

CONTENTS

Highlights	2
Chairman's Statement	3
Management Discussion and Analysis	6
Supplementary Information	17
Independent Auditor's Review Report	22
Condensed Consolidated Profit and Loss Account (Unaudited)	24
Condensed Consolidated Balance Sheet (Unaudited)	25
Condensed Consolidated Statement of Changes in Equity (Unaudited)	27
Condensed Consolidated Cash Flow Statement (Unaudited)	28
Notes to Condensed Consolidated Interim Financial Statements (Unaudited)	29

HIGHLIGHTS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

- Turnover +75.5% to RMB4,578 million
- Gross profit +56.7% to RMB835 million
- Net profit attributable to shareholders +50.4% to RMB357 million

HIGHLIGHTS

- Significant growth in turnover and net profit attributable to shareholders due to substantial increase in production volume and improvement in product mix
- Maintained a leading position in the cotton textile industry and continued to improve operation efficiency
- Expansion of production capacity during the six months ended 30 June 2004 in order to capture the opportunity of industry consolidation and quota elimination in 2005
- Advantage in having a steady supply of electricity from Shandong Weiqiao Chuangye Group Company Limited, despite the overall shortage of electricity supply in the PRC
- Placement of 57,447,000 H Shares completed in June 2004 to raise approximately HK\$653 million for the investment in and development of high value-added products and financing of the general working capital

CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited consolidated results of Weiqiao Textile Company Limited (the "Company" or "Weiqiao Textile", together with its subsidiaries, the "Group") for the six months ended 30 June 2004. For the six months ended 30 June 2004, the Group's turnover amounted to approximately RMB4,578 million, representing an increase of approximately 75.5% when compared with that for the corresponding period in 2003. Net profit attributable to shareholders for the six months ended 30 June 2004 amounted to approximately RMB357 million, representing an increase of approximately 50.4% when compared with that for the corresponding period in 2003 whilst earnings per share were approximately RMB0.43. The board of directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

Weiqiao Textile is the largest manufacturer and exporter of cotton textile in the People's Republic of China ("PRC"), and is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. In order to consolidate Weiqiao Textile's leading position in the global cotton textile market, during the first half of 2004, the Group further enhanced its productivity and included more high value-added products in its product portfolio by investing further capital and installing advanced equipment for such purpose. During the first half of 2004, the Group's output of cotton yarn, grey fabric and denim amounted to 240,000 tons, 510 million metres and 68 million metres, respectively, representing an increase of 70%, 103% and 39%, respectively, when compared with that in the first half of 2003.

During the first half of 2004, as a result of shortage of cotton supply, cotton prices in both the domestic and international markets remained at a high level. High cotton prices also accelerated the process of industry consolidation in the PRC. Since the Group has been granted quotas of imported cotton, it was not affected by high cotton prices by increasing import cotton and transferring the increase in cotton prices to customers.

In addition, the Group has been able to capitalise the opportunities brought by the industry consolidation during the first half of the year, and sped up the development of its business. Weiqiao Textile completed its placement of 57,447,000 new H Shares in June 2004 at a price of HK\$11.6 per H Share. Total amount raised from the placement was approximately HK\$653 million, which was intended to be mainly used in the capital investment of high value-added products.

CHAIRMAN'S STATEMENT

The shareholding structure of the Company as at 30 June 2004 was as follows:

	Approximate Number of Shares	Percentage of Holding (%)
<i>Domestic Shares</i> *		
- Shandong Weiqiao Chuangye Group Company Limited	410,311,100	46.87
- Management shareholders of the Company	105,421,400	12.04
- Three individual shareholders	15,037,500	1.72
<i>H Shares</i> :		
- Public	<u>344,682,500</u>	<u>39.37</u>
Total	<u><u>875,452,500</u></u>	<u><u>100.00</u></u>

* *Unlisted*

Since the listing of its H Shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in September 2003, Weiqiao Textile has been widely recognised by the public and investors. The Company was selected as a constituent stock of Hang Seng China Enterprises Index in March 2004 and was admitted as a constituent stock of China Index of Morgan Stanley Capital International in May 2004.

CHAIRMAN'S STATEMENT

FUTURE OUTLOOK AND STRATEGY

Looking ahead, further globalisation and liberalisation of global trade will enable the textile industry in the domestic market to strengthen its market potential. Pursuant to World Trade Organisation's Agreement on Textiles and Clothing, quota restriction on textile products will be eliminated on 1 January 2005. Until 31 December 2008, WTO members will be allowed by the PRC to utilise, a special protective measure for textile products, which, if fully implemented, would enable other WTO members to impose a limit of 7.5% per year on the growth rate of PRC textile and clothing imports. This agreement will create various opportunities for the Group. In addition, PRC's continuous economic growth and strong domestic demand have created a favourable operating environment for the Group.

During the first half of 2004, cotton prices in the domestic market remained at a high level. However, prices began to fall from the second quarter of 2004. The Group expects that cotton prices in the domestic market will remain stable after the new harvest of cotton in the fourth quarter. Meanwhile, cotton prices in the international market have also shown a falling trend. Leveraging on its cost advantage, the Group made good use of imported cotton which was at a lower cost during the first half of 2004. It is expected that output of cotton in the PRC will increase. The Group will increase the use of cotton with a lower cost in the domestic market and control cost effectively by bulk procurement in the international market as well as instant purchase from the domestic market.

During the process of industry consolidation, the Group intends to enhance its technology level, develop more high value-added products, expand its productivity and proactively explore overseas markets by the application of more advanced equipment. It also intends to identify appropriate acquisition opportunities. By leveraging on the Group's strengths such as its leading position in the global market, scalable production, low production costs, comprehensive product portfolio, broad customer base and experienced management, the Group aims at becoming the largest cotton textile manufacturer in the world.

Zhang Bo
Chairman

Hong Kong, 27 August 2004

INDUSTRY REVIEW

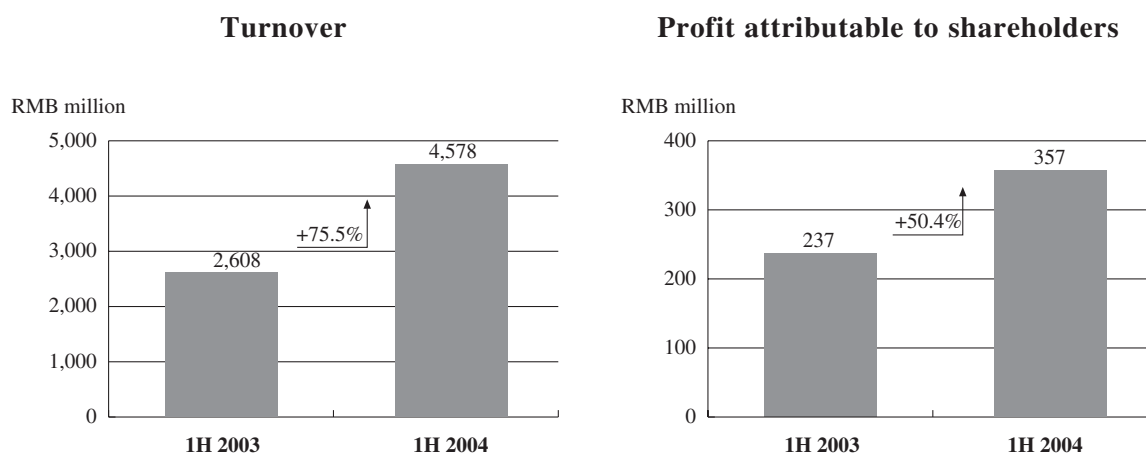
During the first half of 2004, despite the macro economic control measures implemented by the government of the PRC and shortage of cotton supply, the growth in the cotton textile industry in the PRC was sustained, the output of yarn and cotton fabric increased by 15.6% and 18.1%, respectively, when compared with that in the first half of 2003. The PRC is a major garment export country for the global market. Export of textile and garment products from the PRC amounted to US\$42.6 billion in the first half of 2004, representing an increase of 23.7% as compared with that in the first half of 2003. Demand for these products has been very strong. It is expected that the global demand will continue to grow in future which will bring about favourable opportunities to cotton textile enterprises in the PRC.

Demand for cotton textile products in the PRC continued to increase. However, output of cotton in the PRC dropped in 2003 due to poor harvest, resulting in shortage of cotton supply in the first half of 2004. Cotton prices in the domestic market remained at high level, while the cotton price in the international market is relatively low. Although there is an enormous growth potential in the market, many small scale manufacturers in the PRC suspended operations or shifted their production to other goods due to high cotton prices, difficulties in securing stable cotton supply, shortage of electricity supply, and adoption of more stringent credit policies by banks. Substantial increase in production costs accelerated the consolidation of the PRC cotton textile industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

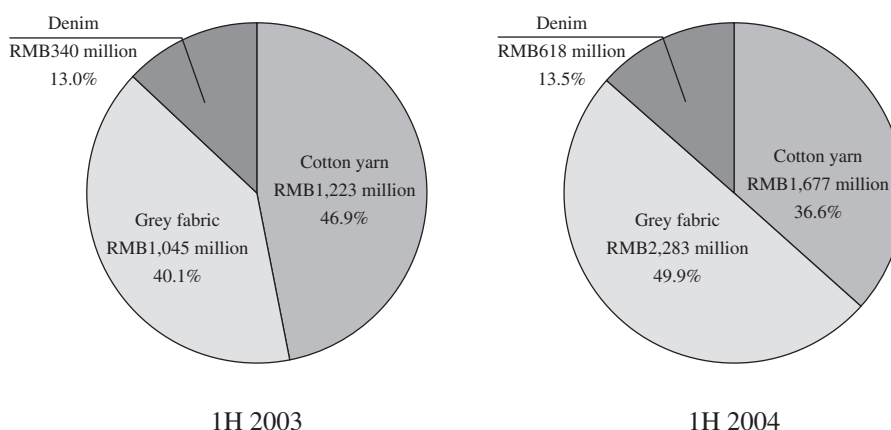
For the six months ended 30 June 2004, Weiqiao Textile recorded a significant increase in its turnover and profit attributable to shareholders compared with the corresponding period in 2003:



The increase in turnover and profit attributable to shareholders during the six months ended 30 June 2004 was mainly due to the operation of Binzhou Weiqiao Technology Industrial Park Co., Ltd. (濱州魏橋科技工業園有限公司) (“Binzhou Industrial Park”) reaching its full capacity in the first quarter of 2004 as well as the commencement of operation of new projects in Zouping Industrial Park (鄒平工業園) in the first half of 2004. The operation of Binzhou Industrial Park and the new projects in Zouping Industrial Park further enhanced the Group’s economies of scale, reduced unit fixed production cost and procurement costs of raw materials.

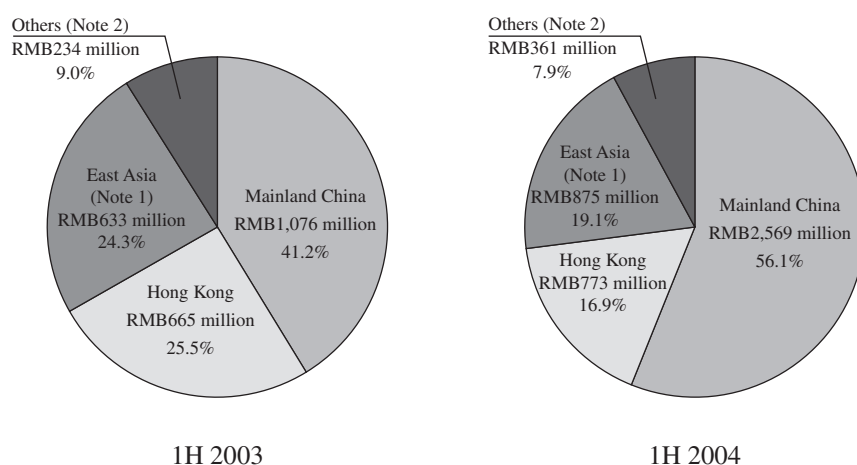
MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are a breakdown of the Group's turnover in terms of product categories for the six months ended 30 June 2004 and the corresponding period in 2003, respectively:



The increase in the proportion of grey fabric in the first half of 2004 was due to the Group's increased usage of cotton yarn in the production of high-end grey fabric in order to enhance the overall value of its product mix.

The charts below represent the Group's sales in terms of geographical location for the six months ended 30 June 2004 and the corresponding period in 2003, respectively:



Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in sales in the PRC market was attributable to the setting up of production facilities in the PRC by several customers in Hong Kong and certain overseas countries. As a result, a portion of export sales have become domestic sales. In addition, increased domestic demand also led to the increase in sales in the PRC market.

The Group has continuously maintained an extensive customer base. As at 30 June 2004, the Group had over 4,000 customers in approximately 30 provinces and municipalities directly under the Central Government in the PRC and about 400 customers in over 20 countries and regions, representing an increase of 33% and 5% respectively when compared with that at the end of 2003. The Group's customers included market leaders, namely Fountain Set (Holdings) Limited (福田實業(集團)有限公司), Texwinca Holdings Limited (德永佳集團有限公司) and well-known traders, namely Itochu Corporation ("Itochu"), Nichimen Corporation and Marubeni Corporation. In addition to the increasing number of overseas and domestic customers, the Group has developed a closer relationship with its customers. The Company entered into a joint venture agreement with Itochu to establish its second sino-foreign equity joint venture company, namely, Shandong Binteng Textile Co., Ltd. (山東濱藤紡織有限公司) in order to engage in the production and sale of compact yarn and various types of yarn. The Directors believe that such joint venture will further enhance the co-operation between the Group and Itochu and increase the proportion of high-end products in the Group's portfolio.

Being a market leader in the cotton textile industry in the PRC, the Group possesses not only scalable production and economies of scale but also a stable supply of raw material and electricity. The Group has successfully capitalised on industry consolidation to increase its market share in the textile industry. During the first half of 2004, the overall textile industry was affected by high cotton prices. However, since the Group has been granted sufficient quotas of imported cotton for production, it has increased the volume of imported cotton and is able to transfer the increase in cotton prices to customers. In addition, the Group's cotton purchase and processing permit provides the Group with an efficient and effective channel as to the sourcing of raw materials. Therefore, the Group was not significantly affected by the high cotton prices in the domestic market. Although the overall manufacturing industries were affected by the shortage of electricity supply throughout the PRC, Weiqiao Textile was able to secure steady electricity supply from Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司), at a price lower than the market price. Accordingly, Weiqiao Textile was not affected by the shortage of electricity supply.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Gross profit margin

The table below is an analysis of the gross profit and gross profit margin of the Group's major product categories in each of the first six months of 2004 and 2003:

Product category	For the six months ended 30 June			
	2003		2004	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	356,175	29.1	394,025	23.5
Grey fabric	114,871	11.0	312,354	13.7
Denim	62,004	18.2	128,837	20.9
Total	533,050	20.4	835,216	18.2

The gross profit margin of the Group decreased from 20.4% for the first half of 2003 to 18.2% for the six months ended 30 June 2004, which was mainly attributable to the increased cotton prices in the PRC, and the substantial increase in the proportion of grey fabric sold, which has a lower gross profit margin than cotton yarn.

Due to changes in the Group's sales strategy, the gross profit margin of cotton yarn decreased in the first half of 2004. A portion of high-end cotton yarns were used to produce high-end grey fabric which resulted in the decrease in sales of high-end cotton yarns for the six months ended 30 June 2004. On the other hand, due to the same reason, the gross profit margin of grey fabric for the six months ended 30 June 2004 increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

The Group's selling and distribution costs increased by 62.1% to RMB115.4 million for the first half of 2004 from RMB71.2 million for the first half of 2003. Such increase was mainly due to the increase in sales. As a result of the increase in sales, transportation costs increased to RMB78.8 million (First half of 2003: RMB46.9 million), sales commission increased to RMB11.5 million (First half of 2003: RMB10.3 million), staff costs increased to RMB9.9 million (First half of 2003: RMB7.6 million), packaging fees increased to RMB5.2 million (First half of 2003: RMB3.2 million), and other expenses increased to RMB10.0 million (First half of 2003: RMB3.2 million).

Administrative expenses

Administrative expenses for the first half of 2004 amounted to RMB63.8 million, representing an increase of 89.9%, as compared to RMB33.6 million for the first half of 2003. Such increase was mainly due to the increase in the number of administrative staff as a result of the expansion in the production scale and the establishment of a joint venture with Itochu in March 2004. Staff costs and other related expenses increased as a result.

Finance costs

Finance costs rose to RMB114.5 million for the first half of 2004, representing an increase of 68.4% as compared to RMB68.0 million for the first half of 2003. The increase in bank loans for the first half of 2004 as compared with the first half of 2003 was mainly due to the additional financing for the expansion in production scale and the operating capital for addition production capacity.

Liquidity and financial resources

The cash and cash equivalents of the Group were RMB1,414.4 million as at 30 June 2004, decreasing by 7.7% from RMB1,532.2 million as at 31 December 2003. In June 2004, the Group completed the placement of 57,447,000 new H Shares at a price of HK\$11.6 per H Share to raise a total of approximately HK\$653 million. For the six months ended 30 June 2004, the Group invested RMB2,877.5 million in capital expenditures, had a net cash inflow of RMB843.0 million from operating activities and incurred an exchange loss of RMB4.5 million. These cash outflows were largely offset by the proceeds from bank loans of RMB1,215.2 million, net proceeds from the placing of H Shares of approximately RMB692.0 million, an increase of RMB756.9 million in secured deposits and a decrease of interest income of RMB1.2 million. Based on the above reasons, the net debt-to-equity ratio (the ratio of total bank borrowings to shareholders' equity net of cash and cash equivalents) increased to 0.76 as at 30 June 2004 from 0.64 as at 31 December 2003.

The average turnover of the Group's accounts receivable was approximately 24 days for the six months ended 30 June 2004, which decreased from 28 days for the year ended 31 December 2003. The decrease in accounts receivable turnover days was attributable to the tightening of the Group's credit control policy.

Inventory turnover days increased from 142 days for the year ended 31 December 2003 to 180 days for the six months ended 30 June 2004. Cotton price continued to increase in the first half of 2004, which has resulted in the storing of an increased volume of raw material by the Group. Besides, increase in production scale has led to the increased volume in semi-finished goods.

During the six months ended 30 June 2004, 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 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Net profit attributable to the shareholders and earnings per share

Net profit attributable to the shareholders of the Group was approximately RMB356.8 million for the six months ended 30 June 2004, representing an increase of 50.4% as compared with RMB237.2 million in the corresponding period in 2003.

During the six months ended 30 June 2004, basic earnings per share of the Company was RMB0.43.

Capital structure

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 2004, the liabilities of the Group included bank borrowings and long-term payables to its immediate holding company which amounted to RMB5,867.9 million. Cash and cash equivalents of the Group was approximately RMB1,414.4 million and gearing ratio (Total liabilities (including bank loans and long term payables to the immediate holding company)/Total assets) was 37.7%.

Details of the bank borrowings outstanding as at 30 June 2004 were described in Note 16 to the unaudited condensed consolidated interim financial statements. As at 30 June 2004, 91.7% of the Group's bank borrowings was subject to fixed interest rates while 8.3% was subject to floating interest rates. There are no seasonal adjustments with respect to the Group's borrowings.

As at 30 June 2004, the Group's borrowings were primarily denominated in RMB and US dollars while its cash and cash equivalents were mainly held in RMB and US dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds from the IPO

H Shares of Weiqiao Textile were listed on the Main Board of the Stock Exchange on 24 September 2003 and net proceeds of about RMB2,511 million (equivalent to about HK\$2,371 million) were raised from the IPO. As at 30 June 2004, the Company applied the proceeds from the IPO for the purposes as set out in the Company's prospectus dated 15 September 2003 as follows:

	HK\$ (in million)	
	Planned usage	Actual allocation
Expansion of product portfolio to include more high value-added cotton textile products	406	359
Upgrading the existing production technology	94	94
Establishment of a technology development center	47	—
Upgrading the information systems	34	3
Repayment of bank loans	566	566
Acquisition relating to the Group's cotton textile manufacturing business	100	—
General working capital	1,124	1,124
Total	2,371	2,146

MANAGEMENT DISCUSSION AND ANALYSIS

Placement of H Shares

Weiqiao Textile completed the placement of 57,447,000 new H Shares in June 2004 at a price of HK\$11.6 per H Share. Total amount raised from the placement was approximately HK\$653 million. As at 30 June 2004, the Company applied the proceeds from the IPO for the purposes as set out in the Company's announcement dated 28 May 2004 as follows:

	HK\$ (in million)	
	Planned usage	Actual allocation
Development and production of high value-added new fabric products	239	191
Increase of production capacity for existing high value-added cotton textile products	192	105
Upgrade of the existing production technology	43	—
General working capital	179	179
Total	<u>653</u>	<u>475</u>

Details of the Group's pledged asset

Details of the Group's pledged asset are set out in Note 16 to the unaudited condensed consolidated interim financial statements.

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 impact on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2004. The Board believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

Contingent liabilities

Details of the Group's contingent liabilities are set out in Note 23 to the unaudited condensed consolidated interim financial statements.

Employment, training and development

As at 30 June 2004, the Group had a total of approximately 98,000 employees, representing an increase of 29,000 employees as compared with that as at 31 December 2003. Total staff costs amounted to 9.0% of the Group's turnover during the Period. 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 reward staff to achieve better performance.

Taxation

Income tax of the Group grew from RMB136.2 million for the first half of 2003 to RMB206.7 million for the first half of 2004, representing an increase of 51.8%. This increase was primarily due to the increase in profit before tax by 50.4% to RMB564.6 million for the first half of 2004 from RMB375.4 million for the first half of 2003.

SUPPLEMENTARY INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, so far as is known to the directors, supervisors and the chief executive of the Company, the interests of every person, other than a director, supervisor or chief executive of the Company, in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Future Ordinance (“SFO”) were as follows:

Long positions in the domestic shares of the Company (“Domestic Shares”):

	Number of Domestic Shares <i>(note 1)</i>	Approximate percentage of issued total Domestic Share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (“Holding Company”)	410,311,100 <i>(note 2)</i>	77.31	46.87
Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) (“ZCSU”)	410,311,100 <i>(note 3)</i>	77.31	46.87

SUPPLEMENTARY INFORMATION

Long positions in the H Shares of the Company (“H Shares”):

	Number of H Shares <i>(note 4)</i>	Approximate percentage of total issued H Share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
J.P. Morgan Chase & Co.	37,606,000 <i>(note 5)</i>	10.91	4.30
HSBC Asset Management (Hong Kong) Limited	25,989,000 <i>(note 6)</i>	7.54	2.97
Allianz Aktiengesellschaft	27,464,000 <i>(note 7)</i>	7.97	3.14
The Capital Group Companies, Inc.	18,362,000 <i>(note 8)</i>	5.33	2.10

Notes:

1. Unlisted shares.
2. These 410,311,100 Domestic Shares were directly held by Holding Company.
3. These 410,311,100 Domestic Shares were deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
4. Shares listed on the Main Board of Stock Exchange.
5. 93,000 H Shares were directly held by J.P. Morgan Chase & Co. 18,915,000 H Shares were held by J.P. Morgan Chase & Co. in its capacity as investment manager and 18,598,000 H Shares in its capacity as custodian corporation/approved lending agent.
6. These 25,989,000 H Shares were held by HSBC Asset Management (Hong Kong) Limited in its capacity as investment manager.
7. These 27,464,000 H Shares were held by Allianz Aktiengesellschaft in its capacity as investment manager.
8. These 18,362,000 H Shares were held by The Capital Group Companies, Inc. in its capacity as investment manager.

SUPPLEMENTARY INFORMATION

Save as disclosed above, so far as is known to the directors, supervisors and the chief executive of the Company, as at 30 June 2004, there was no other person who had an interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS', SUPERVISORS' OR THE COMPANY'S CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2004, the interests of the directors of the Company in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the Domestic Shares:

	Type of interest	Number of Domestic Shares (note 1)	Approximate percentage of total issued Domestic Share capital (%)	Approximate percentage of total issued share capital (%)
Zhang Hongxia (Executive Director)	Personal	17,700,400	3.34	2.02
Zhang Bo (Executive Director, Chairman)	Personal	12,932,000	2.44	1.48
Qi Xingli (Executive Director)	Personal	8,052,500	1.52	0.92
Zhang Shiping (Non-executive Director)	Personal	5,200,000	0.98	0.59

SUPPLEMENTARY INFORMATION

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 (%)
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note:

1. Unlisted shares

Save as disclosed above, as at 30 June 2004, none of the directors, supervisors or the chief executive of the Company had an interest or short position 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) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

SUPPLEMENTARY INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and supervising the Group’s financial reporting process. The Audit Committee is composed of the three independent non-executive directors of the Company. An audit committee meeting was held on 27 August 2004 for the purpose of reviewing the unaudited interim financial statements of the Group for the six months ended 30 June 2004 and providing advice and recommendations to the board of directors of the Company. 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 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

To the best knowledge of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2004.

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, in compliance with Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2004.

INDEPENDENT AUDITOR'S REVIEW REPORT



To the Board of Directors

Weiqiao Textile Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2004, as set out on pages 24 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 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 principally consists 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 that of 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-month period ended 30 June 2004.

Ernst & Young

Certified Public Accountants

Hong Kong

27 August 2004

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the six-month period ended 30 June 2004

	Notes	Six-month period ended 30 June 2004 RMB'000	Six-month period ended 30 June 2003 RMB'000
Turnover		4,577,976	2,607,873
Cost of sales		(3,742,760)	(2,074,823)
Gross profit		835,216	533,050
Other revenue	5	60,073	27,278
Selling and distribution costs		(115,407)	(71,238)
Administrative expenses		(63,829)	(33,598)
Other operating expenses		(36,898)	(12,147)
Profit from operating activities	6	679,155	443,345
Finance costs	7	(114,547)	(67,968)
Profit before tax		564,608	375,377
Tax	8	(206,742)	(136,213)
Profit before minority interests		357,866	239,164
Minority interests		(1,055)	(2,002)
Net profit from ordinary activities attributable to shareholders		356,811	237,162
Earnings per share - basic (RMB)	9	0.43	0.45

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2004

		30 June	31 December
		2004	2003
		(unaudited)	(audited)
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Fixed assets	11	8,567,550	6,327,830
Intangible assets		9,901	10,501
Negative goodwill		(25,043)	(26,538)
TOTAL NON-CURRENT ASSETS		8,552,408	6,311,793
CURRENT ASSETS			
Inventories		3,691,760	2,083,985
Trade receivables	12	609,529	496,213
Prepayments, deposits and other receivables		46,088	325,676
Amounts due from related parties	13	165,871	267,585
Pledged deposits		1,079,384	322,480
Cash and cash equivalents		1,414,350	1,532,193
		7,006,982	5,028,132
CURRENT LIABILITIES			
Trade payables	14	2,894,367	1,248,617
Bills payable	15	160,000	79,597
Tax payable		379,486	231,289
Other payables and accruals		533,751	145,385
Interest-bearing bank loans,			
current portion	16	2,889,837	1,991,369
Amounts due to related parties	13	977	773
Amount due to the immediate			
holding company	13	—	322,553
Dividend payable		31,380	1,690
		6,889,798	4,021,273

		30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
NET CURRENT ASSETS		<u>117,184</u>	<u>1,006,859</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,669,592</u>	<u>7,318,652</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	16	2,799,099	2,482,339
Long term payables to the immediate holding company	17	<u>178,927</u>	<u>178,927</u>
		<u>2,978,026</u>	<u>2,661,266</u>
MINORITY INTERESTS		<u>90,440</u>	<u>59,245</u>
NET ASSETS		<u><u>5,601,126</u></u>	<u><u>4,598,141</u></u>
CAPITAL AND RESERVES			
Issued capital	18	875,453	818,006
Reserves		4,725,673	3,734,327
Proposed final dividend		—	45,808
SHAREHOLDERS' EQUITY		<u><u>5,601,126</u></u>	<u><u>4,598,141</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six-month period ended 30 June 2004

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory		Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000	public welfare fund RMB'000			
As at 1 January 2004	818,006	2,789,664	115,948	110,702	45,808	718,013	4,598,141
Final 2003 dividend declared	—	—	—	—	(45,808)	—	(45,808)
Issue of H Shares	57,447	634,535	—	—	—	—	691,982
Net profit for the period	—	—	—	—	—	356,811	356,811
As at 30 June 2004	<u>875,453</u>	<u>3,424,199*</u>	<u>115,948*</u>	<u>110,702*</u>	<u>—*</u>	<u>1,074,824*</u>	<u>5,601,126</u>

For the six-month period ended 30 June 2003

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory		Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000	public welfare fund RMB'000			
As at 1 January 2003	530,770	565,728	54,138	53,059	—	341,602	1,545,297
Net 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>

* *These reserve accounts comprise the condensed consolidated reserves of RMB4,725,673,000 (2003: RMB3,734,327,000) in the condensed consolidated balance sheet.*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six-month period ended 30 June 2004

	Six-month period ended 30 June 2004 RMB'000	Six-month period ended 30 June 2003 RMB'000
Net cash inflow from operating activities	842,987	1,013,860
Net cash outflow from investing activities	(2,877,468)	(753,840)
Net cash inflow/(outflow) before financing activities	(2,034,481)	260,020
Net cash inflow from financing activities	1,921,127	246,572
Net increase/(decrease) in cash and cash equivalents	(113,354)	506,592
Cash and cash equivalents at the beginning of the period	1,532,193	167,635
Effect of foreign exchange rate changes, net	(4,489)	(2,025)
Cash and cash equivalents at the end of the period	1,414,350	672,202

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2004

1. GROUP REORGANISATION

Weiqiao Textile Company Limited (the “Company”) was incorporated as a joint stock company with limited liability in 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”). Upon completion of the reorganisation (the “Reorganisation”) undertaken in preparation for the listing of the Company’s H Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKSE”), the Company became the holding company of the Group. A summary of the transactions undertaken by the Company relating to the Reorganisation is set out in the Business section headed “Reorganisation” of its prospectus dated 15 September 2003.

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 2004, the Company had direct interests in the following subsidiaries and joint ventures:

Name of entity	Place and date of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Nominal value of issued/paid-up/ registered share capital	Principal activities
Subsidiaries				
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, PRC 25 July 2001	87.2	RMB148,000,000	Production and sale of cotton yarns and fabrics
Binzhou Weiqiao Technology Industrial Park Company Limited	Binzhou, PRC 26 November 2001	98.5	RMB600,000,000	Production and sale of cotton yarns and fabrics
Shandong Weiqiao Mianye Company Limited	Zouping, PRC 30 September 2003	92	RMB5,000,000	Purchase, processing and sale of raw cotton, cottonseeds and lint cotton
Weihai Weiqiao Industrial Park Company Limited	Weihai, PRC 30 January 2004	99.8	RMB260,000,000	Production and sale of cotton yarns and fabrics
Joint ventures				
Shandong Luteng Textile Company Limited ("Luteng Textile")	Zouping, PRC 12 September 2002	75	US\$9,790,000	Production and sale of polyester yarns and related products
Shandong Binteng Textile Company Limited ("Binteng Textile")	Zouping, PRC 12 March 2004	75	US\$15,430,000	Production and sale of compact yarns and related products

3. PRINCIPAL ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated interim financial statements are prepared under the historical cost convention, and in accordance with Statement of Standard Accounting Practice (“SSAP”) 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 year ended 31 December 2003.

4. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarn, grey fabric and denim in the PRC and overseas. 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 the locations of its operations, is as follows:

	Six-month period ended 30 June 2004		
	Turnover (unaudited) RMB’000	Cost of sales (unaudited) RMB’000	Gross profit (unaudited) RMB’000
Mainland China	2,568,516	1,945,462	623,054
Hong Kong	772,867	646,206	126,661
East Asia	875,047	817,446	57,601
Others	361,546	333,646	27,900
Total	<u>4,577,976</u>	<u>3,742,760</u>	<u>835,216</u>

	Six-month period ended 30 June 2003		
	Turnover (unaudited) RMB'000	Cost of sales (unaudited) RMB'000	Gross profit (unaudited) 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	<u>2,607,873</u>	<u>2,074,823</u>	<u>533,050</u>

5. OTHER REVENUE

	Six-month period ended 30 June 2004 (unaudited) RMB'000	Six-month period ended 30 June 2003 (unaudited) RMB'000
Interest income	8,071	9,276
Gain on sale of raw materials	34,895	9,779
Negative goodwill recognised	1,495	1,495
Subsidy income	3,799	1,758
Others	11,813	4,970
Total other revenue	<u>60,073</u>	<u>27,278</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	Six-month period ended 30 June 2004 (unaudited) RMB'000	Six-month period ended 30 June 2003 (unaudited) RMB'000
Amortisation of intangible assets	600	600
Depreciation (<i>Note 11</i>)	209,667	131,289
Release of negative goodwill to income	(1,495)	(1,495)
	<u>208,772</u>	<u>130,394</u>

7. FINANCE COSTS

	Six-month period ended 30 June 2004 (unaudited) RMB'000	Six-month period ended 30 June 2003 (unaudited) RMB'000
Interest on bank loans		
wholly repayable within five years	129,547	72,768
Less: interest capitalised (i)	(15,000)	(4,800)
	<u>114,547</u>	<u>67,968</u>

- (i) The capitalisation rate adopted for capitalising interests incurred during the six-month period ended 30 June 2004 ranged from 2.625% to 7.056% 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-month period ended 30 June 2003: Nil).

Under PRC income tax law, the companies (except for Luteng Textile and Binteng 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 PRC accounting standards and regulations.

Being sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to a State CIT rate of 30% and a local CIT rate of 3%. With regard to State CIT, they are entitled to a full exemption from such tax for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. With regard to local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption from such tax commencing from 2002 and commencing from 2004, respectively. As Luteng Textile and Binteng Textile were both subject to income tax exemptions in 2004, no provision for CIT has been made by them for the current period.

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rates to income tax expense at the Group's effective income tax rates for the six-month period ended 30 June 2004 is as follows:

	Six-month period ended 30 June 2004 (unaudited) RMB'000	Six-month period ended 30 June 2003 (unaudited) RMB'000
Profit before tax	<u>564,608</u>	<u>375,377</u>
Tax at the PRC statutory CIT rate of 33%	186,321	123,874
Non-deductible items	18,692	10,685
Non-taxable items	(1,254)	(580)
Tax exemption	(1,448)	(1,467)
Others	<u>4,431</u>	<u>3,701</u>
Income tax provided	<u>206,742</u>	<u>136,213</u>
Effective income tax rate	<u>36.6%</u>	<u>36.3%</u>

At 30 June 2004, there was no significant unrecognised deferred tax liability (30 June 2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures, as the Group has no liability to additional tax should such amounts be remitted.

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

9. EARNINGS PER SHARE

The calculations of basic earnings per share are based on:

	Six-month period ended 30 June 2004 (unaudited) RMB'000	Six-month period ended 30 June 2003 (unaudited) RMB'000
Earnings		
Net profit from ordinary activities attributable to shareholders used in basic earnings per share calculations	<u>356,811</u>	<u>237,162</u>
	Number of shares	
	Six-month period ended 30 June 2004 (unaudited)	Six-month period ended 30 June 2003 (unaudited)
Weighted average number of ordinary shares in issue during the Period used in basic earnings per share calculation	<u>826,527,857</u>	<u>530,770,000</u>

The weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations for the six-month period ended 30 June 2004 have reflected the H Shares issued by way of placing in the second quarter of 2004.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the period (six-month period ended 30 June 2003: Nil).

10. DIVIDENDS

The proposed final dividend for the year ended 31 December 2003 was approved by the Company's shareholders on 18 April 2004.

At a meeting of the Board of Directors held on 27 August 2004, the Board of Directors resolved not to pay any interim dividend for the six-month period ended 30 June 2004 (six-month period ended 30 June 2003: 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 RMB2,452,537,000 (six-month period ended 30 June 2003: RMB553,939,000), and disposed of machinery and equipment and motor vehicles with an aggregate net book value amounting to approximately RMB3,150,000 (six-month period ended 30 June 2003: Nil). The depreciation charge of the Group for the six-month period ended 30 June 2004 was approximately RMB209,667,000 (six-month period ended 30 June 2003: RMB131,289,000).

12. TRADE RECEIVABLES

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

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within 3 months	588,330	484,610
3 months to 6 months	11,475	5,449
6 months to 1 year	8,803	3,453
1 year to 2 years	921	2,701
	<hr/> 609,529 <hr/>	<hr/> 496,213 <hr/>

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 who have a long term relationship with the Group. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

Certain of the Group's trade receivables of approximately RMB81 million as at 30 June 2004 (31 December 2003: RMB15 million), were utilised to secure bank loans of up to approximately RMB83 million (31 December 2003: RMB12 million).

13. 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 no fixed terms of repayment.

14. TRADE PAYABLES

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

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within 90 days	2,475,917	1,189,081
90 days to 3 years	418,450	59,536
	<u>2,894,367</u>	<u>1,248,617</u>

15. BILLS PAYABLE

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within 90 days	60,000	19,597
90 days to 180 days	100,000	60,000
	160,000	79,597

The bills payable as at 30 June 2004 were entirely drawn by Weihai Weiqiao in favor of the Company. These bills were all discounted with banks by the Company prior to 30 June 2004.

The Group's bills payable as at 30 June 2004 were secured by the pledge of certain of the Group's time deposits of approximately RMB66 million (31 December 2003: approximately RMB30 million).

Additionally, as at 31 December 2003, certain of the Group's bills payable amounting to approximately RMB19 million were secured by certain of the Group's fixed assets with an aggregate carrying amount of approximately RMB48 million.

16. BORROWINGS

Set out below is information relating to the security interest and banking guarantees of the Group's bank loans as at 30 June 2004:

- (i) Certain of the Group's bank loans amounting to approximately RMB4,306 million (31 December 2003: RMB3,471 million) were secured by the Group's buildings, land use rights, and machinery and equipment, which had an aggregate net book value of approximately RMB7,330 million (31 December 2003: RMB5,130 million) as at 30 June 2004.
- (ii) Certain of the Group's bank loans were secured by certain of the Group's raw materials in transit of up to approximately RMB147 million (31 December 2003: RMB301 million) as at 30 June 2004.

In addition, certain of the Group's bank loans were secured by certain of the Group's time deposits and export VAT refundable of up to approximately RMB2 million and approximately RMB10 million, respectively, as at 31 December 2003.

- (iii) Certain of the Group's bank loans of up to approximately RMB83 million (31 December 2003: RMB12 million) were secured by certain of the Group's accounts receivable of up to approximately RMB81 million (31 December 2003: RMB15 million) as at 30 June 2004.
- (iv) The Company's immediate holding company has guaranteed certain of the Group's bank loans of up to approximately RMB9 million (31 December 2003: RMB10 million) as at 30 June 2004.
- (v) Weihai Civil Aviation Industrial Company Limited has guaranteed bank loans of Weihai Weiqiao of up to approximately RMB31 million (31 December 2003: RMB32 million) as at 30 June 2004.
- (vi) The Company has guaranteed bank loans of certain of its subsidiaries of up to approximately RMB588 million (31 December 2003: RMB555 million) as at 30 June 2004.

17. LONG TERM PAYABLES TO THE IMMEDIATE HOLDING COMPANY

The long term payables to the immediate holding company as at 30 June 2004 and 31 December 2003 is unsecured, non-interest bearing and repayable within three years commencing from 2005, by way of three installments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively. The immediate holding company agreed with the Company that it will not demand the repayment of RMB50,000,000 prior to 30 June 2005.

18. SHARE CAPITAL

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Registered, issued and fully paid:		
530,770,000 (31 December 2003: 530,770,000) domestic shares of RMB1.00 each	530,770	530,770
344,682,500 (31 December 2003: 287,235,500) H Shares of RMB1.00 each	344,683	287,236
	875,453	818,006

The Company does not have any share option scheme.

During the period, an amount of 57,447,000 H Shares of the Company with a par value of RMB1.00 each were issued to the public by way of placing at a price of HK\$11.6 (equivalent to approximately RMB12.3) per H Share. These H Shares were listed on the HKSE in June 2004.

19. DISTRIBUTABLE RESERVES

As at 30 June 2004, in accordance with the PRC Company Law, an amount of approximately RMB3,424 million standing to the credit of the Company's capital reserve account and amounts of approximately RMB104 million and RMB104 million, respectively, standing to the credit of the Company's statutory surplus reserve and statutory public welfare fund, as determined under the PRC accounting standards and regulations, were available for distribution by way of the future capitalisation issue. In addition, the Company retained profits of approximately RMB986 million 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 2004.

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 agreed terms 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 the significant transactions carried out between the Group and ZCSU, its subsidiaries and an associate:

Name of related party	Relationship with the Company	Nature of transactions	Six-month period ended	Six-month period ended
			30 June 2004	30 June 2003
			(unaudited)	(unaudited)
			RMB'000	RMB'000
Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”)	The immediate holding company	Purchase of lint cotton and tailings	—	127,362
		Expenses on provision of electricity and steam power	212,697	91,000
		Sale of cotton yarns, grey fabric and denim	—	6,480
		Sale of ancillary materials and spare parts	—	542
		Sale of fixed assets	379	—
		Purchase of remaining lint cotton	—	7,449
		Purchase of cotton yarns, grey fabric and denim	—	60,131
		Purchase of ancillary materials and spare parts	—	3,458
		Expenses on property leasing	4,768	1,624
		Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns
Purchase of corduroy	—			28,627
Expenses on provision of processing services	—			2,938

Name of related party	Relationship with the Company	Nature of transactions	Six-month	Six-month
			period ended 30 June 2004	period ended 30 June 2003
			(unaudited)	(unaudited)
			RMB'000	RMB'000
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabric	43,416	29,712
		Expenses on provision of processing services	—	8,242
		Purchase of coloured fabric	—	15,172
Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	3,280	—
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of Holding Company	Sale of cotton yarns	1,764	4,316
Binzhou Weiqiao	A fellow subsidiary	Purchase of fixed assets	—	16,799
No. 1 Oil and Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	374
No. 2 Oil and Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	2,251
No. 6 Oil and Cotton Company	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	12,224
Zouping Fuhai Oil Industrial Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	299
Pozhuang Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	5,147
Zouping Cotton and Hemp Fibre Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	627

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

In addition, during the six-month period ended 30 June 2004, the Group did not have any bills receivable (six-month period ended 30 June 2003: RMB76 million) from Holding Company. The amount of discounting charges borne by Holding Company during the six-month period ended 30 June 2003 was approximately RMB1 million.

During the six-month period ended 30 June 2004, the Group did not issue any bills payable (six-months period ended 30 June 2003: RMB617 million) to the subsidiaries (including Holding Company) of ZCSU (the “ZCSU Group”).

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 rights are negotiated for terms ranging from six to twenty years.

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

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Within one year	9,530	9,530
In the second to fifth years, inclusive	36,560	36,560
After five years	122,430	127,190
	<u>168,520</u>	<u>173,280</u>

22. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had the following capital commitments, principally for the construction and acquisition of fixed assets:

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Contracted, but not provided for	87,836	109,197

23. CONTINGENT LIABILITIES

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

	30 June 2004 (unaudited) RMB'000	31 December 2003 (audited) RMB'000
Letters of credit issued	712,832	191,266

24. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six-month period ended 30 June 2004 were approved and authorised for issue by the Board of Directors on 27 August 2004.