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HIGHLIGHTS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

- Turnover +21.9% to RMB2,608 million
- Gross profit +104.1% to RMB533 million
- Profit attributable +96.0% to RMB237 million
to shareholders

HIGHLIGHTS

- Recorded high turnover and profit growth due to significant increase in production volume
- Improved gross profit margin due to economies of scale and a better product mix
- Continuous improvement of operation efficiency
- Maintained a leading position in the cotton textile industry
- Financial position significantly enhanced after the IPO

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited consolidated results of Weiqiao Textile Company Limited (“Company” or “Weiqiao Textile”, together with its subsidiaries, “Group”) for the six months ended 30 June 2003.

CORPORATE OVERVIEW

Weiqiao Textile is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. In 2002, the Group was ranked number one in terms of turnover in the cotton textile industry in the PRC and in terms of aggregate export value of cotton yarn and grey fabric in the PRC.

Supported by our high production capability and experienced staff, we are able to supply our diverse range of international and domestic customers with quality products in bulk quantity on a timely basis. Leveraging on our strengths, for the six months ended 30 June 2003, the Group achieved a turnover of RMB2,608 million, representing an increase of 21.9% over the comparable period in 2002, and net profit attributable to shareholders of RMB237 million, representing an increase of 96.0% over the comparable period in 2002.

To finance our capital expenditures and business expansion, strengthen our capital base and improve our financial position, Weiqiao Textile conducted an IPO in September 2003. Our H Shares were listed on the main board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 24 September 2003. The IPO was well received by institutional investors and the public - The international placing was significantly over-subscribed and the Hong Kong public offer recorded an impressive subscription rate of 118.6 times. Our IPO was a success with the over-allotment option having been fully exercised on 25 September 2003.

The success of the IPO reflects investors’ confidence in the future growth of the textile industry in the PRC and the prospect of Weiqiao Textile. The management is deeply encouraged by the offering results.

CHAIRMAN'S STATEMENT

Net proceeds of about HK\$2.34 billion were raised from the IPO and such net proceeds will be applied to implement the future plans as stated in our prospectus dated 15 September 2003 ("Prospectus"). The following table illustrates our shareholding structure immediately after the issuance of additional H Shares pursuant to the exercise of the over-allotment option:

Shareholders	Number of Shares	Approximate percentage of holding (%)
<i>Domestic Shares</i> *		
Shandong Weiqiao Textile Group Company Limited ("Holding Company")	410,311,100	50.16
Company management shareholders	105,421,400	12.89
Three individual shareholders	15,037,500	1.84
<i>H Shares:</i>		
Holder of H Shares	287,235,500	35.11
	<u>818,005,500</u>	<u>100.00</u>

* *Not listed*

FUTURE OUTLOOK AND STRATEGY

Looking ahead, the future is full of opportunities. The immense potential of the textile industry in the PRC and the industry consolidation will bring numerous opportunities to the Group. Following PRC's accession to the WTO, the global cotton textile trading will further liberate the market potential of the domestic textile industry. The increase in the import of raw cotton will increase the choice and lower the cost of raw materials. To strengthen its leading position in the market, besides cementing and exploring the domestic market, the Group will also seek to expand its market share in other markets in Asia, Europe and US to build a broad and steady customer base.

CHAIRMAN'S STATEMENT

The Group is set for the continuous and rapid growth in the future. To achieve this, we will introduce more advanced equipment, increase our production capacity and expand the range of high value-added products. We will grasp the opportunities arisen from the industry consolidation and review the possibilities for acquisition of businesses related to cotton textiles to solidify our competitiveness. We will also improve our information system and hire high-calibre employees to further strengthen our management capability. From time to time, we will assess the market demand and if necessary, implement expansion plans to further increase our production capacity.

The successful listing of the Company on the Stock Exchange marks a new milestone for the Group's further expansion. The Group will leverage on the competitive advantages, seize every business opportunity to become the largest textile enterprise in the world. We are pledged to maximize shareholders' return and to share with them the success of the Group's continuous growth. With the full commercial operation of our Industrial Park, continuous improvement in operation efficiency of other production facilities and enhancement of our product mix, we are confident to achieve the full year profit forecast of not less than RMB520 million as stated in the Prospectus.

Zhang Bo
Chairman

Hong Kong, 26 September 2003

INDUSTRY REVIEW

2002 is a significant year for the cotton textile industry in the PRC. All major indicators of the industry reached historical height, including the output of cotton textile products, the export volume of cotton textile and garment products, as well as the profitability of cotton textile enterprises. In 2003, such robust growth trend has been sustained. The domestic cotton textile industry has experienced further growth after PRC's accession to the WTO. In the first half of 2003, the output of cotton yarn and grey fabric in the PRC's cotton textile industry increased by 18.7% and 10.0% respectively as compared to the corresponding period in 2002. Such growth is mainly attributable to the increased demand for cotton textile products in the domestic and global markets.

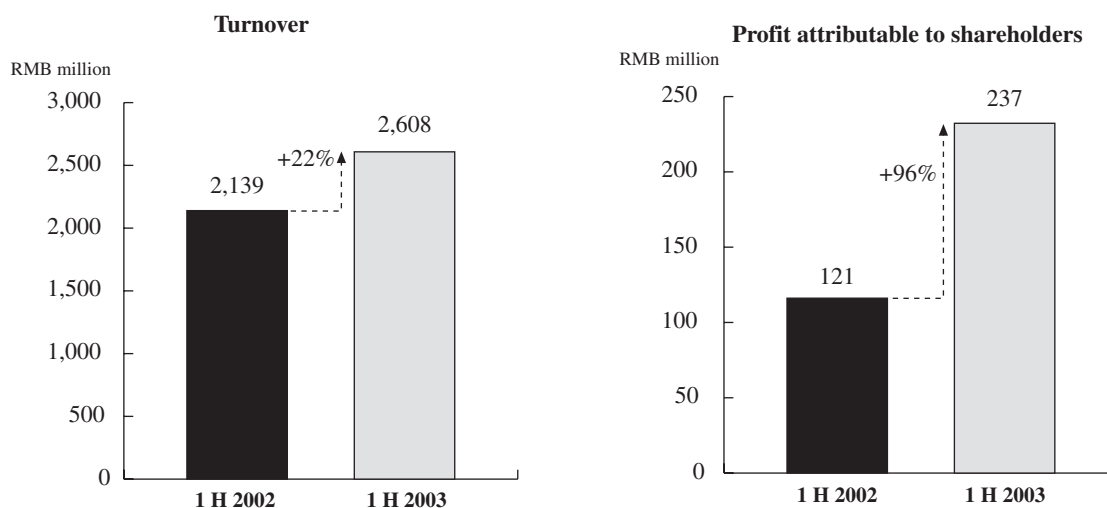
In the second quarter of 2003, the SARS outbreak brought adverse impact to the PRC and the domestic transportation and domestic sales of cotton textiles were affected to a certain extent. Export sales of cotton textile products were not affected and were able to maintain a substantial growth. The total export value of cotton yarn for the first six months of 2003 was about USD549 million, representing an increase of 18.2% over that of the corresponding period in 2002. The total export value of grey fabric also increased by 18.8% to USD466 million.

In the global market, the production and consumption of cotton textile products have maintained a steady and upward trend. In the PRC, the cotton textile industry is experiencing an unprecedented growth opportunity. Geared with a number of competitive advantages, such as low cost of skilled labour, the world's largest source of cotton, favourable government policies and PRC's accession to WTO, the cotton textile industry in the PRC has been expanding rapidly. The gradual increase of cotton textile consumption for the first half of 2003 not only for garment and fabric, but also for decorative and industrial cotton textiles, exhibits strong growth momentum of the cotton textile industry in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2003, the Group achieved another breakthrough from the development of the cotton textile industry in the PRC, together with the active pursuit of the Group, to record a significant growth in turnover and net profit attributable to shareholders:

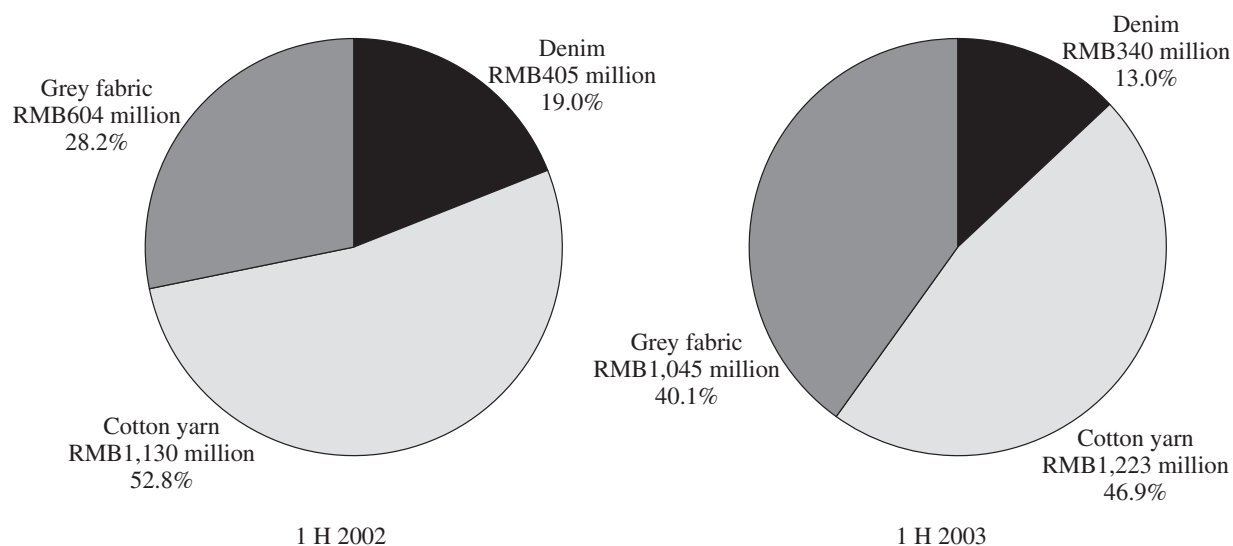


The increases in turnover and net profit were attributable to the significant increase in the output of cotton yarn and grey fabric as a result of the full operation of the Third Production Area and the increase in the production capabilities of Industrial Park. Moreover, the economies of scale have enabled the Group to reduce fixed production cost effectively and enjoy greater bargaining power in purchasing raw materials. This in turn enabled the Group to adopt a more flexible pricing strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below are the pie charts summarising the Group's turnover by key product categories in terms of value and proportion:

Turnover by product in terms of value and proportion

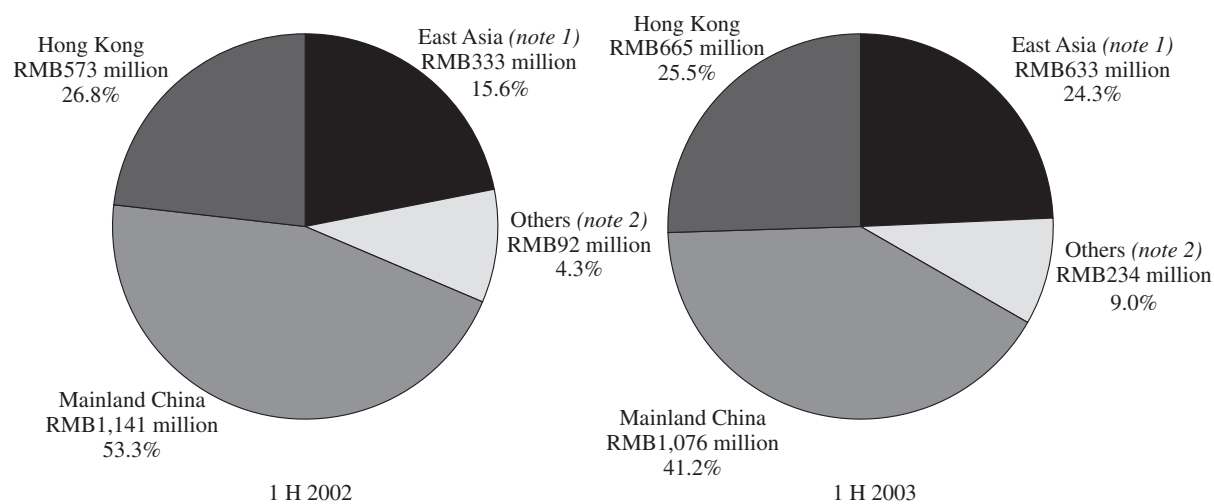


In terms of turnover, cotton yarn has contributed to the largest proportion of turnover among the three key product categories of the Group. The sales growth of cotton yarn was mainly attributable to the further enhancement of the Group's production capacity as well as the robust market demand. Grey fabric continues to be the second key source of turnover. Economies of scale were well achieved as a result of the rapid growth in the grey fabric market and the enhancement in the efficiency of the Group's equipment. Such factors contributed to the improvement in the performance of the grey fabric segment which recorded a greater percentage increase in sales than other products. As for denim, the decline in sales was mainly due to the SARS outbreak in the PRC which affected the domestic retail sales. Besides, the outbreak also affected the transportation of the Group's denim products whose key markets are in Guangdong and Fujian regions within the country.

MANAGEMENT DISCUSSION AND ANALYSIS

The pie charts below illustrate the sales analysis of the Group by geographical segment for the first half of 2003 and the first half of 2002, respectively:

Turnover by geographical segment in terms of value and proportion



Notes:

1. Principally comprising Japan and South Korea
2. Principally comprising Taiwan, Thailand, the US and certain European countries

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has an extensive customer base covering various renowned corporations including market leaders (such as Fountain Set (Holdings) Limited and Texwinca Holdings Limited) and well-known traders (such as Itochu Corporation, Nichimen Corporation and Marubeni Corporation). During the six months ended 30 June 2003, as the sales in grey fabric increased, markets such as Japan and South Korea also achieved satisfactory growth. The Group has an extensive sales coverage in the domestic market, with nearly 2,000 customers in more than 20 provinces and municipalities in the PRC. The Group also has over 300 customers covering over 20 countries and regions.

During the six months ended 30 June 2003, although the price of raw cotton increased, the Group managed to transfer the increased cost of raw materials to its customers by an upward price adjustment. The increase in prices payable by customers has offset most of the effect from the increase in the cost of raw materials. This in turn kept the Group's gross profit margin at a stable level.

FINANCIAL REVIEW

Gross profit margin

The table below is an analysis of gross profit and gross profit margin of the major product categories in each of the first six months of 2002 and 2003:

Product category	For the six months ended 30 June			
	2002		2003	
	RMB'000	%	RMB'000	%
Cotton yarn	249,105	22.0	356,175	29.1
Grey fabric	(24,587)	(4.1)	114,871	11.0
Denim	36,643	9.0	62,004	18.2
Total	<u>261,161</u>	<u>12.2</u>	<u>533,050</u>	<u>20.4</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margin of the Group increased to 20.4% for the first half of 2003 from 12.2% for the first half of 2002.

As a result of the increase in average unit selling prices, the production quantities and the improvement of product mix, the gross profit margins of cotton yarn and grey fabric increased to 29.1% and 11.0%, respectively, for the first half of 2003 from 22.0% and (4.1%), respectively, for the first half of 2002.

Regarding denim, the gross profit margin increased to 18.2% for the first six months of 2003 from 9.0% for the first half of 2002. This is mainly resulted from the increase in average unit selling price and improvement in the Group's production efficiency as a result of increased recycling of waste materials and by-products produced during the production of cotton yarn and grey fabric, which are raw materials of denim.

Selling and distribution costs

The Group's selling and distribution costs increased by 133.7% to RMB71.2 million for the first half of 2003 from RMB30.5 million for the first half of 2002. As a result of the increase in sales, in particular, export sales which increased by 53.5% for the first half of 2003 as compared to that in the corresponding period in 2002, transportation costs increased by RMB24 million, sales commission increased by RMB6 million, staff costs increased by RMB5 million, packaging fees increased by RMB3 million and other expenses increased by about RMB3 million.

Administrative expenses

Administrative expenses for the first half of 2003 amounted to RMB33.6 million, representing an increase of 73.3%, as compared to RMB19.4 million for the corresponding period of 2002. Such increase was mainly due to the increase in the number of administrative staff as a result of the injection of the operating assets of the Second and Third Production Areas into the Company by Holding Company and the acquisition of the 91% equity interests in Industrial Park from Holding Company and Binzhou Weiqiao Property Company Limited (formerly named Binzhou Weiqiao Textile Company Limited) by the Company and the establishment of Shandong Luteng Textile Co., Ltd. in the second half of 2002. Staff cost and other related expenses have increased as areault.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs rose to RMB68.0 million for the first half of 2003, representing an increase of 42.5% as compared to RMB47.7 million for the first half of 2002. The increase in bank loans for the first half of 2003 as compared with the first half of 2002 was mainly related to the injection of the operating assets of the Second Production Area and the Third Production Area into the Company by Holding Company in the second half of 2002 and the acquisition of 91% equity interests in Industrial Park in the second half of 2002 from Holding Company and Binzhou Weiqiao, and the funding of the general working capital needs of the Group.

Liquidity and financial resources

Day-to-day funding requirements and capital expenditures are expected to be met by its internal cash flow. The Group also has access to significant uncommitted short-term borrowing facilities provided by its principal banks.

The cash and cash equivalents of the Group were RMB672.2 million as at 30 June 2003, representing an increase of 301% from cash and cash equivalents of RMB167.6 million as at 31 December 2002. During the first half of 2003, the Group invested RMB553.9 million in capital expenditures and increased the pledged deposits by RMB209.2 million and incurred an exchange loss of RMB2 million. These cash outflows were largely offset by an increase in net bank loans of RMB246.6 million, an increase of RMB1,013.9 million in cash flow from operating activities and an interest income of RMB9.2 million. The net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders' equity) decreased to 1.08 as at 30 June 2003 from 1.42 as at 31 December 2002 as a result of the increase in cash and cash equivalents of RMB504.6 million during the six months ended 30 June 2003.

Net proceeds of about HK\$2.34 billion were raised from the IPO and about RMB600 million will be used to repay some of the Group's bank borrowings. If the IPO were completed in June 2003, the Group would have been able to achieve its target of having a net debt-to-equity ratio of below 50%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's accounts receivable turnover day was about 26 days for the six months ended 30 June 2003, increasing from 21 days for the year ended 31 December 2002. The increase in accounts receivable turnover day was attributable to the Group's increased ratio of export sales from 50.7% for 2002 to 58.8% for the first half of 2003. The accounts receivable turnover day of export sales is longer than that for domestic sales.

For the six months ended 30 June 2003, inventory turnover day increased from 73 days for the year ended 31 December 2002 to 172 days for the six months ended 30 June 2003. The inventory turnover days rose as the Group increased its purchase of imported lint cotton in the first half of 2003 for the use in the second half of the year.

During the six months ended 30 June 2003, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2003.

Earnings per share

During the six months ended 30 June 2003, the amount of basic earnings per share of the Company was RMB0.45. No diluted earnings per share amount has been presented as the Company did not have any dilutive potential ordinary shares during the period.

Capital structure

As at 30 June 2003, the Group's borrowings were primarily denominated in RMB and US dollars while its cash and cash equivalents were held in RMB and US dollars.

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 30 June 2003, the Group had debts of about RMB2,601 million and the gearing ratio was 33% (total debt/total assets).

Details of the loans remaining outstanding as at 30 June 2003 are described in Note 16 to the unaudited condensed consolidated interim financial statements ("Condensed Accounts"). All of the Group's borrowing as at 30 June 2003 were at fixed interest rates. The Group did not have any seasonal variance of borrowing requirements.

Details of the Group's asset pledged

Details are set out in Note 16 to the Condensed Accounts.

Exposure to foreign exchange risk

Income and most of the expenditure of the Group are denominated in RMB and US dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2003. The board of directors of the Company believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

Contingent liabilities

Details are set out in Note 23 to the Condensed Accounts.

Employment, training and development

As at 30 June 2003, the Group had a total of over 62,000 employees and total staff costs amounted to 10% of its total turnover for the six months ended 30 June 2003. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonuses and commissions may also be awarded to employees based on performance evaluation. These provide drives and incentives to encourage personal performance and motivation.

Taxation

Tax grew from RMB67.2 million for the first half of 2002 to RMB136.2 million for the first half of 2003, representing an increase of 102.7%. This rise was primarily due to the increase in profit before tax to RMB375.4 million for the first half of 2003, representing an increase of 97.4% as compared to RMB190.1 million for the first half of 2002.

SUPPLEMENTARY INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests and short positions of the substantial shareholders in the shares and underlying shares of the Company which are required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance were as follows:

	Number of domestic shares <i>(note 1)</i>	Percentage of total issued share capital <i>(%)</i>
Holding Company	410,311,100 <i>(note 2)</i>	77.31
Zouping County Supply and Marketing Cooperation Union ("ZCSU")	410,311,100 <i>(note 3)</i>	77.31

Notes:

1. Unlisted shares.
2. These 410,311,100 domestic shares are directly held by Holding Company.
3. These 410,311,100 domestic shares are deemed corporate interests under the Securities and Futures Ordinance indirectly held through Holding Company, in which ZCSU has a controlling interest.

DIRECTORS' INTERESTS

As at 30 June 2003, the interests and short positions of the directors and supervisors of the Company in the shares, underlying shares, debentures of the Company or any of its associated corporations which are required to be disclosed pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions in which they are taken or deemed to have taken under the Securities and Futures Ordinance) or which are required, pursuant to section 347 of the Securities and Futures Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, or which are required, pursuant to section 352 of the Securities and Futures Ordinance, to be entered in the register were as follows:

INTEREST IN THE COMPANY

	Number of domestic shares*	Percentage of total issued share capital* <i>(%)</i>
Zhang Hongxia (Executive Director)	17,700,040	3.34
Zhang Bo (Executive Director)	12,932,000	2.44
Qi Xingli (Executive Director)	8,052,500	1.52
Zhang Shiping (Non-executive Director)	5,200,000	0.98

* *Long position*

SUPPLEMENTARY INFORMATION

INTEREST IN ASSOCIATED CORPORATION

	Name of associated corporation	Percentage of total issued share capital* (%)
Zhang Shiping	Holding Company	4.53

* *Long position*

INTERIM DIVIDEND

The Company's H Shares were not listed on the Stock Exchange during the six months ended 30 June 2003. The Board of Directors does not recommend the payment of an interim dividend for such period.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries, has made any purchase, sale or redemption of any of the Company's securities during the six months ended 30 June 2003.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") is composed of all of its independent non-executive directors. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2003, including the accounting principles and practices adopted by the Group. The Audit Committee has also discussed the auditing and financial reporting matters with the Company's management. The Company's external auditors were engaged by the Audit Committee to review the unaudited interim financial statements for the six months ended 30 June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the period after the listing of its H Shares on the Stock Exchange, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PUBLICATION OF INTERIM RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk in due course.

INDEPENDENT AUDITOR'S REVIEW REPORT



To the Board of Directors

Weiqiao Textile Company Limited

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

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 set out on pages 19 to 46.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

INDEPENDENT AUDITOR'S REVIEW REPORT

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

ERNST & YOUNG

Certified Public Accountants

Hong Kong

26 September 2003

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the six months ended 30 June 2003

	Notes	Six months ended 30 June 2003 RMB'000	Six months ended 30 June 2002 RMB'000
Turnover		2,607,873	2,139,379
Cost of sales		(2,074,823)	(1,878,218)
Gross profit		533,050	261,161
Other revenue	5	27,278	32,361
Selling and distribution costs		(71,238)	(30,479)
Administrative expenses		(33,598)	(19,382)
Other operating expenses		(12,147)	(5,824)
Profit from operating activities	6	443,345	237,837
Finance costs	7	(67,968)	(47,708)
Profit before tax		375,377	190,129
Tax	8	(136,213)	(67,200)
Profit before minority interests		239,164	122,929
Minority interests		(2,002)	(1,900)
Net profit from ordinary activities attributable to shareholders		237,162	121,029
Earnings per share - Basic (RMB)	9	0.45	0.60

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2003

		30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets	11	3,885,146	3,462,496
Intangible assets		11,101	11,701
Negative goodwill		(28,033)	(29,528)
Other long term assets		45,300	96,250
		<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS		3,913,514	3,540,919
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,957,002	749,738
Trade receivables	12	373,948	254,714
Prepayments, deposits and other receivables		95,884	125,922
Amounts due from related parties	13	—	130,731
Pledged deposits		778,490	569,313
Cash and cash equivalents		672,202	167,635
		<hr/>	<hr/>
TOTAL CURRENT ASSETS		3,877,526	1,998,053
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	14	2,057,909	437,316
Bills payable	15	631,000	427,540
Tax payable		164,510	96,775
Other payables and accruals		232,775	189,726
Interest-bearing bank loans, current	16	405,858	496,824
Amounts due to related parties	13	42,521	—
Amount due to the immediate holding company	13	43,289	252,608
Dividend payable		1,690	1,690
		<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		3,579,552	1,902,479
		<hr/>	<hr/>

		30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
NET CURRENT ASSETS		<u>297,974</u>	<u>95,574</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,211,488</u>	<u>3,636,493</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	16	2,195,351	1,857,813
Long-term payable to the immediate holding company	17	<u>178,927</u>	<u>178,927</u>
TOTAL NON-CURRENT LIABILITIES		<u>2,374,278</u>	<u>2,036,740</u>
MINORITY INTERESTS		<u>54,751</u>	<u>54,456</u>
NET ASSETS		<u>1,782,459</u>	<u>1,545,297</u>
CAPITAL AND RESERVES			
Issued capital	18	530,770	530,770
Reserves		<u>1,251,689</u>	<u>1,014,527</u>
SHAREHOLDERS' EQUITY		<u>1,782,459</u>	<u>1,545,297</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

For the six months ended 30 June 2003

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
Balance at							
1 January 2003	530,770	565,728	54,138	53,059	—	341,602	1,545,297
Profit for the period	—	—	—	—	—	237,162	237,162
As at 30 June 2003	<u>530,770</u>	<u>565,728</u>	<u>54,138</u>	<u>53,059</u>	<u>—</u>	<u>578,764</u>	<u>1,782,459</u>

For the six months ended 30 June 2002

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
Balance at							
1 January 2002	202,040	108,791	24,443	24,104	131,326	112,012	602,716
Declared 2001 final dividend (Note 10)	—	—	—	—	(131,326)	—	(131,326)
Profit for the period	—	—	—	—	—	121,029	121,029
As at 30 June 2002	<u>202,040</u>	<u>108,791</u>	<u>24,443</u>	<u>24,104</u>	<u>—</u>	<u>233,041</u>	<u>592,419</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2003

	Six months ended 30 June 2003 RMB'000	Six months ended 30 June 2002 RMB'000
Net cash inflow from operating activities	1,013,860	110,985
Net cash outflow from investing activities	(753,840)	(528,672)
Net cash inflow/(outflow) before financing activities	260,020	(417,687)
Net cash inflow from financing activities	246,572	336,472
Net increase/(decrease) in cash and cash equivalents	506,592	(81,215)
Cash and cash equivalents at beginning of the period	167,635	212,818
Effect of foreign exchange rate changes, net	(2,025)	(1,794)
Cash and cash equivalents at end of the period	672,202	129,809

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2003

1. GROUP REORGANISATION

Weiqiao Textile Company Limited (the “Company”) was incorporated as a joint stock company with limited liability in Zouping County, Shandong Province, the People’s Republic of China (the “PRC”) on 6 December 1999 under the original name of Shandong Weiqiao Textile Company Limited (“Shandong Weiqiao”). Through a series of transactions undertaken by the Company during the three years ended 31 December 2000, 2001 and 2002, and the three-month period ended 31 March 2003 as summarized below (the “Reorganisation”), Shandong Weiqiao became the holding company of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”):

- (1) In May 2001, the Company acquired from its immediate holding company, Shandong Weiqiao Textile Group Company Limited (“Holding Company”), the operating assets and related liabilities of the four fabric weaving factories located in the First Production Area for a total sum of Renminbi (“RMB”) 267,031,000, satisfied by assumption of short term bank loans of approximately RMB237 million and cash settlement of RMB30 million.
- (2) In July 2001, the Company established Weihai Weiqiao Textile Company Limited (“Weihai Weiqiao”) with Weihai Civil Aviation Industrial Company Limited (“WCAI”). The registered capital of Weihai Weiqiao is RMB148,000,000 and is owned as to 87.2% and 12.8% by the Company and WCAI, respectively.
- (3) Pursuant to a shareholders’ resolution dated 15 July 2002, the registered capital of the Company was increased to RMB530,770,000 of RMB1.00 each. 328,730,000 shares were issued to Holding Company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities by Holding Company on 30 September 2002. The net assets injected by Holding Company amounted to RMB785,667,466, according to the valuation performed by Shandong Zheng Yuan He Xin Certified Public Accountants Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 28 June 2002.

- (4) In September 2002, Holding Company, Itochu Corporation, a company incorporated in Japan, and Profit Rich Company, a company registered in Hong Kong, entered into a Sino-foreign equity joint venture contract to jointly establish Shandong Luteng Textile Company Limited (“Luteng Textile”) with registered capital of US\$9,790,000. According to the joint venture contract, Holding Company was to contribute US\$7,340,000 in the form of plant and machinery, accounting for 75% of the registered capital of Luteng Textile, whilst Itochu Corporation and Profit Rich Company were to contribute cash of US\$1,000,000 and technology rights of US\$1,450,000, respectively, into Luteng Textile, representing 10.2% and 14.8% of the registered capital of Luteng Textile, respectively.

Prior to the agreed time when the parties were to make their respective contributions in accordance with the joint venture contract, Holding Company transferred all of its rights and obligations under the joint venture contract to the Company. Such transfer had obtained the approval and consent of the board of Luteng Textile and the Foreign Economic and Trade Co-operation Bureau of Binzhou City of Shandong Province. By 20 October 2002, the Company, Itochu Corporation and Profit Rich Company had each made their respective contributions towards the registered capital of Luteng Textile in accordance with the provisions of the joint venture contract.

- (5) On 18 November 2002, the Company acquired from Holding Company and Binzhou Weiqiao Textile Company Limited (renamed as Binzhou Weiqiao Property Company Limited on 2 June 2003) (“Binzhou Weiqiao”), a related company of the Company, 90% and 1% of equity interests, respectively, in Binzhou Weiqiao Technology Industrial Park Company Limited (“Industrial Park”) at the respective consideration of RMB90,000,000 and RMB1,000,000.
- (6) On 31 March 2003, the Company increased its equity interests in Industrial Park from 91% to 97% by the injection of fixed assets amounting to RMB223,443,780, according to the valuation performed by Shandong Huanghe Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 11 April 2003. Of this fixed asset injection, an amount of RMB200,000,000 was credited by Industrial Park as new capital injection by the Company and RMB23,443,780 was credited by Industrial Park as an amount due to the Company.

2. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Group is principally engaged in the production and sale of cotton yarns, grey fabrics and denims in the PRC and overseas. The Company changed to its present name, Weiqiao Textile Company Limited, on 19 February 2003.

The registered office of Weiqiao Textile Company Limited is located at No.34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC.

In the opinion of the directors, the ultimate holding company is Zouping County Supply and Marketing Corporation Union (“ZCSU”), a collectively-owned enterprise formed in the PRC.

As at 30 June 2003, the Company had direct interests in the following subsidiaries and joint venture:

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interests attributable to the Group	Nominal value of paid-up capital/ registered capital	Principal activities
Subsidiaries				
Weihai Weiqiao	Weihai City, PRC 25 July 2001	87.2	RMB148,000,000	Production and sale of cotton yarns and fabrics
Industrial Park	Binzhou City, PRC 26 November 2001	97	RMB300,000,000	Production and sale of cotton yarns and fabrics
Joint venture				
Luteng Textile	Zouping County, PRC 12 September 2002	75	US\$9,790,000	Production and sale of polyester yarns and related products

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared under the historical cost convention, and in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”.

The principal accounting policies and basis of presentation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the audited financial statements for the three years ended 31 December 2002 and for the three month ended 31 March 2003.

4. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarn, grey fabrics and denim. The Group conducts the majority of its business activities in four geographical areas, namely Mainland China, Hong Kong, East Asia (principally 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 location of its operations, is as follows:

	Six months ended 30 June 2003		
	Turnover	Cost of sales	Gross profit
	(unaudited)	(unaudited)	(unaudited)
	RMB’000	RMB’000	RMB’000
Mainland China	1,075,680	794,393	281,287
Hong Kong	664,763	509,137	155,626
East Asia	633,593	576,548	57,045
Others	233,837	194,745	39,092
Total	2,607,873	2,074,823	533,050

	Six months ended 30 June 2002		
	Turnover (unaudited) RMB'000	Cost of sales (unaudited) RMB'000	Gross profit (unaudited) RMB'000
Mainland China	1,141,087	932,046	209,041
Hong Kong	572,926	506,856	66,070
East Asia	333,070	343,889	(10,819)
Others	92,296	95,427	(3,131)
Total	<u>2,139,379</u>	<u>1,878,218</u>	<u>261,161</u>

5. OTHER REVENUE

	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
Interest income	9,276	4,945
Gain on sale of raw materials	9,779	22,707
Negative goodwill recognised	1,495	—
Subsidy income	1,758	2,810
Others	4,970	1,899
Total other revenue	<u>27,278</u>	<u>32,361</u>

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
Amortization of intangible assets	600	—
Depreciation	131,289	45,133
Release of negative goodwill to income	(1,495)	—

7. FINANCE COSTS

	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
Interest on bank loans		
wholly repayable within five years	72,768	50,772
Less: Amount reimbursed by the		
immediate holding company (i)	—	(3,064)
Interest capitalized (ii)	(4,800)	—
	67,968	47,708

- (i) Prior to 31 December 2002, the Company entered into an arrangement with Holding Company under which the Company agreed to borrow funds from the banks on behalf of Holding Company and Holding Company agreed to reimburse the Company the interest expenses thereon on an actual basis. The arrangement was terminated in 2002 when the Company fully settled the related outstanding loan balances with the banks in that year. The outstanding loan balance under such arrangement was approximately RMB50 million as at 30 June 2002.
- (ii) The capitalisation rate adopted for capitalising interests incurred during the six months ended 30 June 2003 ranged from 4.325% to 6.372% per annum.

8. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period (six months period ended 30 June 2002: Nil).

Under PRC income tax law, the companies (except for Luteng Textile) within the Group are subject to corporate income tax ("CIT") at a rate of 33% on the taxable income as reported in their statutory accounts, which are prepared in accordance with accounting principles and financial regulations applicable to the PRC enterprises.

Being a Sino-foreign joint venture enterprise, Luteng Textile is subject to State CIT rate at 30% and local CIT rate at 3%. As regards State CIT, it is entitled to full exemption from such tax for the first two years and 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. As regards local CIT, the local tax authority has granted it full exemption from such tax commencing from 2002. No provision for CIT has been made as Luteng Textile incurred an operating loss from its date of establishment (i.e. 12 September 2002) to 31 December 2002, and was approved to enjoy State CIT exemption in full effective from 1 January 2003.

A reconciliation of income tax expenses applicable to profit before tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate for the six months ended 30 June 2003 was as follows:

	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
Profit before tax	<u>375,377</u>	<u>190,129</u>
At PRC statutory CIT rate of 33%	123,874	62,743
Non-deductible items	10,685	4,208
Non-taxable item	(580)	(927)
Tax exemption	(1,467)	—
Others (i)	<u>3,701</u>	<u>1,176</u>
Income tax provided	<u>136,213</u>	<u>67,200</u>
Effective income tax rate (%)	<u>36.3%</u>	<u>35.3%</u>

- (i) The amount for the six months ended 30 June 2002 was net of a subsidy, determined in accordance with income tax paid in the preceding year, of approximately RMB3.3 million received by a subsidiary of the Company, Weihai Weiqiao, in that year. In the opinion of the directors of the Company, this arrangement was made by the local government, at its discretion, in recognition of the Group's investment in the city and as such, there is no certainty that Weihai Weiqiao will continue to receive the same in the future.

The Group did not have any significant unprovided deferred tax in respect of the period (six months ended 30 June 2002: Nil).

9. EARNINGS PER SHARE

The calculations of basic earnings per share are based on:

	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
Earnings		
Net profit from ordinary activities attributable to shareholders	<u>237,162</u>	<u>121,029</u>
Number of shares		
	Six months ended 30 June 2003 (unaudited)	Six months ended 30 June 2002 (unaudited)
Shares		
Weighted average number of ordinary shares in issue during the periods	<u>530,770,000</u>	<u>202,040,000</u>

No diluted earnings per share amount has been presented as the Company did not have any dilutive potential ordinary shares during the period (six months ended 30 June 2002: Nil).

10. DIVIDENDS

The proposed final dividend for the year ended 31 December 2001 was approved by the Company's shareholders on 15 April 2002.

At a meeting of the Board of Directors held on 26 September 2003, the Board of Directors resolved not to pay any interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil).

11. FIXED ASSETS, NET

During the period, the Group acquired land and buildings, machinery and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB553,939,000. The depreciation charge of the Group for the six months ended 30 June 2003 was approximately RMB131,289,000 (six months ended 30 June 2002: RMB45,133,000).

12. TRADE RECEIVABLES

The aged analysis of trade receivables of the Group at the balance sheet date is analysed as follows:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Outstanding balances aged:		
Within 3 months	360,745	247,616
3 months to 6 months	6,924	3,744
6 months to 1 year	4,154	700
1 year to 2 years	2,125	2,654
	373,948	254,714

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.

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

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

14. TRADE PAYABLES

The aged analysis of trade payables of the Group as at the balance sheet date is as follows:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Outstanding balances aged:		
Within 90 days	1,953,171	434,058
90 days to 3 years	104,738	3,258
	<u>2,057,909</u>	<u>437,316</u>

15. BILLS PAYABLE

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Outstanding balances aged:		
Within 90 days	99,000	199,540
90 to 180 days	532,000	228,000
	<u>631,000</u>	<u>427,540</u>

Included in the Group's balances are bills payable to the immediate holding company and related parties:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
The immediate holding company	510,000	304,000
Related parties	42,000	123,540
	<u>552,000</u>	<u>427,540</u>

The Group's bills payable as at 30 June 2003 are secured by the pledge of certain of the Group's time deposits of approximately RMB279 million (31 December 2002: approximately RMB354 million) and the Group's buildings, and machinery and equipment with an aggregate net book value of approximately RMB70 million (31 December 2002: Nil). In addition, the Company has guaranteed bills payable of one of its subsidiaries amounting to RMB40 million as at 30 June 2003 (31 December 2002: Nil).

16. BORROWINGS

In addition to the bank loan arrangement with Holding Company as described in Note 7(i) above, set out below is the information relating to the security interest and banking guarantees of the Group's bank loans as at 30 June 2003 and 31 December 2002:

- (i) Certain of the bank loans of the Group are secured by the Group's buildings, and machinery and equipment with an aggregate net book value of approximately RMB3,018 million and RMB2,708 million as at 30 June 2003 and 31 December 2002, respectively.
- (ii) Certain of the Group's bank loans are secured by certain of the Group's export VAT refundable and raw materials in transit up to approximately RMB20 million (31 December 2002: Nil) and RMB34 million (31 December 2002: Nil) as at 30 June 2003.
- (iii) Holding Company has guaranteed certain of the Group's bank loans up to approximately RMB200 million and RMB142 million as at 30 June 2003 and 31 December 2002, respectively. Included in the above-mentioned RMB200 million and RMB142 million guaranteed bank loans, up to approximately RMB40 million was also secured by Holding Company's land and buildings as at 30 June 2003 and 31 December 2002.
- (iv) The Company has guaranteed bank loans of certain of its subsidiaries up to approximately RMB167 million (31 December 2002: RMB60 million) as at 30 June 2003.

17. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

The long term payable to the immediate holding company as at 30 June 2003 and 31 December 2002 are unsecured, non-interest bearing and repayable over three years commencing in 2005 by three instalments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively.

18. ISSUED CAPITAL

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	<u>530,770</u>	<u>530,770</u>

The Company does not have any share option scheme.

19. DISTRIBUTABLE RESERVES

As at 30 June 2003, in accordance with the PRC Company Law, an amount of approximately RMB566 million standing to the credit of the Company's capital reserve account and amounts of approximately RMB50 million and RMB50 million, respectively, standing to the credit of the Company's statutory surplus reserve and statutory public welfare fund, as determined under PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had retained profits of approximately RMB568 million which are available for distribution as dividends. Save as aforesaid, the Company did not have any reserves available for distribution to its shareholders as at 30 June 2003.

20. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with 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 in 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 detailed elsewhere in these unaudited condensed consolidated interim financial statements, the following is a summary of significant transactions carried out between the Group and ZCSU, its subsidiaries and associate:

Continuing transactions

Name of related parties	Relationship with the Company	Nature of transactions	Six months ended	Six months ended
			30 June 2003	30 June 2002
			(unaudited)	(unaudited)
			RMB'000	RMB'000
Holding Company	The immediate holding company	Purchase of lint cotton and tailings	127,362	188,314
		Expenses on provision of electricity and steam power	91,000	52,107
		Expenses on property leasing	1,624	961
Wei qiao Dyeing and Weaving Co., Ltd. ("Wei qiao Dyeing")	A fellow subsidiary	Sale of cotton yarns	49,617	44,934
Weilian Printing and Dyeing Co., Ltd. ("Weilian Printing")	A fellow subsidiary	Sale of grey fabrics	29,712	1,999
		Expenses on provision of processing services	8,242	58
Wei qiao Bleaching-Dyeing Co., Ltd.	An associate of Holding Company	Sale of cotton yarns	4,316	1,524

In the opinion of the directors, the above transactions were conducted in the ordinary course of business and will be continued after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

In connection with the Reorganisation, the Group entered into several agreements with Holding Company and its subsidiaries other than the companies now comprising the Group (collectively, the “Holding Group”) which govern the supply of cotton by Holding Company, the supply of cotton yarns and grey fabrics to the Holding Group, the provision of processing services by Holding Group, the supply of electricity and steam power by Holding Company. Pursuant to an agreement signed between the Company and Holding Company dated 10 May 2000, commencing 1 January 2000, Holding Company provided electricity and steam power to the Company at a billing rate of RMB0.55/kWh and RMB60/ton, respectively. The two parties signed a supplementary agreement on 1 July 2002, which took effect on 1 January 2002. Pursuant to the supplementary agreement, the billing rate for electricity was revised from RMB0.55/kWh to RMB0.35/kWh with the billing rate for steam power remaining unchanged at RMB60/ton. Industrial park and Luteng Textile each signed an agreement with Holding Company on 1 September 2002. Pursuant to the agreements, Holding Company provided electricity and steam power to Industrial Park and Luteng Textile at a billing rate of RMB0.35/kWh and RMB60/ton, respectively, commencing from 1 September 2002.

In connection with the Reorganisation, the Group signed six property lease agreements with Holding Company, with a right of renewal exercisable by the Group. The significant terms of such 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 expense of RMB454,900 for the land relating to the 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 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 Second Production Area.

- (iv) 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 expense of RMB60,700 for the land relating to the Second Production Area.
- (v) 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 Third Production Area.
- (vi) Operating lease agreement for a building dated 10 May 2000 with the commencement date and expiry date on 10 May 2000 and 10 May 2006, respectively, at an annual rental expense of RMB600,000 for a building located at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC.

Discontinuing transactions

Name of related parties	Relationship with the Company	Nature of transactions	Six months ended	Six months ended
			30 June 2003	30 June 2002
			(unaudited)	(unaudited)
			RMB'000	RMB'000
Holding Company	The immediate holding company	Sale of cotton yarns, grey fabrics and denim	6,480	435,787
		Sale of ancillary materials and spare parts	542	82,408
		Sale of lint cotton and tailings	—	367,248
		Purchase of remaining lint cotton	7,449	—
		Purchase of cotton yarns, grey fabrics and denim	60,131	817,418
		Purchase of fixed assets	—	46,487
		Purchase of ancillary materials and spare parts	3,458	19,050
		Expenses on equipment and property leasing	—	14,000

Name of related parties	Relationship with the Company	Nature of transactions	Six months ended	Six months ended
			30 June 2003	30 June 2002
			(unaudited)	(unaudited)
			RMB'000	RMB'000
		Expenses on provision of processing services	—	1,669
Weiqiao Dyeing	A fellow subsidiary	Sale of grey fabrics	—	1,295
		Purchase of corduroy	28,627	1,988
		Expenses on provision of processing services	2,938	105
Weilian Printing	A fellow subsidiary	Purchase of coloured fabrics	15,172	9
Binzhou Weiqiao	A fellow subsidiary	Sale of lint cotton and tailings	—	31,851
		Sale of cotton yarns	—	8,701
		Sale of ancillary materials and spare parts	—	1,217
		Purchase of cotton yarns and grey fabrics	—	88,911
		Purchase of fixed assets	16,799	—
No. 1 Oil and Cotton Factory	A fellow subsidiary of Holding Company	Purchase of lint cotton	374	1,545
No. 2 Oil and Cotton Factory	A fellow subsidiary of Holding Company	Purchase of lint cotton	2,251	3,226
Zouping Fuhai Oil Industrial Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	299	12,695

<u>Name of related parties</u>	<u>Relationship with the Company</u>	<u>Nature of transactions</u>	Six months ended 30 June 2003 (unaudited) RMB'000	Six months ended 30 June 2002 (unaudited) RMB'000
No. 6 Oil and Cotton Company	A fellow subsidiary of Holding Company	Purchase of lint cotton	12,224	15,836
Pozhuang Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	5,147	2,569
Zouping Cotton and Hemp Fibre Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	627	—
Zouping Cotton and Hemp Fibre Co.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	1,443

In addition, during the six months ended 30 June 2003 and 30 June 2002, the Group received bills receivable aggregating approximately RMB76 million and RMB293 million, respectively, from Holding Company. All of the bills were discounted with banks. According to the arrangement with Holding Company, discounting charges were borne by Holding Company. During the six months ended 30 June 2003 and the six months ended 30 June 2002, discounting charges of approximately RMB1 million and approximately RMB5 million, respectively, were borne by Holding Company.

During the six months ended 30 June 2003, the Group issued bills payable aggregating approximately RMB617 million (six months ended 30 June 2002: RMB150 million) to the subsidiaries (including Holding Company) of ZCSU (the “ZCSU Group”). All of the bills were discounted with banks and the related discounting charges were borne by the ZCSU Group.

The directors are of the opinion that above mentioned transactions will not be continued after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

21. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for properties and land use right are negotiated for terms ranging from 6 to 20 years.

At the balance sheet date, the Group had following minimum lease payments under non-cancellable operating leases:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Within one year	4,370	2,870
In the second to fifth years, inclusive	16,160	10,500
After five years	53,490	32,300
	<u>74,020</u>	<u>45,670</u>

22. CAPITAL COMMITMENTS

The Group had the following capital commitments, principally for construction and acquisition of fixed assets:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Contracted, but not provided for	18,422	61,798
Authorised, but not contracted for	—	—
	<u>18,422</u>	<u>61,798</u>

23. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had the following contingent liabilities:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Letters of credit issued	73,981	28,890
Bills discounted with recourse	—	370,000
Guarantee given to banks in connection with facilities granted to subsidiaries	207,000	60,000
Outward letters of credit discounted	—	7,227
	<u>280,981</u>	<u>466,117</u>

24. SUBSEQUENT EVENTS

- (a) On 8 July 2003, certain guarantees provided by the Company against bank loans of Industrial Park of approximately RMB41 million were released and replaced by other guarantees severally provided by the Company and Holding Company. Pursuant to the new guarantees, the Company and Holding Company agreed to guarantee severally 97% and 3%, respectively, of the obligations of Industrial Park in respect of certain bank loans amounting to approximately RMB41 million. Each of the guarantees will continue for a period of two years after the date on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB41 million are within the period from 17 July 2005 to 30 December 2005.

- (b) On 14 July 2003, certain guarantees provided by the Company against bank loans of Weihai Weiqiao of approximately RMB84 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to the new guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to approximately RMB84 million. Each of the guarantees will continue for a period of two years after the date on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB84 million are within the period from 19 November 2005 to 27 February 2006.
- (c) In addition to note (b) above, on 14 July 2003, certain guarantees provided by Holding Company against bank loans of Weihai Weiqiao of about RMB76 million were released and replaced by other guarantees severally provided by the Company and WCAI. Pursuant to these guarantees, the Company and WCAI agreed to guarantee severally 87.2% and 12.8%, respectively, of the obligations of Weihai Weiqiao in respect of certain bank loans amounting to approximately RMB76 million. Each of the guarantees will continue for a period of two years after the date on which the relevant loan repayments are due. The expiry dates of the aforesaid bank loans of RMB76 million are within the period from 30 July 2005 to 9 October 2005.
- (d) Except for the guarantees severally provided by Holding Company and the Company in accordance with their respective equity interests as set out in note (a) above, up to 14 July 2003, Holding Company released all its guarantees provided against, and the assets pledged to secure, the bank loans and the banking facilities of the Group.
- (e) On 25 August 2003, the Company entered into several agreements with Holding Company in relation to supply of the cotton by Holding Company to the Group, the supply of cotton yarns and grey fabrics by the Group to the Holding Group, the supply of electricity and steam by Holding Company to the Group, provision of processing services by the Holding Group to the Group, and the transfer of equipment from Holding Company to the Company.

- (f) The Company's H shares, representing 249,770,000 shares at RMB1.00 each, have been issued at HK\$8.5 per share and granted dealing on The Stock Exchange of Hong Kong Limited since 24 September 2003.
- (g) On 25 September 2003, the Company announced that the Over-allotment Option referred to in its prospectus dated 15 September 2003 was exercised in full by BNP Paribas Peregrine Capital Limited on 25 September 2003 in respect of 37,465,500 additional new H shares (the "Over-allotment Shares") issued and allotted by the Company at HK\$8.50 per H share to cover over-allocations in the Placing. The Over-allotment Shares are expected to be issued and listed on The Stock Exchange of Hong Kong Limited on 30 September 2003.
- (h) Save as aforesaid, no other significant events took place subsequent to 30 June 2003.

25. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 were approved by the Board of Directors on 26 September 2003.