2003. 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 37, 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 38, 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).

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 2008.

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 2008.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2008 and the financial position of the Group and the Company as at 31 December 2008 are set out on pages 64 to 66 and pages 71 to 72 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.1569 (inclusive of tax) per share for the year ended 31 December 2008, 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.

Pursuant to the requirements of the "Corporate Income Tax Law of the People's Republic of China" and the "Regulations for the Implementation of the Corporate Income Tax Law of the People's Republic of China" (hereinafter referred to as "CIT Law") which came into effect from 1 January 2008, enterprises in the PRC shall withhold and hand over the corporate income tax when paying dividends to shareholders of non-resident enterprises.

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 2004, 2005 and 2006, and from the audited consolidated financial statements of the Group for the year ended 31 December 2007 and the year ended 31 December 2008 on pages 64 to 66, is set out below:

Results

	For the year ended 31 December				
	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	**2008** ***RMB'000***
Revenue	11,088,224	13,584,389	19,826,154	18,589,586	**16,453,087**
Cost of sales	(9,231,047)	(11,340,259)	(16,503,064)	(15,927,215)	**(15,022,353)**
Gross profit	1,857,177	2,244,130	3,323,090	2,662,371	**1,430,734**
Other income and gains	159,022	189,536	350,250	466,921	**629,849**
Selling and distribution costs	(275,899)	(344,868)	(358,816)	(410,222)	**(346,116)**
Administrative expenses	(143,524)	(151,059)	(177,341)	(196,971)	**(193,173)**
Write-back of unutilised welfare provision	—	—	—	534,362	**—**
Other expenses	(59,509)	(81,788)	(109,609)	(57,821)	**(103,991)**
Financial cost	(290,383)	(420,167)	(720,003)	(726,014)	**(696,714)**
Profit before tax	1,246,884	1,435,784	2,307,571	2,272,626	**720,589**
Tax	(420,405)	(187,390)	(616,745)	(394,521)	**(124,534)**
Profit for the year	826,479	1,248,394	1,690,826	1,878,105	**596,055**
Attributable to:					
Equity holders of the parent	825,535	1,242,473	1,685,405	1,868,471	**596,212**
Minority interests	944	5,921	5,421	9,634	**(157)**
	826,479	1,248,394	1,690,826	1,878,105	**596,055**

Assets and liabilities

	As at 31 December				
	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	**2008** ***RMB'000***
Total assets	16,388,853	24,704,766	26,140,632	26,748,676	**27,296,250**
Total liabilities	10,228,695	14,783,418	14,018,831	13,276,020	**13,830,749**

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 2008 are set out in Note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital during the year ended 31 December 2008 are set out in Note 31 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 2008, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended 31 December 2008.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2008 are set out in Note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, 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 RMB979,000,000 stood to the credit of the Company's statutory reserve funds. In addition, according to the Articles of Association of the Company, the Company had retained profits of about RMB3,963,000,000 for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2008, sales to the Group's five largest customers accounted for 14.5% of the Group's total sales for the year ended 31 December 2008, sales to its largest customer accounted for 4.7% of the Group's total sales for the year ended 31 December 2008.

During the year ended 31 December 2008, purchases from the Group's five largest suppliers accounted for 20.9% of the Group's total purchases for the year ended 31 December 2008, purchases from the

Group's largest supplier accounted for 8.3% of the Group's total purchases for the year ended 31 December 2008.

The Group has sold certain products to Holding Company, its subsidiaries and associates ("Parent Group"), 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 7 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 and consecutive appointment 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
Zhao Suhua	Until the date of annual general meeting in 2010
Wang Xiaoyun	Until the date of annual general meeting in 2010

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 22 to page 27 in this annual report.

At the Annual General Meeting for the year ended 31 December 2008, ordinary resolutions will be submitted for consideration by the shareholders of the Company for the re-election of some Directors and Supervisors.

Re-election of Directors and Supervisors

Some of the Directors and Supervisors of the Company must be re-elected at the Annual General Meeting for the year ended 31 December 2008. The biographies of those Directors and Supervisors subject to re-election are set out in this annual report under the section of "Directors, Supervisors and Senior Management". Additional information required by Rule 13.51(2) of the Listing Rules is set out below.

Zhang Hongxia

Save as disclosed in this annual report, Ms. Zhang does not hold any other positions in the Company and its subsidiaries, and Ms. Zhang did not hold any directorship in any other listed companies during the past three years. Ms. Zhang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company, except Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her younger sister. Ms. Zhang has interest in 17,700,400 shares of Domestic Shares of the Company. Ms. Zhang is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. Her annual emoluments for the year 2009 is not lower than RMB600,000 but not higher than 150% of her annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by her term of service, experience and/or qualifications. No other matters relating to the re-election of Ms. Zhang are required to inform the shareholders of the Company.

Zhang Yanhong

Save as disclosed in this annual report, Ms. Zhang does not hold any other positions in the Company and its subsidiaries, and Ms. Zhang did not hold any directorship in any other listed companies during the past three years. Ms. Zhang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company, except Mr. Zhang Shiping is her father and Ms. Zhang Hongxia is her elder sister. Ms. Zhang does not have any equity interest (as defined in the Securities and Futures Ordinance) in the Company. Ms. Zhang is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. Her annual emoluments for the year 2009 is not lower than RMB600,000 but not higher than 150% of her annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by her term of service, experience and/or qualifications. No other matters relating to the re-election of Ms. Zhang are required to inform the shareholders of the Company.

Qi Xingli

Save as disclosed in this annual report, Mr. Qi does not hold any other positions in the Company and its subsidiaries, and Mr. Qi did not hold any directorship in any other listed companies during the past three years. Mr. Qi is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Qi has interest in 6,042,500 shares of Domestic Shares of the Company. Mr. Qi is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB600,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Qi are required to inform the shareholders of the Company.

Zhao Suwen

Save as disclosed in this annual report, Ms. Zhao does not hold any other positions in the Company and its subsidiaries, and Ms. Zhao did not hold any directorship in any other listed companies during the past three years. Ms. Zhao is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Ms. Zhao does not have any equity interest (as defined in the Securities and Futures Ordinance) in the Company. Ms. Zhao is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. Her annual emoluments for the year 2009 is not lower than RMB600,000 but not higher than 150% of her annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by her term of service, experience and/or qualifications. No other matters relating to the re-election of Ms. Zhang are required to inform the shareholders of the Company.

Zhang Shiping

Save as disclosed in this annual report, Mr. Zhang does not hold any other positions in the Company and its subsidiaries, and Mr. Zhang did not hold any directorship in any other listed companies during the past three years. Mr. Zhang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company, except Ms. Zhang Hongxia and Ms. Zhang Yanhong are his daughters. Mr. Zhang has interest in 5,200,000 shares of Domestic Shares of the Company. Mr. Zhang is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB100,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Zhang are required to inform the shareholders of the Company.

Wang Zhaoting

Save as disclosed in this annual report, Mr. Wang does not hold any other positions in the Company and its subsidiaries, and Mr. Wang did not hold any directorship in any other listed companies during the past three years. Mr. Wang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Wang does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Mr. Wang is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB100,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Wang are required to inform the shareholders of the Company.

Wang Naixin

Save as disclosed in this annual report, Mr. Wang does not hold any other positions in the Company and its subsidiaries, and Mr. Wang did not hold any directorship in any other listed companies during the past three years. Mr. Wang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Wang does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Mr. Wang is contemplating to enter into a letter of appointment with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB100,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Wang are required to inform the shareholders of the Company.

Xu Wenying

Save as disclosed in this annual report, Mr. Xu does not hold any other positions in the Company and its subsidiaries, and Mr. Xu did not hold any directorship in any other listed companies during the past three years. Mr. Xu is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Xu does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Mr. Xu is contemplating to enter into a letter of appointment with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB100,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Xu are required to inform the shareholders of the Company.

Chan Wing Yau, George

Save as disclosed in this annual report, Mr. Chan does not hold any other positions in the Company and its subsidiaries. Mr. Chan was an independent non-executive director of Kenfair International (Holdings) Limited, a company listed in Hong Kong and was renamed as Sino Resources Group Limited on 18 June 2008, during the past three years. Mr. Chan is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Chan is contemplating to enter into a letter of appointment with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB100,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Chan are required to inform the shareholders of the Company.

Liu Mingping

Save as disclosed in this annual report, Mr. Liu does not hold any other positions in the Company and its subsidiaries, and Mr. Liu did not hold any directorship in any other listed companies during the past three years. Mr. Liu is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Liu does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Mr. Liu is contemplating to enter into a service contract with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB30,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Liu are required to inform the shareholders of the Company.

Lu Tianfu

Save as disclosed in this annual report, Mr. Lu does not hold any other positions in the Company and its subsidiaries, and Mr. Lu did not hold any directorship in any other listed companies during the past three years. Mr. Lu is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Lu does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Mr. Lu is contemplating to enter into a letter of appointment with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. His annual emoluments for the year 2009 is not lower than RMB30,000 but not higher than 150% of his annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by his term of service, experience and/or qualifications. No other matters relating to the re-election of Mr. Lu are required to inform the shareholders of the Company.

Wang Wei

Save as disclosed in this annual report, Ms. Wang does not hold any other positions in the Company and its subsidiaries, and Ms. Wang did not hold any directorship in any other listed companies during the past three years. Ms. Wang is not connected to any other directors, supervisors, senior management officers, substantial shareholders, management shareholders or controlling shareholders of the Company. Ms. Wang does not have any equity interest (as defined in Part XV of the Securities and Futures Ordinance) in the Company. Ms. Wang is contemplating to enter into a letter of appointment with the Company for a term of three years on the date of the Annual General Meeting for the year ended 31 December 2008. Her annual emoluments for the year 2009 is not lower than RMB30,000 but not higher than 150% of her annual emoluments for the year 2008, the specific amount of which will be submitted to the 2008 Annual General Meeting of the Company for determination by the Board of the Company. The annual emoluments are determined by her term of service, experience and/or qualifications. No other matters relating to the re-election of Ms. Wang are required to inform the shareholders of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 37, 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 2008.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 37, 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 2008, 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 above 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"):

Name of Shareholder	**Number of Domestic Shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2008** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2008** *(%)*
Holding Company	738,895,100	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 2)*	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 3)*	94.64	61.86

Interests in the H Shares of the Company:

Name of Shareholder	Type of interest	Number of H Shares *(Note 4)*	Approximate percentage of total issued H share capital as at 31 December 2008 *(%)*	Approximate percentage of total issued share capital as at 31 December 2008 *(%)*
Brandes Investment Partners, L.P.	Investment manager	74,337,500 *(long position)* *(note 5)*	17.97	6.22
The Bank of New York Mellon	Custodian corporation/ approved lending agent	68,500,600 *(long position)*	16.56	5.74
		60,630,900 *(lending pool)*	14.66	5.08
The Bank of New York Mellon Corporation	Interest of a controlled corporation	68,500,600 (long position)	16.56	5.74
		60,630,900 *(lending pool)* *(note 6)*	14.66	5.08
Mellon Financial Corporation	Interest of controlled corporations	41,073,100 *(long position)* *(note 7)*	9.93	3.44
AllianceBernstein L.P.	Investment manager and interest of controlled corporations	31,501,200 *(long position)* *(note 8)*	7.62	2.64
Wellington Management Company, LLP	Investment manager	25,260,500 *(long position)* *(note 9)*	6.11	2.11

Notes:

1. Unlisted shares.

2. 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.

3. 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.

4. Shares listed on the Main Board of the Stock Exchange.

5. 74,337,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

6. 68,500,600 H Shares in which The Bank of New York Mellon Corporation was deemed interested under the SFO were directly held by The Bank of New York Mellon, which was a corporation 100% controlled by The Bank of New York Mellon Corporation.

7. 41,073,100 H shares in which Mellon Financial Corporation was deemed interested under SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

8. Among the 31,501,200 H shares in the Company, 30,488,600 H shares were held by AllianceBernstein L.P. in its capacity as investment manager. 559,500 H shares and 453,100 H shares were held by AllianceBernstein Limited and AllianceBernstein Investment Management Australia Limited, respectively, and both corporations were wholly controlled by AllianceBernstein Corporation of Delaware. AllianceBernstein Corporation of Delaware was a corporation wholly controlled by AllianceBernstein L.P.

9. 25,260,500 H Shares were held by Wellington Management Company, LLP in its capacity as investment manager.

Save as disclosed above, as at 31 December 2008, 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 2008, 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 2008** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2008** *(%)*
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 2008 *(%)*
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 2008, 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 2008.

CONNECTED TRANSACTIONS

Related party transactions as set out in Note 37 to the financial statements also constituted connected transactions under the Listing Rules, and are required to comply with the relevant requirements under Chapter 14A of the Main Board Listing Rules.

Details of the connected transactions of the Group for the year ended 31 December 2008 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules.

During the year ended 31 December 2008, 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. 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 nine 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 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 renewal mechanism of the agreement, the Supply Agreement was renewed for 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 the Parent Group for the production of downstream cotton textile products. The prices of cotton yarn and grey fabric supplied by the Group to the Parent Group were determined by reference to the prices at which comparative 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 business in the PRC. An announcement regarding the above continuing connected transaction was published on 28 December 2006. The Company and the Holding Company entered into a new cotton yarn/grey fabric and denim supply agreement on 20 October 2008 with the term starting from 1 January 2009 and ending on 31 December 2011. A circular regarding the above continuing connected transaction was issued on 31 October 2008.

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. Pursuant to the automatic renewal terms of the agreement, the supply agreement was renewed for three years with the term starting from 1 January 2009 and ending on 31 December 2011. A circular regarding the above continuing connected transaction was issued on 31 October 2008.

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.

During the period from 1 January 2008 to the date of the extraordinary general meeting held on 18 March 2008, as the production base of the Group at Weihai did not own any power general plants, the Group continued to purchase electricity and steam from the Holding Company's thermal power plants at Weihai to satisfy the production needs of Weihai Weiqiao and Weihai Industrial Park under the Group. The agreement entered into between the Company and the Holding Company on 14 January 2008 for the acquisition of thermal power assets by the Company (including the transfer of the thermal power plant in Weihai) has been approved by independent shareholders of the Company at the independent shareholders' meeting held on 18 March 2008, the annual cap for the two financial years of 2009 and 2010 in respect of the continuing connected transactions of the Weihai thermal power plant is no longer applicable. An announcement regarding the above continuing connected transaction was published on 3 March 2008.

ACQUISITION OF THERMAL POWER ASSETS FROM HOLDING COMPANY BY THE COMPANY

On 14 January 2008, the Company entered into an asset transfer agreement with the Holding Company, pursuant to which the Company has agreed to acquire the thermal power assets from the Holding Company for an aggregate consideration of RMB2,210,000,000 (equivalent to about HK$2,376,344,000). The acquisition was completed in March 2008. After the acquisition, the Group owns and operates by itself the thermal power assets, which have an installed capacity of about 1,260 MW and steam generation capacity of about 3,720 tons per hour, respectively.

This transaction was a connected transaction of the Company, not continuing connected transaction.

LEASE OF LAND USE RIGHTS BY HOLDING COMPANY TO THE COMPANY

The Company and Holding Company entered into relevant 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.

On 20 September 2008, the lease of 95,333.81 square meters of land where Weiqiao First Thermal Power Plant situated was terminated and the annual rental has been adjusted to RMB2,127,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(ix) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB1,628,000 for the land occupied by the thermal power assets of the Zouping Second Thermal Power Plant acquired from the Holding Company.

(x) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB740,500 for the land occupied by the thermal power assets of the Weihai Thermal Power Plant 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. For further details of the leases of land to the Company by the Holding Company, please refer to the section of "Related Party Transactions" in Note 37 to Financial Statements.

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. As at the current date, SWCF has not been established yet. 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 18 March 2008 and ending on 31 December 2010 (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.

The Company entered into a supplemental electricity supply agreement with Holding Company on 20 October 2008, pursuant to which, the Company was entitled to increase the price of excess electricity supplied to the Holding Company according to the coal price by giving a 10 days' prior written notice to the Holding Company, and up to a maximum price at which the relevant power grid in Shandong province would sell electricity to the Holding Company. A circular regarding the supplemental agreement was published on 31 October 2008.

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, 28 December 2006, 14 January 2008 and 3 March 2008, respectively.

FIGURES FOR THE YEAR ENDED 31 DECEMBER 2008

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2008:

Transaction nature	Aggregate value for the year ended 31 December 2008 *(RMB'000)*
1. Supply of cotton yarn and cotton fabric	
(a) by the Group to the Parent Group	**1,419,241**
(b) by the Group to Itochu	—
2. Supply of electricity and steam by Holding Company to the Group	**24,082**
3. Lease of land use rights by Holding Company to the Group	**13,329**
4. Supply of excess electricity by the Company to Holding Company	**1,186,925**

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent non-executive Directors have reviewed the continuing connected transactions and confirmed that each of the continuing 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, and in the interest of shareholders of the Company as a whole;

(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.

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 2.4 and Note 6 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 to 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 pages 52 and 53 of this annual report, the Company has applied the principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, and has been in compliance with all the code provisions for the year ended 31 December 2008.

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 27 March 2009 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 2008. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the 2008 annual general meeting.

The Company has not changed the auditors for the six years ended 31 December 2008.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
27 March 2009

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2008, the Supervisory Committee duly performed its duties of supervision in accordance with the principle of being accountable to shareholders and the laws and regulations including the Company Law and the Articles of Association. During the year, the Supervisory Committee actively participated in reviewing the subject matters of material decisions and the significant economic activities of the Company and provided advices and recommendations thereon, effectively supervised the acts of directors and the management in performing their duties and reviewed on an irregular basis the Company's operation and financial positions so as to protect the interests of shareholders. The works of the Supervisory Committees in 2008 are reported as follows:

1. Works of the Supervisory Committee

In 2008, the Supervisory Committee convened five meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 29 January 2008, the 5th 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 Proposal on Acquisition of Partial Thermal Power Assets of Shandong Weiqiao Chuangye Group Company by the Company", "the Proposal on Sales of Surplus Electric Power to Shandong Weiqiao Chuangye Group Company by the Company", "the Proposal on Leasing of Land Use Rights from Shandong Weiqiao Chuangye Group Company by the Company" and "the Proposal on Convening the First Extraordinary General Meeting in 2008" were reviewed and approved;

2. On 28 March 2008, the sixth 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 2007", "The Audited Financial Report for the Year Ended 31 December 2007", "The Profit Distribution Proposal for 2007" and "The Financial Report on the Final Account for 2007" were reviewed and approved;

3. On 1 September 2008, the 7th 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 Proposal on Swap of Thermal Power Assets between the Company and ZouPing Gaoxin Thermal Power Co., Ltd.", "the Proposal on Sales of Surplus Electric Power to ZouPing Gaoxin Thermal Power Co., Ltd. by the Company" and "the Proposal on Leasing of Land Use Rights between the Company and ZouPing Gaoxin Thermal Power Co., Ltd." were reviewed and approved;

4. On 12 September 2008, the 8th 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 2008 issued by Ernst & Young was discussed and approved;

5. On 20 October 2008, the 9th 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. The following were reviewed and approved at the meeting:

   (1) The proposed raw materials supply agreement between the Company and the Holding Company with a term of three years commencing from 1 January 2009;

   (2) The annual caps for 2009 to 2011 of a continuing connected transaction in relation to the supply of raw materials by the Group to Parent Group under a raw materials supply agreement;

   (3) The renewed raw materials supply agreement between the Company and Itochu Corporation ("Itochu"), and the annual caps for 2009 to 2011 of a continuing connected transaction in relation to the supply of cotton yarn and cotton fabric by the Company to Itochu under the agreement;

   (4) The supplementary agreement of the Power Supply Agreement between the Company and the Holding Company; and

   (5) The proposal on convening an extraordinary general meeting of the Company.

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2008

1. Operation in compliance with laws

During the reporting period, the members of the Supervisory Committee participated in the discussion on material decisions of the Company by sitting in on board meetings and general meetings and carried out supervision on the Company's financial and operation positions. The Supervisory Committee is of the view that: in 2008, the Company operated in strict compliance with the Company Law, the Articles of Association and other related laws and regulations and the decisions made were scientific and reasonable; the internal management and internal control system was improved and a sound internal control mechanism was established; the directors and senior management of the Company performed their duties diligently and in compliance with the laws and regulations and the Articles of Association to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

2. Financial activities of the Company

The Supervisory Committee had reviewed and inspected the financial position and financial management of the Company, and considered that the financial report for 2008 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. **Connected transactions of the Company**

The Supervisory Committee is of the view that, the connected transactions of the Company during the reporting period were conducted at arm's length with reasonable pricing and without prejudice to the interests of shareholders and the Company; there were no use of capitals for non-operational purpose by controlling shareholders and other related parties.

In 2009, the Supervisory Committee will continue to monitor and facilitate the improvement of the Company's governance structure in accordance with the provisions of the Articles of Association; put more emphasis on the coordination of the power structure, decision-making body and implementation body of the Company; concern for the relationship among shareholders and the management; pay attention to the progress and problems in the acts, performance and results of the management at all levels; and perform its duty to protect the legitimate interests of the Company and shareholders.

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

Shandong, the PRC
27 March 2009

CORPORATE GOVERNANCE

The Company believes that good corporate governance can create values for the shareholders of the Company. The Board is committed to keep the standards of corporate governance within the Company and to ensure that the Company conducts its business in an honest and responsible manner. Save as disclosed in this annual report, the Company has complied with the provisions of the CG Code during the year 2008.

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 to 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 2008, the Board of the Company comprised four executive directors, four non-executive directors and three independent non-executive directors.

The Board members are as follows:

Executive Directors

Ms. Zhang Hongxia *(Chairman)*
Ms. Zhang Yanhong
Mr. Qi Xingli
Ms. Zhao Suwen

Non-executive Directors

Mr. Zhang Shiping
Mr. Wang Zhaoting
Ms. Zhao Suhua *(Appointed on 30 May 2008)*
Ms. Wang Xiaoyun *(Appointed on 30 May 2008)*

Independent Non-executive Directors

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

Mr. Zhang Shiping is the father of Ms. Zhang Hong xia and Ms. Zhang Yanhong. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

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 Board acknowledges its responsibility for accessing the preparation of the annual accounts.

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 six 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 2008**
Ms. Zhang Hongxia	6/6
Ms. Zhang Yanhong	6/6
Mr. Qi Xingli	6/6
Ms. Zhao Suwen	6/6
Mr. Zhang Shiping	6/6
Mr. Wang Zhaoting	6/6
Ms. Zhao Suhua	3/6 *(Note 1)*
Ms. Wang Xiaoyun	3/6 *(Note 1)*
Mr. Chan Wing Yau, George	6/6
Mr. Xu Wenying	6/6
Mr. Wang Naixin	6/6

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

Note 1: Ms. Zhao Suhua and Ms. Wang Xiaoyun were appointed at the Company's annual general meeting held on 30 May 2008.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

Provision A.2.1 of the Code stipulates that the duties of the Chairman and chief executive officer should be differentiated and shall not be held by the same person. Ms. Zhang Hongxia is the Chairman and chief executive officer of the Company. The Board is of the opinion that this structure would not affect the balance of power and duties between the Board and the management. The Board of the Company comprises of highly experienced and talented members who meet on a regular basis to discuss matters that affect the operations of the Company. Through the operations of the Board, a balance between power and duties can be maintained. The Board believes that this structure facilitates the establishment of a consistent leadership and enables the Company to make and implement decisions in an efficient and effective manner. The Board believes that the appointment of Ms. Zhang Hongxia as the Chairman and chief executive officer will benefit the business development and management of the Company and improve co-ordination between the Board and administration and management personnel.

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 (Chairman of the Audit Committee)
Mr. Xu Wenying
Mr. Wang Naixin

The following resolutions were passed on 28 March 2008 after due consideration by members of the Audit Committee:

(1) to consider and approve the report of the international auditors;
(2) to consider and approve the audited financial statements of the Company for the year ended 31 December 2007;
(3) to consider and approve the profit distribution plan of the Company for 2007;
(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 2008 and Ernst & Young as the Company's international auditors for the year ended 31 December 2008; and
(5) to consider and approve the report on implementation of agreed procedures for 2007.

On 12 September 2008, 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 2008 (the "Interim Accounts"), and confirmed the quality of the reviewed profit and such materials;

(2) The accounting policy adopted in the financial statement for the six months ended 30 June 2008 was the appropriate accounting policy;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2008 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 2008 have fully disclosed all the relevant issues, and such disclosure has fairly reflected the nature of the transactions without any misleading contents;

(5) The Audit Committee has reviewed the disclosure materials of extraordinary items for the six months ended 30 June 2008, and has ensured their accuracy, fairness and absence of misleading content, the same are also clearly disclosed in the financial statements.

(6) The Audit Committee has reviewed the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such information has fairly reflected the performance and financial position of the Group and is in line with the disclosure in the financial statements for the six months ended 30 June 2008 without any misleading contents; and

(7) 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 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 judgement 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 the paragraph (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 internal auditing department and external auditors, and ensuring that the internal auditing department is adequately resourced and has appropriate standing within the issuer, and reviewing and monitoring 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 to 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 this year. The following is the meeting attendance record of its members for the year ended 31 December 2008:

Committee Members	Attendance of Audit Committee meetings held in the year ended 31 December 2008
Mr. Chan Wing Yau, George	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 interim and annual financial statements and the auditing.

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 are completely satisfied 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 2008.

The Composition of the Remuneration Committee

Ms. Zhang Hongxia (Chairman)
Mr. Xu Wenying
Mr. Wang Naixin

	Attendance of the Remuneration Committee meeting held in 2008
Ms. Zhang Hongxia	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) the following duties delegated by the Board of Directors: 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 recommended. 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.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY AT THE ANNUAL GENERAL MEETING 2008

Pursuant to the Listing Rules effective from 1 January 2009, the Company may communicate with shareholders of the Company through electronic means, subject to specific conditions. The Company has proposed to amend the Articles of Association of the Company at the Annual General Meeting 2008, details of the proposed amendments are set out as follows:

1. **Article 8.9 of the Articles of Association:**

   The existing text of Article 8.9 of the Articles of Association:

   A notice of shareholders' general meeting should be sent out to shareholders (with or without voting rights at the general meeting) by hand or by mail with postage duly paid, and the address of the receiver shall be the same as the address on the Registrar of Members. For shareholders of Domestic Shares, a notice of shareholders' general meeting may be given by way of public announcement.

   The announcement mentioned in the above paragraph should be published in one or more newspapers designated by the relevant securities authority of the State Council within a period of 45 to 50 days prior to the convening of the meeting, and upon publication of such an announcement, all shareholders of Domestic Shares are deemed to have received the notice of the relevant shareholders' general meeting.

   A notice of shareholders' general meeting issued by the Company should make sure that shareholders of foreign shares with registered address in Hong Kong will have sufficient time to exercise their right or to act in accordance with the terms of the Notice.

   is to be amended as:

   A notice of shareholders' general meeting should be sent out to shareholders (with or without voting rights at the general meeting) by hand or by mail with postage duly paid, and the address of the receiver shall be the same as the address on the Registrar of Members. For shareholders of Domestic Shares, a notice of shareholders' general meeting may be given by way of public announcement.

   The announcement mentioned in the above paragraph should be published in one or more newspapers designated by the relevant securities authority of the State Council within a period of 45 to 50 days prior to the convening of the meeting, and upon publication of such an announcement, all shareholders of Domestic Shares are deemed to have received the notice of the relevant shareholders' general meeting.

The Company may also use other forms of announcement in compliance with the laws and regulaions, relevant requirements of the China Securities Regulatory Commission of the State Council and the listing rules of the place where the Company is listed to notify shareholders about the shareholders' general meeting.

A notice of shareholders' general meeting issued by the Company should make sure that shareholders of foreign shares with registered address in Hong Kong will have sufficient time to exercise their right or to act in accordance with the terms of the Notice.

2. **Article 15.4 of the Articles of Association:**

The existing text of Article 15.4 of the Articles of Association:

The financial report of the Company should be made available and placed in the Company 20 days prior to the convening of the annual general meeting for inspection by shareholders. Each shareholder of the Company is entitled to obtain a copy of the financial report mentioned herein.

The Company should send a copy of the financial report together with the balance sheet (including all documents required to be attached in accordance with the provisions of the laws and administrative laws of the PRC) and the profit and loss account or income and expenditure account (including the aforesaid report) by mail with postage duly paid to each of the shareholders of foreign shares listed overseas. The financial report must be delivered or sent to each shareholder at least 21 days prior to the date when the annual general meeting is to be held, the address of the receiver shall be the same as the address on the Registrar of Members.

is to be amended as:

The financial report of the Company should be made available and placed in the Company 20 days prior to the convening of the annual general meeting for inspection by shareholders. Each shareholder of the Company is entitled to obtain a copy of the financial report mentioned herein.

The Company should send a copy of the financial report together with the balance sheet (including all documents required to be attached in accordance with the provisions of the laws and administrative laws of the PRC) and the profit and loss account or income and expenditure account (including the aforesaid report) by mail with postage duly paid to each of the shareholders of foreign shares listed overseas. The financial report must be delivered or sent to each shareholder at least 21 days prior to the date when the annual general meeting is to be held, the address of the receiver shall be the same as the address on the Registrar of Members.

Apart from delivering the materials mentioned in the above paragraph by mail to each shareholder, the Company may also choose to provide the information mentioned in the above paragraph through other means such as by publication on the Company's website, subject to compliance with the laws and regulations, relevant requirements of the China Securities Regulatory Commission of the State Council and the listing rules of the place where the Company is listed.

3. **Article 24.1 of the Articles of Association:**

The existing text of Article 24.1 of the Articles of Association:

Notice, information or written statements issued by the Company to the shareholders of H Shares must be delivered by hand to the registered address of each shareholder of H Shares who are holding registered H Shares, or sent out by mail to each shareholder of H Shares in accordance with the address recorded on the Register of Members.

is to be amended as:

Notice, information or written statements issued by the Company to the shareholders of H Shares must be delivered by hand to the registered address of each shareholder of H Shares who are holding registered H Shares, or sent out by mail to each shareholder of H Shares in accordance with the address recorded on the Register of Members.

Apart from delivering by hand or by mail the notice, information or written statements in accordance with the above paragraph to each shareholder of H Shares, the Company may also choose to provide the information mentioned in the above paragraph through other means such as by publication on the Company's website, subject to compliance with the laws and regulations, relevant requirements of the China Securities Regulatory Commission of the State Council and the listing rules of the place where the Company is listed.

PROPOSED GRANT OF A GENERAL MANDATE AT THE ANNUAL GENERAL MEETING 2008

A special mandate is proposed to be granted to the Board of Directors of the Company by the shareholders of the Company at the Annual General Meeting 2008 to allot and deal with not more than 20 per cent of the aggregate nominal amount of Domestic Shares or H Shares of the Company, subject to specific conditions. For details, please refer to Special Resolution 18 in the Notice of Annual General Meeting 2008 of the Company.

EXTERNAL AUDITORS

The external auditors are responsible for presenting independent opinions on the financial statements 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-auditing services.

For the year ended 31 December 2008, the external auditors Ernst & Young and Ernst & Young Hua Ming have provided the Group with the following services:

	2008 **RMB'000**
Interim review service	1,850
Annual audit service	5,200
Other non-auditing services	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.

The Board of Directors has reviewed the internal control system of the Group, which covers financial, operational, compliance procedural and risk management functions.

SHAREHOLDERS' RIGHTS

The Company is liable to ensure 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. Procedures, resolutions and voting form are set out in the notice of general meeting.

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
Postal code: 200030

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 official announcements in accordance with the Listing Rules.

ERNST & YOUNG
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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 64 to 150, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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
27 March 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	**2008** **RMB'000**	2007 *RMB'000*
REVENUE	5	**16,453,087**	18,589,586
Cost of sales		**(15,022,353)**	(15,927,215)
Gross profit		**1,430,734**	2,662,371
Other income and gains	5	**629,849**	466,921
Selling and distribution costs		**(346,116)**	(410,222)
Administrative expenses		**(193,173)**	(196,971)
Write-back of unutilised welfare provision	6(b)	**—**	534,362
Other expenses		**(103,991)**	(57,821)
Finance costs	9	**(696,714)**	(726,014)
PROFIT BEFORE TAX	6	**720,589**	2,272,626
Tax	10	**(124,534)**	(394,521)
PROFIT FOR THE YEAR		**596,055**	1,878,105
Attributable to:			
Equity holders of the parent	11	**596,212**	1,868,471
Minority interests		**(157)**	9,634
		596,055	1,878,105
DIVIDEND			
Proposed final	12(b)	**187,400**	597,813
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic - for profit for the year	13	**RMB0.50**	RMB1.56

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**18,449,075**	16,099,869
Investment properties	15	**125,727**	—
Prepaid land lease payments	16	**123,409**	126,225
Intangible assets	17	**4,501**	5,701
Deferred tax assets	30	**118,007**	70,088
Total non-current assets		**18,820,719**	16,301,883
CURRENT ASSETS			
Inventories	19	**3,780,115**	3,587,791
Trade receivables	20	**427,019**	902,185
Amounts due from related parties	22	**226**	1
Amounts due from the immediate holding company	22	**258,788**	1,579
Prepayments, deposits and other receivables	21	**49,436**	96,437
Derivative financial instruments	27	**292**	5,983
Pledged time deposits	23	**270,435**	154,080
Non-pledged time deposits maturing over three months	23	**1,045,627**	1,684,688
Cash and cash equivalents	23	**2,643,593**	4,014,049
Total current assets		**8,475,531**	10,446,793
CURRENT LIABILITIES			
Trade payables	24	**2,847,475**	1,375,533
Bills payable	25	**680,000**	649,151
Amounts due to related parties	22	**9,969**	16,882
Amounts due to the immediate holding company	22	**959**	37,793
Other payables and accruals	26	**1,193,006**	761,942
Derivative financial instruments	27	**1,245**	219
Interest-bearing bank loans, current portion	28	**3,329,350**	4,278,627
Tax payable		**520,236**	965,295
Dividend payable		**—**	104,223
Deferred income, current portion	29	**8,982**	7,651
Total current liabilities		**8,591,222**	8,197,316

	Notes	**2008** *RMB'000*	2007 *RMB'000*
NET CURRENT (LIABILITIES)/ASSETS		**(115,691)**	2,249,477
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,705,028**	18,551,360
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	28	**5,097,305**	4,948,133
Deferred income	29	**131,834**	124,798
Deferred tax liabilities	30	**10,388**	5,773
Total non-current liabilities		**5,239,527**	5,078,704
Net assets		**13,465,501**	13,472,656
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	**1,194,389**	1,194,389
Reserves	32	**11,987,289**	11,578,477
Proposed final dividend	12(b)	**187,400**	597,813
		13,369,078	13,370,679
Minority interests		**96,423**	101,977
Total equity		**13,465,501**	13,472,656

Zhang Hong Xia
Executive Director

Qi Xing Li
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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 12(b))	—	—	—	(597,813)	597,813	—	—	—
Transfer from capital reserve to retained profits (a)	—	(4,672)	—	4,672	—	—	—	—
Transfer from retained profits	—	—	153,221	(153,221)	—	—	—	—
At 31 December 2007	1,194,389	6,673,380(b)	972,658(b)	3,932,439(b)	597,813	13,370,679	101,977	13,472,656

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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 2008	1,194,389	6,673,380	972,658	3,932,439	597,813	13,370,679	101,977	13,472,656
Final 2007 dividend declared	—	—	—	—	(597,813)	(597,813)	—	(597,813)
Transfer of interests to the parent company (c)	—	—	—	—	—	—	(513)	(513)
Dividend paid to minority shareholders	—	—	—	—	—	—	(4,884)	(4,884)
Profit for the year	—	—	—	596,212	—	596,212	(157)	596,055
Proposed final 2008 dividend (note 12(b))	—	—	—	(187,400)	187,400	—	—	—
Transfer from retained profits	—	—	60,827	(60,827)	—	—	—	—
At 31 December 2008	1,194,389	6,673,380(b)	1,033,485(b)	4,280,424(b)	187,400	13,369,078	96,423	13,465,501

(a) In accordance with the new Chinese Accounting Standards ("CAS") effective from 1 January 2007, the government grants received were 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 2007.

(b) These reserve accounts comprise the consolidated reserves of RMB11,987,289,000 (2007: RMB11,578,477,000) in the consolidated balance sheet as at 31 December 2008.

(c) In April 2008, Mr. Liu Guangmin, the minority shareholder of Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") transferred his entire share to the Company for a consideration of RMB0.5 million, making the subsidiary wholly owned by the Company.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		720,589	2,272,626
Adjustments for:			
Finance costs	9	696,714	726,014
Bank interest income	5	(85,115)	(84,393)
Recognition of deferred income	5	(7,873)	(6,447)
Losses on disposal of items of property, plant and equipment	6	30,507	10,048
Fair value losses/(gains), net:			
Derivative financial instruments	6	6,717	(9,982)
Depreciation	6	1,183,649	1,082,963
Foreign exchange differences, net	5, 6	(158,323)	(226,310)
Amortisation of intangible assets	6	1,200	1,200
Recognition of prepaid land lease payments	6	2,816	2,816
Revenue on property leasing	5	(2,416)	—
Reversal of impairment of trade receivables	6	(15,212)	—
Impairment of properties and investment properties	6	22,899	—
Provision/(reversal of provision) against inventories	6	27,396	(124,350)
		2,423,548	3,644,185
(Increase)/decrease in inventories		(219,720)	114,123
Decrease/(increase) in trade receivables		441,683	(262,326)
Decrease/(increase) in prepayments, deposits and other receivables		28,225	(35,859)
Increase in amounts due from the immediate holding company		(257,209)	—
(Decrease)/increase in net amounts due to related parties		(7,138)	12,665
Decrease in amounts due to the immediate holding company		(36,834)	(126,584)
Increase in trade payables		305,610	476,183
Increase/(decrease) in bills payable		30,849	(10,849)
Increase/(decrease) in other payables and accruals		402,002	(605,512)
Cash generated from operations		3,111,016	3,206,026
Interest paid		(710,976)	(727,951)
PRC corporate income tax paid		(612,897)	(334,749)
Net cash inflow from operating activities		1,787,143	2,143,326

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 *RMB'000*	2007 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**79,970**	77,725
Purchases of items of property, plant and equipment		**(2,571,441)**	(1,277,518)
Receipt of government grants	29	**16,240**	37,405
Proceeds from disposal of items of property, plant and equipment		**104,014**	13,598
Acquisition of minority interest		**(520)**	—
Revenue on property leasing	5	**2,416**	—
Decrease/(increase) in non-pledged time deposits maturing over three months		**639,061**	(402,774)
Increase in pledged deposits		**(116,355)**	(47,554)
Net cash outflow from investing activities		**(1,846,615)**	(1,599,118)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**4,877,012**	5,994,854
Repayment of bank loans		**(5,469,432)**	(6,236,540)
Dividends paid to equity shareholders of the parent		**(702,036)**	(489,016)
Dividends paid to minority shareholders		**(4,884)**	(1,719)
Net cash outflow from financing activities		**(1,299,340)**	(732,421)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,358,812)**	(188,213)
Cash and cash equivalents at beginning of year		**4,014,049**	4,209,714
Effect of foreign exchange rate changes, net		**(11,644)**	(7,452)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**2,643,593**	4,014,049
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**2,058,743**	3,795,203
Non-pledged time deposits with original maturity of less than three months when acquired		**584,850**	218,846
	23	**2,643,593**	4,014,049

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**14,558,966**	12,382,808
Investment properties	15	**125,727**	—
Investments in subsidiaries	18	**1,201,411**	1,200,891
Deferred tax assets	30	**45,009**	31,747
Total non-current assets		**15,931,113**	13,615,446
CURRENT ASSETS			
Inventories	19	**2,951,696**	2,680,917
Trade receivables	20	**407,717**	842,100
Bills receivable		**—**	4,749
Amounts due from subsidiaries	18	**762,978**	1,101,500
Amounts due from related parties	22	**226**	1
Amount due from the immediate holding company	22	**257,211**	—
Prepayments, deposits and other receivables	21	**37,522**	83,682
Derivative financial instruments	27	**292**	5,983
Pledged time deposits	23	**264,515**	77,062
Non-pledged time deposits maturing over three months	23	**1,045,627**	1,684,688
Cash and cash equivalents	23	**2,155,365**	3,687,438
Total current assets		**7,883,149**	10,168,120
CURRENT LIABILITIES			
Trade payables	24	**2,633,305**	1,119,186
Bills payable	25	**450,000**	477,300
Amounts due to subsidiaries	18	**88,469**	206,498
Amounts due to related parties	22	**9,969**	15,602
Amount due to the immediate holding company	22	**—**	36,858
Other payables and accruals	26	**920,783**	524,105
Derivative financial instruments	27	**1,245**	219
Interest-bearing bank loans, current portion	28	**2,613,401**	3,184,145
Tax payable		**466,267**	820,257
Dividend payable		**—**	104,223
Deferred income, current portion	29	**1,331**	—
Total current liabilities		**7,184,770**	6,488,393

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NET CURRENT ASSETS		**698,379**	3,679,727
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,629,492**	17,295,173
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	28	**3,802,305**	4,493,133
Deferred income	29	**17,087**	2,400
Total non-current liabilities		**3,819,392**	4,495,533
Net assets		**12,810,100**	12,799,640
EQUITY			
Issued capital	31	**1,194,389**	1,194,389
Reserves	32	**11,428,311**	11,007,438
Proposed final dividend	12(b)	**187,400**	597,813
Total equity		**12,810,100**	12,799,640

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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated in full 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets.*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

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

(b) *HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions*

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 buys 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 has had no impact on the financial position or results of operations of the Group.

(c) *HK(IFRIC)-Int 12 Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) *HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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.

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

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) 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.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation 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 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

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 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)

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 and financial 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	4 - 33 years	2.9% to 24.0%
Others	2 - 10 years	9.5% to 48.0%

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 least 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 any buildings and machinery 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 or investment properties when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of each building to its residual value over its estimated useful life of 40 years.

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.

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. Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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. 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.

The Group's financial assets include cash and cash equivalents, time deposits, trade and other receivables and derivative instruments.

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 classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses 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 (i.e., 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, amounts due to related parties and the ultimate holding company, derivative financial instruments and interest-bearing loans and borrowings.

Derivative financial instruments are stated at fair value on the balance sheet with gains or losses recognised in the consolidated income statement. 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 change in fair value, 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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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 reduce 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 unused 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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, when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension schemes

The Group participates in pension 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 pension schemes at a rate of 20% of the 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.

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 7.20% for 2008 and 7.05% for 2007, 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 currencies

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 dates 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 JUDGEMENTS AND 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties
The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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:

Estimation of fair value of financial derivatives
The Group estimates the fair value of financial derivatives based on financial modeling 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. The 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

Impairment of non-financial assets (other than goodwill)
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life 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.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. 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 customers for the years ended 31 December 2008 and 2007, is as follows:

Year ended 31 December 2008

	Sales to external customers *RMB'000*	**Cost of sales** *RMB'000*	**Gross profit** *RMB'000*
Mainland China	**9,789,055**	**8,781,760**	**1,007,295**
Hong Kong	**2,829,423**	**2,646,867**	**182,556**
East Asia	**1,775,440**	**1,674,912**	**100,528**
Others	**2,059,169**	**1,918,814**	**140,355**
	16,453,087	**15,022,353**	**1,430,734**

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

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	2008 RMB'000	2007 *RMB'000*
Revenue			
Sale of textile goods		**16,453,087**	18,589,586
Other income			
Bank interest income		**85,115**	84,393
Compensation from suppliers on supply of sub-standard goods		**36,478**	50,848
Penalty income from employees		**6,763**	5,950
Recognition of deferred income	29	**7,873**	6,447
Revenue on property leasing		**2,416**	667
Others		**8,194**	15,249
		146,839	163,554
Gains			
Sale of electricity and steam		**1,624,042**	158,246
Less: cost thereon		**(1,318,561)**	(114,881)
Gains on sale of electricity and steam		**305,481**	43,365
Gains on sale of waste and spare parts		**16,079**	9,481
Foreign exchange differences, net		**158,323**	226,310
Realised gains on derivative financial instruments transactions		**3,127**	14,229
Fair value gains, net:			
Derivative financial instrument	27	**—**	9,982
		483,010	303,367
		629,849	466,921

6. PROFIT BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of goods sold		14,798,322	15,856,126
Staff costs (excluding directors' and supervisors' remuneration (note 7)):			
Wages, salaries and social security costs		2,087,197	2,193,807
Pension scheme contributions (a)		83,269	59,869
		2,170,466	2,253,676
Depreciation	14,15	1,183,649	1,082,963
Recognition of prepaid land lease payments	16	2,816	2,816
Repairs and maintenance		440,982	448,576
Losses on disposal of items of property, plant and equipment		30,507	10,048
Amortisation of intangible assets	17	1,200	1,200
Auditors' remuneration		7,285	7,267
Directors' and supervisors' remuneration	7	4,623	4,084
Foreign exchange differences, net	5	(158,323)	(226,310)
Provision/(reversal of provision) against inventories		27,396	(124,350)
Reversal of impairment of trade receivables		(15,212)	—
Impairment of properties and investment properties	14,15	22,899	—
Realised gains on derivative financial instruments transactions	5	(3,127)	(14,229)
Fair value losses/(gains), net:			
Derivative financial instruments	5, 27	6,717	(9,982)
Write-back of unutilised welfare provision (b)		—	(534,362)
Research and development costs included in:			
Wages and salaries		14,784	6,653
Consumables		21,397	14,085
		36,181	20,738
Minimum lease payments under operating leases:			
Land and buildings		25,481	22,094

6. PROFIT BEFORE TAX (continued)

(a) As at 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

(b) 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 the welfare provision and reversed the excess unutilised provision in 2007.

7. 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	
	2008	2007
	RMB'000	*RMB'000*
Fees	**4,335**	3,849
Other emoluments:		
Salaries, allowances and benefits in kind	**274**	224
Pension scheme contributions	**14**	11
	288	235
	4,623	4,084

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 (2007: Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2008 *RMB'000*	2007 *RMB'000*
Mr. Wang Naixin	**150**	107
Mr. Xu Wenying	**150**	135
Mr. Chan Wing Yau, George	**545**	581
	845	823

There were no other emoluments and benefits payable to the independent non-executive directors in 2008 (2007: Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2008				
Executive directors:				
Ms. Zhang Hongxia	1,200	49	2	1,251
Mr. Qi Xingli	600	43	2	645
Ms. Zhao Suwen	600	37	2	639
Ms. Zhang Yanhong	600	34	—	634
	3,000	163	6	3,169
Non-executive directors:				
Mr. Zhang Shiping	100	—	—	100
Mr. Wang Zhaoting	100	—	—	100
Ms. Zhao Suhua*	100	39	2	141
Ms. Wang Xiaoyun*	100	36	2	138
	400	75	4	479
	3,400	238	10	3,648
2007				
Executive directors:				
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

* Ms. Zhao Suhua and Ms. Wang Xiaoyun were appointed as non-executive directors of the Company with effect from 30 May 2008.

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2008				
Mr. Liu Mingping	**30**	**38**	**2**	**70**
Mr. Lu Tianfu	**30**	**—**	**—**	**30**
Ms. Wang Wei	**30**	**—**	**—**	**30**
	90	**38**	**2**	**130**
2007				
Mr. Liu Mingping	30	34	2	66
Mr. Lu Tianfu	30	—	—	30
Ms. Wang Wei	30	36	—	66
	90	70	2	162

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2007: five directors), details of whose remuneration are set out in note 7 above.

9. FINANCE COSTS

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**687,135**	732,792
Less: Interest capitalised	**(1,330)**	(14,675)
	685,805	718,117
Other finance costs:		
Increase in discounted amounts of trade payables	**10,909**	—
Increase in discounted amounts of long term payable to the immediate holding company	**—**	7,897
	696,714	726,014

10. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2007: 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	
	2008	2007
	RMB'000	*RMB'000*
Current – Mainland China	**167,838**	345,874
Deferred (note 30)	**(43,304)**	48,647
Total tax charge for the year	**124,534**	394,521

10. 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			
	2008		2007	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**720,589**		2,272,626	
Tax at PRC statutory tax rate	**180,147**	**25.0**	749,967	33.0
Expenses not deductible for tax	**14,353**	**2.0**	7,004	0.3
Tax loss not recognised	**—**	**—**	4,965	0.2
Tax exemption (note (a))	**(192)**	**—**	(4,620)	(0.2)
Tax concessions in respect of purchase of PRC manufactured machinery and equipment (note (b))	**(83,878)**	**(11.7)**	(390,152)	(17.1)
Change in tax rates (note (c))	**—**	**—**	20,581	0.9
Others	**14,104**	**2.0**	6,776	0.3
Tax charge at the Group's effective rate	**124,534**	**17.3**	394,521	17.4

Under the PRC income tax law, the companies (except for Binteng Textile) comprising the Group are subject to corporate income tax ("CIT") at a rate of 25% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC GAAP.

Note:

(a) Being a Sino-foreign joint venture enterprise, Binteng Textile is subject to a CIT rate of 25% and 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. Binteng Textile was entitled to a 50% reduction in the CIT rate 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.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of RMB608 million (2007: RMB1,604 million) which has been dealt with in the financial statements of the Company (note 32).

12. 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.

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 2008 and 2007.

(ii) 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.

12. PROFIT APPROPRIATIONS (continued)

(b) Dividend

	2008 RMB'000	2007 RMB'000
Proposed final – RMB0.1569 (2007: RMB0.5005) per share	187,400	597,813

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).

13. 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 number of ordinary shares in issue during the year.

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	596,212	1,868,471

	Number of shares	
	2008	2007
Shares		
Ordinary shares in issue during the year used in the basic earnings per share calculation	1,194,389,000	1,194,389,000

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during these years.

14. 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 2008					
At 1 January 2008:					
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
At 1 January 2008, net of accumulated depreciation	4,952,853	10,877,277	51,487	218,252	16,099,869
Additions	1,353,214	2,522,297	6,207	222,778	4,104,496
Disposals and retirements	(218,938)	(202,587)	(1,490)	—	(423,015)
Transfer to investment properties	(130,054)	—	—	—	(130,054)
Impairment	(20,670)	—	—	(1,114)	(21,784)
Depreciation provided during the year	(145,646)	(1,023,233)	(11,558)	—	(1,180,437)
Transfers	134,343	256,454	—	(390,797)	—
At 31 December 2008, net of accumulated depreciation and impairment	5,925,102	12,430,208	44,646	49,119	18,449,075
At 31 December 2008:					
Cost	6,412,746	16,752,547	84,184	50,233	23,299,710
Accumulated depreciation and impairment	(487,644)	(4,322,339)	(39,538)	(1,114)	(4,850,635)
Net carrying amount	5,925,102	12,430,208	44,646	49,119	18,449,075

14. 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 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 and retirements	—	(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

14. 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 2008					
At 1 January 2008:					
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
At 1 January 2008, net of accumulated depreciation	3,881,147	8,396,591	47,291	57,779	12,382,808
Additions	1,344,538	2,515,430	11,851	71,300	3,943,119
Disposals and retirements	(335,417)	(382,275)	(7,339)	—	(725,031)
Transfer to investment properties	(130,054)	—	—	—	(130,054)
Impairment	(3,912)	—	—	—	(3,912)
Depreciation provided during the year	(115,143)	(783,262)	(9,559)	—	(907,964)
Transfers	46,353	80,221	—	(126,574)	—
At 31 December 2008, net of accumulated depreciation and impairment	4,687,512	9,826,705	42,244	2,505	14,558,966
At 31 December 2008:					
Cost	5,060,743	13,055,523	73,016	2,505	18,191,787
Accumulated depreciation and impairment	(373,231)	(3,228,818)	(30,772)	—	(3,632,821)
Net carrying amount	4,687,512	9,826,705	42,244	2,505	14,558,966

14. 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 and retirements	—	(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

At 31 December 2008, certain of the Group's buildings, machinery and equipment with a value of approximately RMB8,812 million (2007: RMB8,864 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 RMB1.3 million (2007: RMB14.7 million) in the current year (note 9) prior to being transferred to buildings, and machinery and equipment.

Certain of the Group's properties, including construction in progress, were revalued on 31 December 2008 by Shanghai Wan Long Assets Evaluation Co,. Ltd, an independent professionally qualified valuer, at RMB378 million on a value in use basis. The impairment was attributable to the temporary idle status of the properties, indicating that the economic performance of the properties might be worse than expected. An impairment provision aggregating RMB21.8 million resulting from the above valuation, has been charged to the consolidated income statement.

15. INVESTMENT PROPERTIES

Group and Company	**2008** ***RMB'000***
At 1 January:	
Cost – buildings	—
Accumulated depreciation and impairment	—
Net carrying amount	—
At 1 January, net of accumulated depreciation	—
Transfers from owner-occupied property, net of accumulated depreciation	130,054
Depreciation provided during the year	(3,212)
Impairment	(1,115)
At 31 December, net of accumulated depreciation and impairment	125,727
At 31 December:	
Cost – buildings	133,800
Accumulated depreciation and impairment	(8,073)
Net carrying amount	125,727

The Group's investment properties were revalued on 31 December 2008 by Shanghai Wan Long Assets Evaluation Co,. Ltd, an independent professionally qualified valuer, at RMB126 million on a value in use basis. The impairment was attributable to the change of use of the properties from held for production to held to earn rental, indicating that the economic performance of the properties might be worse than expected. An impairment provision aggregating RMB1.1 million, resulting from the above valuation, has been charged to the consolidated income statement.

The investment properties are leased to the immediate holding company under operating leases, further summary details of which are included in note 37(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

Group	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	129,041	131,857
Additions	—	—
Recognised during the year	(2,816)	(2,816)
Carrying amount at 31 December	126,225	129,041
Current portion included in prepayments, deposits and other receivables	(2,816)	(2,816)
Non-current portion	123,409	126,225

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

At 31 December 2008, certain of the Group's land use rights with a net carrying amount of approximately RMB114 million (2007: RMB91 million) were pledged to secure certain of the Group's bank loans (note 28).

17. 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.

	2008 RMB'000	2007 RMB'000
At 1 January:		
Cost	12,001	12,001
Accumulated amortisation	(6,300)	(5,100)
Net carrying amount	5,701	6,901
At 1 January, net of accumulated amortisation	5,701	6,901
Amortisation provided during the year	(1,200)	(1,200)
At 31 December, net of accumulated amortisation	4,501	5,701
At 31 December:		
Cost	12,001	12,001
Accumulated amortisation	(7,500)	(6,300)
Net carrying amount	4,501	5,701

18. INVESTMENTS IN SUBSIDIARIES

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

	2008 *RMB'000*	2007 *RMB'000*
Unlisted investments, at cost	**1,201,411**	1,200,891
Amounts due from subsidiaries	**762,978**	1,101,500
Amounts due to subsidiaries	**(88,469)**	(206,498)
	1,875,920	2,095,893

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 2008 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 Weiqiao Technology IndustrialPark Company Limited ("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 Industrial Park	Weihai, the PRC 30 January 2004	Limited liability company	RMB260,000,000	100	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	
	2008 RMB'000	2007 RMB'000
Raw materials	535,966	915,837
Work in progress	671,279	717,882
Semi-finished goods	1,365,990	663,262
Finished goods	1,004,187	1,173,498
Consumables	77,855	112,050
Consigned materials for processing	—	5,262
Raw materials in transit	124,838	—
	3,780,115	3,587,791

	Company	
	2008 RMB'000	2007 RMB'000
Raw materials	428,802	768,191
Work in progress	509,308	549,659
Semi-finished goods	951,995	396,906
Finished goods	726,124	875,427
Consumables	53,859	85,331
Consigned materials for processing	163,336	5,403
Raw materials in transit	118,272	—
	2,951,696	2,680,917

The carrying amounts of inventories were net of provision of RMB86 million (2007: RMB59 million)

20. TRADE RECEIVABLES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**434,915**	925,293
Impairment	**(7,896)**	(23,108)
	427,019	902,185

	Company	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**415,485**	863,730
Impairment	**(7,768)**	(21,630)
	407,717	842,100

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.

20. TRADE RECEIVABLES (continued)

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	
	2008 RMB'000	2007 RMB'000
Within 3 months	420,611	894,169
3 to 6 months	2,501	3,176
6 months to 1 year	1,454	3,208
1 to 2 years	2,453	1,632
	427,019	902,185

	Company	
	2008 RMB'000	2007 RMB'000
Within 3 months	401,768	834,084
3 to 6 months	2,042	3,176
6 months to 1 year	1,454	3,208
1 to 2 years	2,453	1,632
	407,717	842,100

20. TRADE RECEIVABLES (continued)

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

	Group	
	2008 *RMB'000*	2007 *RMB'000*
At 1 January	**23,108**	23,108
Amount reversed	**(15,212)**	—
At 31 December	**7,896**	23,108

	Company	
	2008 *RMB'000*	2007 *RMB'000*
At 1 January	**21,630**	21,630
Amount reversed	**(13,862)**	—
At 31 December	**7,768**	21,630

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7.9 million (2007: RMB23 million) with a carrying amount of RMB7.9 million (2007: RMB23 million). 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	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**357,138**	739,304
Less than 2 months past due	**63,615**	154,865
More than 2 months past due	**6,266**	8,016
	427,019	902,185

	Company	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**350,170**	687,703
Less than 2 months past due	**51,598**	146,381
More than 2 months past due	**5,949**	8,016
	407,717	842,100

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	
	2008	2007
	RMB'000	*RMB'000*
Prepayments to suppliers	**34,315**	86,562
Prepaid land lease payments, current portion	**2,816**	2,816
Interest receivable	**11,813**	6,668
Other receivables and prepayments	**492**	391
	49,436	96,437

	Company	
	2008	2007
	RMB'000	*RMB'000*
Prepayments to suppliers	**25,573**	76,929
Interest receivable	**11,813**	6,668
Other receivables and prepayments	**136**	85
	37,522	83,682

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 and related parties are unsecured, interest-free and have specific repayment terms.

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Cash and bank balances	**2,058,743**	3,795,203
Time deposits	**1,900,912**	2,057,614
	3,959,655	5,852,817
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(270,435)**	(154,080)
Non-pledged time deposits maturing overthree months	**(1,045,627)**	(1,684,688)
Cash and cash equivalents	**2,643,593**	4,014,049

	Company	
	2008	2007
	RMB'000	*RMB'000*
Cash and bank balances	**1,570,515**	3,468,593
Time deposits	**1,894,992**	1,980,595
	3,465,507	5,449,188
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(264,515)**	(77,062)
Non-pledged time deposits maturing overthree months	**(1,045,627)**	(1,684,688)
Cash and cash equivalents	**2,155,365**	3,687,438

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi amounted to RMB3,881 million (2007: RMB5,671 million). 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 Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised 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 seven days 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.

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	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**1,342,638**	857,853
3 to 6 months	**1,317,330**	217,179
6 months to 1 year	**24,814**	240,014
Over 1 year	**162,693**	60,487
	2,847,475	1,375,533

	Company	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**1,153,055**	709,458
3 to 6 months	**1,301,659**	189,299
6 months to 1 year	**18,814**	170,655
Over 1 year	**159,777**	49,774
	2,633,305	1,119,186

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

25. BILLS PAYABLE

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**450,000**	452,551
3 to 6 months	**230,000**	196,600
	680,000	649,151

	Company	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**350,000**	377,300
3 to 6 months	**100,000**	100,000
	450,000	477,300

Certain of the Group's bills payable amounting to RMB230 million as at 31 December 2008 were drawn by Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2008 (2007: RMB155.3 million).

Certain of the Group's bills payable amounting to RMB450 million as at 31 December 2008 were drawn by Company in favour of Binzhou Industrial Park and were discounted with banks by Binzhou Industrial Park prior to 31 December 2008 (2007: RMB477.3 million).

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.

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2008	2007
	RMB'000	*RMB'000*
Payroll payable	**147,740**	219,579
Other taxes payable	**465,185**	30,354
Accruals	**42,613**	67,630
Other payables	**537,468**	444,379
	1,193,006	761,942

	Company	
	2008	2007
	RMB'000	*RMB'000*
Payroll payable	**108,827**	162,588
Other taxes payable	**423,662**	(7,555)
Accruals	**42,058**	67,630
Other payables	**346,236**	301,442
	920,783	524,105

Other payables are non-interest-bearing.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest rate swaps	**292**	5,983	**1,245**	219

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 decrease in the fair value of interest rate swap derivatives amounting to RMB6.7 million was charged to the consolidated income statement. During the prior year, the increase in the fair value of interest rate swap derivatives amounting to RMB9.98 million was credited to the consolidated income statement.

28. INTEREST-BEARING BANK LOANS

	Contractual interest rate	Maturity	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Current:						
Unsecured	(a)	2009	**2,305,086**	2,159,818	**2,052,638**	2,064,336
Secured	(b)	2009	**1,024,264**	2,118,809	**560,763**	1,119,809
			3,329,350	4,278,627	**2,613,401**	3,184,145
Non-current:						
Unsecured	(c)	2010-2011	**740,865**	1,739,868	**470,865**	1,519,868
Secured	(d)	2010-2013	**4,356,440**	3,208,265	**3,331,440**	2,973,265
			5,097,305	4,948,133	**3,802,305**	4,493,133
			8,426,655	9,226,760	**6,415,706**	7,677,278

(a) The interest rates of these loans range from 1.98125% to 8.8% per annum, from People's Bank of China ("PBOC") benchmark interest rate to PBOC benchmark interest rate+7%, at three-month LIBOR+1.4%, at three-month LIBOR+1.5%, at six-month LIBOR+1.1% and at one-year SIBOR+1.75%.

(b) The interest rates of these loans range from 5.85% to 11.2525% per annum, from PBOC benchmark interest rate to PBOC benchmark interest rate+30%, at three-month LIBOR+2.0% and at three-month LIBOR+2.5%.

(c) The interest rates of these loans range from PBOC benchmark interest rate-5% to PBOC benchmark interest rate+20%, at six-month LIBOR+1.4%.

(d) The interest rates of these loans range from 6.48% to 9.711% per annum, from PBOC benchmark interest rate to PBOC benchmark interest rate+30%, at one-year LIBOR+2.8%.

28. INTEREST-BEARING BANK LOANS (continued)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**3,329,350**	4,278,627	**2,613,401**	3,184,145
In the second year	**2,316,550**	2,661,753	**1,816,550**	2,470,754
In the third to fifth years, inclusive	**2,780,755**	2,286,380	**1,985,755**	2,022,379
	8,426,655	9,226,760	**6,415,706**	7,677,278

(i) Other than certain of the Group's bank loans in the aggregate amount of US$343 million (equivalent to RMB2,345 million) as at 31 December 2008 (2007: US$481 million (equivalent to RMB3,514 million)), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,234 million (2007: RMB5,252 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 RMB8,926 million (2007: RMB8,955 million) as at 31 December 2008.

Included in the Group's secured loans, certain of Weihai Industrial Park's bank loans amounting to approximately RMB200 million (2007: Nil) were secured by certain of the Company's machinery and equipment of an aggregate value of approximately RMB1,368 million (2007: Nil) as at 31 December 2008.

(iii) Certain of the Group's bank loans up to RMB147 million (2007: RM75 million) were secured by certain of Binzhou Industrial Park's trade receivables from the Company of approximately RMB188 million (2007: RMB95 million) as at 31 December 2008, 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 RMB35 million (2007: RMB9 million) as at 31 December 2008.

(v) The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao up to approximately RMB405 million (2007: RMB296 million) as at 31 December 2008.

28. INTEREST-BEARING BANK LOANS (continued)

Other interest rate information:

Group

	2008 Fixed rate RMB'000	2008 Floating rate RMB'000	2007 Fixed rate RMB'000	2007 Floating rate RMB'000
Bank loans:				
Unsecured	1,024,837	2,021,114	1,380,610	2,519,076
Secured	1,083,520	4,297,184	1,633,851	3,693,223
	2,108,357	6,318,298	3,014,461	6,212,299

Company

	2008 Fixed rate RMB'000	2008 Floating rate RMB'000	2007 Fixed rate RMB'000	2007 Floating rate RMB'000
Bank loans:				
Unsecured	941,889	1,581,614	1,100,128	2,484,076
Secured	251,519	3,640,684	864,851	3,228,223
	1,193,408	5,222,298	1,964,979	5,712,299

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 2008 RMB'000	Carrying amounts 2007 RMB'000	Fair value 2008 RMB'000	Fair value 2007 RMB'000
Fixed rate bank loans	715,756	590,000	709,651	566,524
Floating rate bank loans	4,381,549	4,358,133	4,381,549	4,358,133
	5,097,305	4,948,133	5,091,200	4,924,657

The fair value of the Company's secured bank loans (non-current portion) with a carrying amount of RMB3,331 million (2007: RMB2,973 million) was RMB3,333 million (2007: RMB2,957 million) at the balance sheet date.

29. 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		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**132,449**	101,491	**2,400**	—
Additions	**16,240**	37,405	**16,240**	2,400
Recognised as income during the year	**(7,873)**	(6,447)	**(222)**	—
At 31 December	**140,816**	132,449	**18,418**	2,400
Portion classified as current liabilities	**(8,982)**	(7,651)	**(1,331)**	—
Non-current portion	**131,834**	124,798	**17,087**	2,400

Binzhou Industrial Park received government grants during prior years amounting to RMB141 million. 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 2008 and 2007 amounting to RMB16.24 million and RMB2.4 million, respectively. 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. The Company has fulfilled the conditions attaching to the government grants by the end of 2008, which were confirmed by the Finance Bureau of Binzhou City, the Company 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.

30. DEFERRED TAX

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
At 1 January	**70,088**	121,044	**31,747**	71,916
Credited/(charged) to the consolidated income statement during the year	**47,919**	(50,956)	**13,262**	(40,169)
At 31 December	**118,007**	70,088	**45,009**	31,747
Deferred tax liabilities				
At 1 January	**5,773**	8,082	**—**	—
Charged/(credited) to the consolidated income statement during the year	**4,615**	(2,309)	**—**	—
At 31 December	**10,388**	5,773	**—**	—
Net deferred tax credited/(charged) to the consolidated income statement, net (note 10)	**43,304**	(48,647)	**(13,262)**	(40,169)

30. DEFERRED TAX (continued)

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

	Group		Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Deferred tax assets				
Tax deductible loss	**49,494**	2,442	**23,852**	2,442
Provision against inventories	**21,529**	14,680	**12,725**	9,525
Impairment of trade receivables	**1,974**	5,777	**1,942**	5,408
Impairment of properties and investment properties	**5,725**	—	**1,257**	—
Net fair value losses/(gains) of derivative financial instruments	**238**	(1,441)	**238**	(1,441)
Government grants recognised as deferred income	**35,204**	33,113	**4,605**	600
Interest capitalisation on fixed assets, net of related depreciation	**(6,583)**	(6,928)	**(6,583)**	(6,928)
Difference in depreciation expenses for tax purposes	**6,015**	4,155	**5,562**	3,851
Others	**4,411**	18,290	**1,411**	18,290
At 31 December	**118,007**	70,088	**45,009**	31,747
Deferred tax liabilities				
Unrealised losses arising from intra-group sales	**4,893**	—	**—**	—
Interest capitalisation on fixed assets, net of related depreciation	**5,495**	5,773	**—**	—
At 31 December	**10,388**	5,773	**—**	—

There was no material unprovided deferred tax during the year.

31. SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Shares		
Registered, issued and fully paid:		
780,770,000 domestic shares of RMB1.00 each	780,770	780,770
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.

32. 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 67 to 68 of these financial statements.

Company

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
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 11)	—	—	1,604,342	—	1,604,342
Transfer from retained profits	—	146,254	(146,254)	—	—
Proposed final 2007 dividend (note 12(b))	—	—	(597,813)	597,813	—
At 31 December 2007	6,673,379	918,201	3,415,858	597,813	11,605,251
Final 2007 dividend declared	—	—	—	(597,813)	(597,813)
Profit for the year (note 11)	—	—	608,273	—	608,273
Transfer from retained profits	—	60,827	(60,827)	—	—
Proposed final 2008 dividend (note 12(b))	—	—	(187,400)	187,400	—
At 31 December 2008	6,673,379	979,028	3,775,904	187,400	11,615,711

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

In September 2008, the Company entered into an agreement with Zouping Gaoxin Thermal Power Co., Ltd. ("Gaoxin Thermal Power"), pursuant to which the Company acquired the Gaoxin thermal power assets for an aggregate consideration of RMB1,599 million. The Company satisfied the payment of this consideration by transferring the thermal power assets making up the Weiqiao First Thermal Power Plant of the Company, with an aggregate appraised value of RMB291 million, and by setting off the balance of the consideration against the income from the sale of electricity generated by the Gaoxin thermal power assets, which is in excess of the Group's actual electricity consumption requirement, to Gaoxin Thermal Power.

Further details of this transaction are set out in the Company's announcement dated 4 September 2008.

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	
	2008 *RMB'000*	2007 *RMB'000*
Letters of credit issued	**85,926**	52,933

	Company	
	2008 *RMB'000*	2007 *RMB'000*
Letters of credit issued	**85,926**	52,933
Guarantees given to banks in connection with facilities granted to subsidiaries	**604,620**	295,570
	690,546	348,503

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of three years.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company	
	2008 RMB'000	2007 RMB'000
Within one year	3,000	1,000
In the second to third years, inclusive	3,417	1,833
	6,417	2,833

(b) As lessee

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	
	2008 RMB'000	2007 RMB'000
Within one year	26,309	23,401
In the second to fifth years, inclusive	102,890	91,857
After five years	300,050	278,840
	429,249	394,098

	Company	
	2008 RMB'000	2007 RMB'000
Within one year	25,393	23,340
In the second to fifth years, inclusive	99,223	91,614
After five years	287,746	278,251
	412,362	393,205

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group and the Company had the following capital commitments at the balance sheet date, principally for construction in progress and equity investments:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Contracted, but not provided for	**50,475**	469,358
Authorised, but not contracted for	**—**	—
	50,475	469,358

	Company	
	2008	2007
	RMB'000	*RMB'000*
Contracted, but not provided for	**25,475**	398,278
Authorised, but not contracted for	**—**	—
	25,475	398,278

37. 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 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 note 22 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	2008 RMB'000	2007 RMB'000
The Holding Company	The immediate holding company	Expenses on provision of electricity and steam	—	59,898
		Expenses on land use rights and property leasing	25,150	22,094
		Sale of cotton yarn	41,093	—
		Revenue on supply of electricity	1,186,925	132,067
		Revenue on property leasing	2,416	167
		Purchase of property, plant and equipment	2,210,000	—
Weihai Xijiao Thermal Power Company Limited	A fellow subsidiary*	Expenses on provision of electricity and steam	24,082	22,996
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	699,625	377,054
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of the Holding Company	Sale of cotton yarn	65,233	50,173

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Name of related party	Relationship with the Company	Nature of transactions	2008 RMB'000	2007 RMB'000
Shandong Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarn	67,781	59,812
Shandong Weiqiao Hongyuan Home Textile, Ltd.	A fellow subsidiary	Sale of grey fabrics	35,764	4,758
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	461,637	300,571
		Sale of denim	70	—
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	48	2,282
		Sale of denim	333	2,315
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	432	1,437
		Sale of denim	—	8,062
Shandong Weiqiao Jiajia Home Textile Co., Ltd.	A fellow subsidiary*	Sale of grey fabrics	47,628	27,642

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

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

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 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 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.

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 Fabrics)". According to the announcement and the circular (collectively, the "Announcements"), the Company announced, that on 25 August 2006, it 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 fabrics by the Group to the Holding Group as well as the provision of cotton yarn and grey fabrics 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 is 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 fabrics 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.

On 20 October 2008, the Company and the Holding Company entered into a New Cotton Yarn/Grey Fabric and Denim Supply Agreement (the "New Supply Agreement") with a term commencing on 1 January 2009 and ending on 31 December 2011. Terms and conditions of the New Supply Agreement are basically the same as those of the Renewed Supply Agreement except for the amendments to the payment terms and the scope of products supplied. Pursuant to the New Supply Agreement, the Company will supply or will procure its subsidiaries to supply cotton yarn, grey fabrics and denim to the Holding Group.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

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 for a term of 10 years commencing from the date thereof, at the lower of the market price or RMB0.35 per kWh (including VAT at the rate of 17%) for electricity, and at the lower of the market price or 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 13 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.

On 13 August 2005, the Company entered into an asset transfer agreement (the "First 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.

After the completion of the First Assets Transfer Agreement, 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.

On 2 November 2005, the Company and the Holding Company entered into a supply of excess electricity agreement (the "First Electricity Supply Agreement"), 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.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Electricity and steam agreement with the Holding Company (continued)

On 14 January 2008, the Company and the Holding Company entered into an assets transfer agreement (the "Second Assets Transfer Agreement"), pursuant to which the Company acquired the thermal power assets at an aggregate consideration of RMB 2,210,000,000. The Company paid all of the consideration in cash. On 18 March 2008, the Company entered into a supply of excess electricity agreement (the "Second Electricity Supply Agreement") with the Holding Company, 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 18 March 2008 to 31 December 2010. The price at which the excess electricity is supplied to the Holding Company by the Company shall be RMB0.45 per kWh (including VAT at the rate of 17%) or the then price at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, 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.

On 25 June 2008, the Company and the Holding Company entered into a supplemental agreement to the Second Electricity Supply Agreement. Pursuant to the supplemental agreement, the price at which the excess electricity is supplied to the Holding Company by the Company shall be increased to RMB0.50 per kWh (including VAT at the rate of 17%) commencing from 1 May 2008. Other terms and conditions remain unchanged.

On 20 October 2008, the Company and the Holding Company entered into another supplemental agreement to the Second Electricity Supply Agreement. Pursuant to the supplemental agreement, the Company was entitled to increase the price of excess electricity supplied to the Holding Company according to the coal price by giving a 10 days' prior written notice to the Holding Company, and up to a maximum price at which the relevant power grid in Shandong province would sell electricity to the Holding Company.

Upon the completion of the Second Assets Transfer Agreement, the Group provided full supply of electricity and steam for its operational needs and ceased purchasing electricity and steam from the Holding Company.

Lease agreements with the Holding Company

As lessor

On 30 October 2007, the Company, as lessor, and the Holding Company entered into a properties lease agreement, with the commencement date and expiry date on 30 October 2007 and 30 October 2010, respectively, at an annual rental of RMB1,000,000 for the properties located in Zouping Second Production Area.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessor (continued)

On 16 April 2008, the Company, as lessor, and the Holding Company entered into a properties lease agreement with the commencement date and expiry date on 16 April 2008 and 16 April 2011, respectively, at an annual rental of RMB2,000,000 for the properties located in Zouping First Production Area and Zouping Third Production Area.

As lessee

As at 31 December 2008, the Group has entered into fourteen property lease agreements as lessee with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the fourteen 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.

(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.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee (continued)

(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 annual adjustment, for the land relating to the thermal power assets acquired from the Holding Company.

On 20 September 2008, the lease of 95,333.81 square meters of land where Weiqiao First Thermal Power Plant situated was terminated and the annual rental has been adjusted to RMB2,127,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(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 24 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.

On 26 November 2008, the lease of 57,975.64 square meters of land where Zouping Third Industrial Park situated was terminated and the annual rental has been adjusted to RMB3,816,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(xiii) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB1,628,000, which is subject to annual adjustment, for the land relating to the thermal power assets acquired from the Holding Company in the Zouping Industrial Park Area.

(xiv) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB740,500, which is subject to annual adjustment, for the land relating to the thermal power assets acquired from the Holding Company in the Weihai Industrial Park Area.

37. RELATED PARTY TRANSACTIONS (continued)

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

	Due from related parties		Due to related parties	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**258,788**	1,579	**959**	37,793
Fellow subsidiaries	**226**	—	**9,969**	16,882
An associate of the Holding Company	**—**	1	**—**	—

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

	2008	2007
	RMB'000	*RMB'000*
Short term employee benefits	**4,742**	4,256
Post-employment benefits	**16**	13
Total compensation paid to key management personnel	**4,758**	4,269

Further details of directors' and supervisor's remuneration are included in note 7 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.

38. 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	2008 Held for trading RMB'000	2008 Loans and receivables RMB'000	2008 Total RMB'000	2007 Held for trading RMB'000	2007 Loans and receivables RMB'000	2007 Total RMB'000
Trade receivables	—	427,019	427,019	—	902,185	902,185
Amounts due from related parties	—	226	226	—	1	1
Amounts due from the immediate holding company	—	258,788	258,788	—	1,579	1,579
Financial assets included in prepayments, deposits and other receivables	—	12,305	12,305	—	93,621	93,621
Derivative financial instruments	292	—	292	5,983	—	5,983
Pledged deposits	—	270,435	270,435	—	154,080	154,080
Non-pledged time deposits maturing over three months	—	1,045,627	1,045,627	—	1,684,688	1,684,688
Cash and cash equivalents	—	2,643,593	2,643,593	—	4,014,049	4,014,049
	292	4,657,993	4,658,285	5,983	6,850,203	6,856,186

38. 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):

Financial liabilities	2008			2007		
	Held for trading	Financial liabilities at amortised cost	Total	Held for trading	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	—	2,755,735	2,755,735	—	1,375,533	1,375,533
Bills payable	—	680,000	680,000	—	649,151	649,151
Financial liabilities included in amounts due to related parties	—	—	—	—	16,882	16,882
Amounts due to the immediate holding company	—	959	959	—	37,793	37,793
Financial liabilities included in other payables and accruals	—	727,821	727,821	—	663,958	663,958
Derivative financial instruments	1,245	—	1,245	219	—	219
Interest-bearing bank loans	—	8,426,655	8,426,655	—	9,226,760	9,226,760
Dividend payable	—	—	—	—	104,223	104,223
	1,245	12,591,170	12,592,415	219	12,074,300	12,074,519

38. 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	2008			2007		
	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	—	407,717	407,717	—	842,100	842,100
Bills receivable	—	—	—	—	4,749	4,749
Amounts due from subsidiaries	—	762,978	762,978	—	1,101,500	1,101,500
Amounts due from related parties	—	226	226	—	1	1
Amounts due from the immediate holding company	—	257,211	257,211	—	—	—
Financial assets included in prepayments, deposits and other receivables	—	11,949	11,949	—	83,682	83,682
Derivative financial instruments	292	—	292	5,983	—	5,983
Pledged deposits	—	264,515	264,515	—	77,062	77,062
Non-pledged time deposits maturing over three months	—	1,045,627	1,045,627	—	1,684,688	1,684,688
Cash and cash equivalents	—	2,155,365	2,155,365	—	3,687,438	3,687,438
	292	4,905,588	4,905,880	5,983	7,481,220	7,487,203

38. 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):

Financial liabilities	2008 Held for trading RMB'000	2008 Financial liabilities at amortised cost RMB'000	2008 Total RMB'000	2007 Held for trading RMB'000	2007 Financial liabilities at amortised cost RMB'000	2007 Total RMB'000
Trade payables	—	2,633,305	2,633,305	—	1,119,186	1,119,186
Bills payable	—	450,000	450,000	—	477,300	477,300
Amounts due to subsidiaries	—	88,469	88,469	—	206,498	206,498
Financial liabilities included in amounts due to related parties	—	—	—	—	15,602	15,602
Financial liabilities included in other payables and accruals	—	497,121	497,121	—	464,031	464,031
Derivative financial instruments	1,245	—	1,245	219	—	219
Interest-bearing bank loans	—	6,415,706	6,415,706	—	7,677,278	7,677,278
Amounts due to the immediate holding company	—	—	—	—	36,858	36,858
Dividend payable	—	—	—	—	104,223	104,223
	1,245	10,084,601	10,085,846	219	10,100,976	10,101,195

39. 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*
2008		
Renminbi-denominated loans	**50**	**25,455**
United States dollar-denominated loans	**50**	**6,136**
		31,591
2007		
Renminbi-denominated loans	50	18,688
United States dollar-denominated loans	50	12,374
		31,062

39. 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 55% or US$35 million (2007: 74% or US$91 million) of the Group's trade receivables are denominated in United States dollars, whilst 28% or US$117 million (2007: 28% or US$53 million) of the Group's trade payables and 28% or US$343 million (2007: 38% or US$481 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 most 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*
2008		
If RMB strengthens against the United States dollar	(5)	141,807
If RMB weakens against the United States dollar	5	(141,807)
2007		
If RMB strengthens against the United States dollar	(5)	153,141
If RMB weakens against the United States dollar	5	(153,141)

39. 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 8% (2007: 11%) and 18% (2007: 25%), 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. 40% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 46%) based on the carrying value of borrowings reflected in the financial statements.

39. 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

	2008			
	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	1,827,001	948,912	—	2,775,913
Bills payable	230,000	450,000	—	680,000
Amounts due to the immediate holding company	959	—	—	959
Financial liabilities included in other payables and accruals	661,034	66,787	—	727,821
Derivative financial instruments	1,245	—	—	1,245
Interest-bearing bank loans	1,839,697	1,890,336	5,441,839	9,171,872
	4,559,936	3,356,035	5,441,839	13,357,810

	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
Amounts due to the immediate holding company	37,793	—	—	37,793
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
Dividend payable	104,223	—	—	104,223
	3,727,620	3,398,766	4,948,133	12,074,519

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2008			
	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	1,189,760	1,463,723	—	2,653,483
Bills payable	100,000	350,000	—	450,000
Amounts due to subsidiaries	88,469	—	—	88,469
Financial liabilities included in other payables and accruals	446,099	51,022	—	497,121
Derivative financial instruments	1,245	—	—	1,245
Interest-bearing bank loans	1,479,650	1,430,417	4,041,530	6,951,597
	3,305,223	3,295,162	4,041,530	10,641,915

	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 the immediate holding company	36,858	—	—	36,858
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
Dividend payable	104,223	—	—	104,223
	3,268,683	2,339,379	4,493,133	10,101,195

39. 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 shareholders' 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

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, less cash and cash equivalents. The gearing ratios as at the balance sheet dates were as follows:

	2008 *RMB'000*	2007 *RMB'000*
Interest-bearing bank borrowings	**8,426,655**	9,226,760
Less: Cash and cash equivalents	**(2,643,593)**	(4,014,049)
Net debt	**5,783,062**	5,212,711
Total equity	**13,465,501**	13,472,656
Gearing ratio	**42.9%**	38.7%

40. POST BALANCE SHEET EVENTS

Save as disclosed to elsewhere in these financial statements, no other significant events have taken place subsequent to 31 December 2008.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2009.

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 2008 will be held at 9:00 a.m. on 1 June 2009 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 2008;

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 2008;

3. to consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2009;

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 2009 and Ernst & Young as the Company's international auditors for the year ending 31 December 2009 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. Zhang Hongxia as an executive director;

6. to consider and approve the appointment of Mr. Qi Xingli as an executive director;

7. to consider and approve the appointment of Ms. Zhao Suwen as an executive director;

8. to consider and approve the appointment of Ms. Zhang Yanhong as an executive director;

9. to consider and approve the appointment of Mr. Zhang Shiping as a non-executive director;

10. to consider and approve the appointment of Mr. Wang Zhaoting as a non-executive director;

11. to consider and approve the appointment of Mr. Wang Naixin as an independent non-executive director;

12. to consider and approve the appointment of Mr. Xu Wenying as an independent non-executive director;

13. to consider and approve the appointment of Mr. Chan Wing Yau, George as an independent non-executive director;

14. to consider and approve the appointment of Mr. Liu Mingping as a supervisor;

15. to consider and approve the appointment of Mr. Lu Tianfu as an independent supervisor;

16. to consider and approve the appointment of Ms. Wang Wei as an independent supervisor;

17. 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

18. "**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, separately or at the same time, or make or grant offers, agreements or options, 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 (if required) 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 PRC, Hong Kong and/or other relevant authorities, and take any other required actions and complete any other procedures as required.

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."

19. "To review and approve the resolution to amend the Articles of Association of the Company and to authorise the Board of Directors to take all necessary actions in respect of such amendments including obtaining approvals from the relevant authorities, if required.

Details of the amendments to the Articles of Association of the Company are set out in the section "Proposed Amendments to the Articles of Association of the Company at the Annual General Meeting 2008" in the Company's Corporate Governance Report for 2008.

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

Shandong, the PRC
14 April 2009

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, Mr. Wang Zhaoting,Ms.Zhang Suhua and Ms.Wang Xiayun 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 2009 to 1 June 2009 (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 2009.

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 2009.

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 12 May 2009.

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
Postal Code: 256200
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 2008.

(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) **Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited requires that the information of each Director and Supervisor of the Company contemplating for re-election at the Annual General Meeting have to be disclosed in the section "Re-election of Directors and Supervisors" in the annual report for the year ended 31 December 2008.**

(I) 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."

(J) 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.