



魏橋紡織股份有限公司

WEIQIAO TEXTILE COMPANY LIMITED

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

Interim Report  
2005



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## Highlights

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

- Turnover +51.1% to approximately RMB6,916 million
- Gross profit +43.6% to approximately RMB1,199 million
- Net profit attributable to equity holders of the parent +32.2% to approximately RMB472 million

### HIGHLIGHTS

1. Turnover and net profit attributable to equity holders of the parent increased substantially through improvement in technology and optimization of product mix;
2. Facing the opportunities and challenges in the industry, we continued to maintain a leading position in the cotton textile industry and benefit from economies of scale.

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTORS

Zhang Shiping  
Wang Zhaoting

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin  
Xu Wenying  
Chan Wing Yau, George

### SUPERVISORS

Liu Mingping  
Lu Tianfu  
Wang Wei

### COMPANY SECRETARY

Zhao Suwen

### AUDIT COMMITTEE

Wang Naixin  
Xu Wenying  
Chan Wing Yau, George

### AUTHORISED REPRESENTATIVES

Qi Xingli  
Zhao Suwen

### PLACE OF BUSINESS IN HONG KONG

39th Floor, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

### LEGAL ADDRESS IN THE PRC

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

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

### SPONSOR

BNP Paribas Peregrine Capital Limited

### LEGAL ADVISOR TO THE COMPANY AS TO HONG KONG LAW

Coudert Brothers

### INTERNATIONAL AUDITORS

Ernst & Young

### HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

### WEBSITE

[www.wqfz.com](http://www.wqfz.com)

### STOCK CODE

2698

### INVESTOR AND MEDIA RELATIONS CONSULTANT

Christensen  
Unit 2507, Tower 1  
Lippo Centre  
89 Queensway  
Hong Kong

## CHAIRMAN'S STATEMENT

It is my pleasure to present the interim results of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company", together with its subsidiaries, the "Group") for the six months ended 30 June 2005. For the six months ended 30 June 2005, the Group's turnover amounted to RMB6,916 million, representing an increase of 51.1% as compared with the corresponding period in 2004. Net profit attributable to equity holders of the parent and gross profit were RMB472 million and RMB1,199 million, up 32.2% and 43.6% respectively relative to the first half of 2004. Such robust growth was generated through economies of scale in production and a decrease in fixed cost per unit resulting from a strong improvement in production capacity. In order to meet the strong domestic economic growth and high demand from overseas markets especially for downstream, medium- to high-end products after the liberation of textile quotas, the Group has gone through an intensive program of equipment and technological upgrading.

In the first half of 2005, according to the China National Textile and Apparel Council ("CNTAC"), the overall sales in the Chinese textile industry were RMB222.26 billion; up by 28.51% when compared with the first half of 2004. According to the China's customs statistics, in the first half of 2005, export sales were US\$6.58 billion, a mere increase of 15.81% from the same period last year. Hence, a very strong domestic demand has provided a healthy development opportunity for the industry's participants.

In the first half of 2005, the proportion of domestic sales to overseas sales was generally even. The Group's domestic sales were approximately RMB3,486 million, up by 35.7% in the first half of 2005 compared to the first half of 2004. This part accounted for 50.4% of the total sales revenue. Export sales were approximately RMB3,430 million, up by 70.7% in the first half of 2005 compared to the first half of 2004. This part accounted for 49.6% of the total sales revenue. Weiqiao Textile continues to maintain its leading position in the cotton textile industry. In an environment in which supply chain management is increasingly complex, the Group, with its quick product delivery and stable product quality, has been a pace setter in meeting customer's requirements for "just in time" delivery and scaling production to the size of orders.

Liberalization of textile quotas has stimulated restructuring of the global textile industry, including the migration of production to the most efficient producers, especially China. However, safeguard measures undertaken by the United States and European Union under the terms of China's accession to the World Trade Organization have also led to market uncertainty. Both of these effects of textile trade liberalization have had only limited impact on the Group. The main reason for this is that the Group is an upstream producer, and safeguard measures have focused so far on apparel and other downstream products. Besides, most of the sales of the Group's clients were from the domestic market; whereas for those export-oriented clients, their markets were the medium- and high-end products and countries without any quota or protective measures. Hence, the impact on the Group was indirect and limited. Nevertheless, the Company believes that the liberation of textile quotas is beneficial to all consumers and manufacturers who have a competitive edge in this textile industry.

## CHAIRMAN'S STATEMENT

### **Introduction of Advanced Equipment and Technological Upgrading Have Enabled the Group to Capture Market Growth**

Demand is rising for medium- and high-end products. The Group's investments in advanced machinery and higher rates of utilization of existing capacity for high value-added products have led to an increase in profitability. Thus, first half of 2005 profit margins have shown improvement, especially in cotton yarn and denim. The gross profit margin for denim rose to 26.4% from 20.9% in the first half of 2004, while the gross profit margin for cotton yarn rose to 24.4% from 23.5% in the first half of 2004.

### **Managing Higher Energy Costs**

Rising energy costs have brought about uncertainty to the textile industry, including the Group. In May, due to the increase in energy prices in the market, the Company signed an electricity price adjustment agreement with its parent company, resulting in an increase in production cost pressure and uncertainty in the Group's future growth. In order to sustain our healthy business development and competitiveness, the Company will endeavour to solve this issue.

### **Lower Cotton Prices**

A mitigating factor to higher energy costs has been the relatively stable cotton prices. These have stabilized compared to the first half of 2004, when there was a large fluctuation in cotton prices. In the first half of 2005, CNCotton A Index indicated that the price per tonne of cotton has fluctuated around RMB13,000, and the Cotlook A (NE) Index also stabilized at approximately US\$0.54 per pound. Relatively stable cotton prices have secured the Group's profits.

### **Future Outlook and Strategy**

The Company anticipates that the business of the Group will remain stable in the second half of 2005 due to the Group's strong upstream position and increasing demand for medium- to high-end products and stable cotton prices. In face of the new development opportunities and challenges from the market, the Group will continue to control its costs, especially energy costs and finance costs, and will purchase sophisticated machineries and equipments with higher technological standard and profitability. It will also strengthen the internal governance of the Group, so as to sustain the strong competitiveness and healthy development of the Group thereby enhancing the growth of the Group.

The Company has planned to acquire the Thermal Power Assets from its parent company in the second half of the year subject to the approval of independent shareholders of the Company and certain conditions having been fulfilled in the relevant asset transfer agreement, with a view to reducing costs and increasing profitability of the Group and enhancing the operating efficiency and competitive-edge of the Group.



## CHAIRMAN'S STATEMENT

### International Recognition

As a constituent stock of both Hang Seng China Enterprises Index and China Index by Morgan Stanley Capital International ("MSCI"), the Company has been gaining acceptance among domestic and international investors. Weiqiao Textile is the only textile enterprise granted the "Top 100 Listed Companies in the PRC" by Fortune China and also one of the listed companies that have the greatest leap in ranking. The management of the Company is very pleased to have the wide recognition and support from the shareholders and market, which facilitate further healthy development of the Group.

### Corporate Governance

The Company will strengthen the communication with domestic and international shareholders or investors and will endeavor to comply with the code provisions of Appendix 14 to the Listing Rules and the relevant requirements of the Stock Exchange in respect of listed shares, so as to achieve the highest standards of disclosure and accountability in order to reduce the cost of capital and maximize value to shareholders.

We are experiencing a special period in the world textile industry but we are confident that with the support of our shareholders, employees and management, we will continue to prosper and increase value to shareholders.

### Zhang Bo

*Chairman*

Shandong, the PRC  
26 August 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

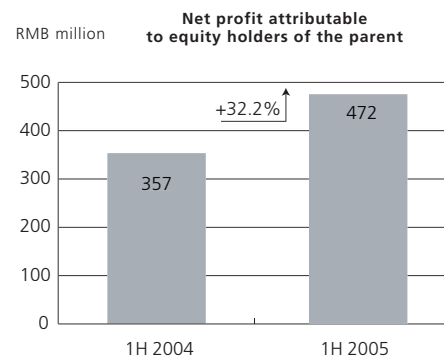
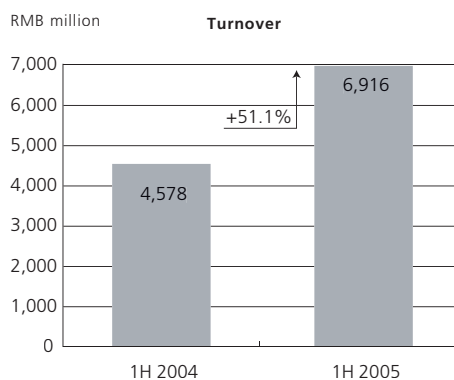
The cotton textile industry in the PRC maintained healthy growth during the first half of 2005. The production volume of yarn and cotton fabric of the PRC scalable enterprises increased by 23.02% and 27.42% respectively compared to the first half of 2004. Strong domestic demand and growth in export have been the major propellants for the industry growth. Export restrictions imposed by western countries and the PRC's self regulatory acts have both forced industry players to upgrade technology to produce more value-added products and improve overall profitability. Such trend inevitably stimulates medium- to high-end products demand from downstream to upstream. Exports of cotton textile products from the PRC amounted to US\$6.58 billion in the first half of 2005, representing an increase of 15.81% compared to the first half of 2004.

Challenges in the first half of 2005 emerged in the form of increased costs including energy, labour and capital costs. Meanwhile the relatively stable cotton prices provided a certain degree of profit stability for the industry development.

Robust demand for cotton textile products is expected to continue, particularly in the medium-to high-end products segment. Technological upgrade and industry restructuring will provide sustainable medium- to high-end products demand for upstream sectors and improve the overall profitability of the industry to recover from the previous dilution of profit due to overcapacity in low-end products.

### BUSINESS REVIEW

For the six months ended 30 June 2005, Weiqiao Textile recorded a significant increase in its turnover and net profit attributable to equity holders of the parent compared with the corresponding period in 2004.

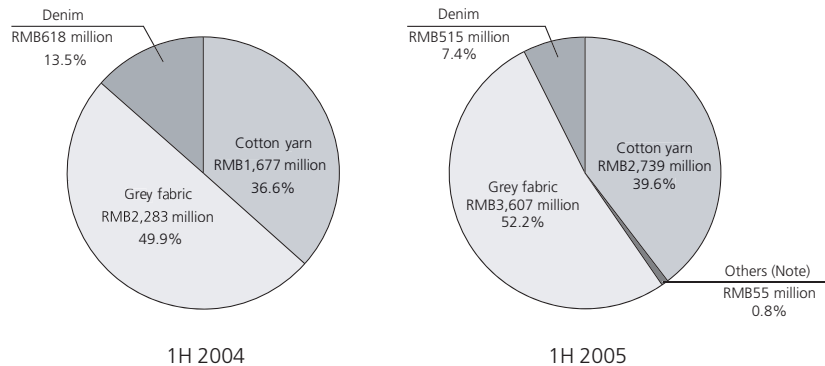


The increase in turnover and net profit attributable to equity holders of the parent during the six months ended 30 June 2005 was primarily a result of the Group's ever expanding scale of production and the strengthened marketing efforts. With the continuous improvement of production facilities and equipments and standard of technology, the Group managed to produce more high value-added products to meet the demand of the international and domestic markets.



## MANAGEMENT DISCUSSION AND ANALYSIS

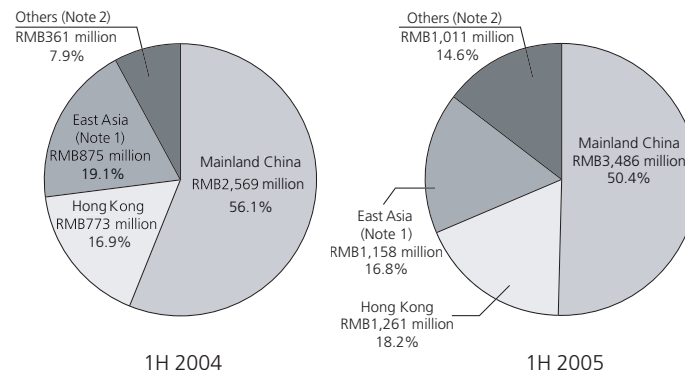
The following charts provide the comparison in terms of products segment for the six months ended 30 June 2005 and the corresponding period in 2004:



Note: Mainly includes cotton seeds and other by-products.

The increase in proportion of grey fabric to turnover and the decrease in proportion of denim to turnover in the first half of 2005 were due to the Company's expansion of production scale of grey fabric according to the market demand and use of part of the production equipments of denim to produce grey fabric. The increase in the proportion of cotton yarns sales was mainly due to the fact that the Company increased the sale of high-end cotton yarns.

The following charts show the Group's sales in terms of geographical location for the six months ended 30 June 2005 and the corresponding period in 2004.



Note 1: Includes Japan and South Korea.

Note 2: Mainly includes the Taiwan region, Thailand, the Philippines, Europe and the United States of America.

In the first half of 2005, the proportion of domestic sales to overseas sales was generally even. The increase in the proportion of overseas sales as compared with the corresponding period in 2004 was primarily due to the Company's further expansion of the overseas market after satisfying the domestic demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Group continued to maintain a strong customer base. As at 30 June 2005, the Group has over 5,500 customers in 30 provinces and municipalities in the PRC, and has over 560 customers that span over 20 countries, representing an increase of 37.5% and 40.0% respectively, when compared with the first half of 2004. Such growth is due to the Company's expansion of the domestic and overseas markets as well as the strong market demand.

The Group enjoys market dominance in the textile industry in the PRC and benefits from economies of scale. The Group aims at increasing its market share by leveraging on advantages from technological upgrade and consolidation of the textile industry.

## FINANCIAL REVIEW

### Gross profit margin

The following table is an analysis of gross profit and gross profit margin of the Group's major product categories in the first six months of 2004 and 2005:

Product category	For the six months ended 30 June			
	2005		2004	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	668,996	24.4	394,025	23.5
Grey fabric	382,871	10.6	312,354	13.7
Denim	136,229	26.4	128,837	20.9
Others	10,962	20.0	–	–
<b>Total</b>	<b>1,199,058</b>	<b>17.3</b>	<b>835,216</b>	<b>18.2</b>

For the six months ended 30 June 2005, the gross profit margin of the Group decreased from 18.2% for the first half of 2004 to 17.3% for the six months ended 30 June 2005, which was primarily attributable to the increase in staff cost due to the substantial increase in the number of apprentices.

The gross profit margin of grey fabric decreased in the first half of 2005. This was mainly due to the decrease in the proportion of sale of high-end grey fabrics with higher gross profit margin as a result of the increase in the proportion of sale of high-end cotton yarns.

### Selling and Distribution Costs

The Group's selling and distribution costs increased by 60.9% to approximately RMB185 million for the first half of 2005 from approximately RMB115 million for the first half of 2004. This increase was mainly due to the fact that the increase in sales led to the corresponding increase in selling and distribution costs, and that the persistent rise in oil prices caused the increase in transportation cost.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Administrative Expenses

Administrative expenses for the first half of 2005 totaled approximately RMB102 million, which represents an increase of 59.4% when compared to approximately RMB64 million for the first half of 2004. Such increase was primarily attributable to the fact that the expansion of the Company's production and sales scale increased the amount of management fees, and the staff costs and other related costs increased as a result of the increase in staff number in the first half of this year. Furthermore, the Company put in more research and development effort in the first half of the year, thereby increasing research and development expenses.

### Finance Costs

In the first half of 2005, finance costs increased by approximately RMB77 million and 67.2% as compared with approximately RMB115 million in the corresponding period last year. It was mainly due to the increased interest payment arising from the additional borrowings for the expansion in production scale and the increased borrowing interest rate.

### Liquidity and Financial Resources

The cash and cash equivalents of the Group were approximately RMB2,269 million as at 30 June 2005, an increase of RMB24 million from the end of last year. For the six months ended 30 June 2005, the Group had a net cash outflow from investing activities of RMB1,608 million and a net cash inflow of approximately RMB1,937 million from operating activities and incurred an exchange loss of RMB5 million. The net debt-to equity ratio decreased to 0.71.

The turnover days for the Group's accounts receivable were 19 days for the first six months ended 30 June 2005, representing a decrease from 20 days for the year ended 31 December 2004. Such decrease in accounts receivable turnover days was due to the results from the Group's tightened credit measures.

Inventory turnover days decreased from 106 days for the year ended 31 December 2004 to 88 days for the six months ended 30 June 2005. The decrease in inventory turnover days was mainly due to the strong market demand and the resulting increase in sales in the first half of the year, thereby decreasing the stock of finished goods and semi-finish goods. In addition, an increase in production scale led to an increase in the consumption of lint cotton, thus reducing stock of lint cotton.

During the six months ended 30 June 2005, the Group did not use financial instruments for hedging purpose.

### Net Profit Attributable to Equity Holders of the Parent and Earnings Per Share

Net profit attributable to equity holders of the parent was RMB472 million for the six months ended 30 June 2005, representing an increase of 32.2% as compared with RMB357 million in the same period of 2004. During the six months ended 30 June 2005, basic earnings per share of the Company was RMB0.54, representing an increase of 25.6% as compared with RMB0.43 of the corresponding period in 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital Structure

The Group strives to maintain an appropriate mix of equity and debt to ensure an efficient capital structure. As of 30 June 2005, the liabilities of the Group included bank borrowings and long term payable to the immediate holding company of approximately RMB6,934 million. Gearing ratio (total liabilities (including bank borrowings and long term payable to the immediate holding company) divided by total assets) was 38.7%.

Details of the bank borrowings outstanding as at 30 June 2005 were set out in note 17 to the unaudited condensed consolidated interim financial statements.

As at 30 June 2005, 82.4% of the Group's bank borrowings was subject to fixed interest rates while 17.6% was subject to floating interest rates.

As at 30 June 2005, the Group's borrowings were primarily denominated in Renminbi while its cash and cash equivalents were mainly held in Renminbi.

### USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING ("IPO")

H shares of Weiqiao Textile were listed on the Main Board ("Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 September 2003 and net proceeds of approximately HK\$2,371 million were raised from the IPO. As at 30 June 2005, the Company applied the proceeds from the IPO for the purposes set out in the Company's prospectus dated 15 September 2003 as follows:

	HK\$' million	
	Planned usage	Actual allocation
Expansion of product portfolio to include more high value-added cotton textile products	406	359
Upgrade of the existing production technology	94	94
Establishment of a technology development center	47	–
Upgrade of 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. The net proceeds of the placement was approximately HK\$653 million. As at 31 December 2004, the Company applied the proceeds from the placement for the purposes as set out in the Company's announcement dated 28 May 2004 as follows:

	HK\$' million	
	<b>Planned</b>	<b>Actual allocation</b>
Development and production of high value-added new fabric products	239	239
Increase of production capacity of existing high value-added cotton textile products	192	192
Upgrade of the existing production technology	43	43
General working capital	179	179
Total	653	653

### PLEGGED ASSETS

Details of the Group's pledged assets are set out in note 17 to the unaudited condensed consolidated interim financial statements.

### EXPOSURE TO FOREIGN EXCHANGE RISKS

Export revenue, cost of imported raw materials and part of the bank borrowings of the Group are denominated in US dollars. The amount of income and expenses denominated in US dollars of the Group were generally at a comparable level and no significant foreign exchange settlement and purchase was required. This helped to effectively prevent the Group from being exposed to foreign exchange risks arising from the change in exchange rates. The Group did not experience any significant difficulties or impact on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2005.

### CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 24 to the unaudited condensed consolidated interim financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2005, the Group had a total of approximately 158,000 employees, representing an increase of approximately 60,000 employees as compared with that as at 30 June 2004. The increase in the number of employees was due to the training and recruitment of staff for the commencement of production in the Second Production Area of Binzhou Industrial Park, the Second Industrial Park of Zouping and the Weihai Industrial Park, as well as the increase in the number of product quality management staff of the Company. Total staff costs amounted to approximately RMB828 million, accounting for 12.0% of the Group's turnover during the Period. Employees were remunerated based on their performance, experience and industry practice. The Group's remuneration policies and packages were reviewed by its management on a regular basis.

### TAXATION

Income tax of the Group increased from approximately RMB207 million for the first half of 2004 to approximately RMB262 million for the first half of 2005, representing an increase of 26.6%. This increase was primarily due to the fact that profit before tax increased 30.6% from RMB565 million in the first half of 2004 to RMB738 million in the first half of 2005.

## SUPPLEMENTARY INFORMATION

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, 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:

Interests in the domestic shares of the Company ("Domestic Shares"):

	<b>Number of Domestic Shares</b> (note 1)	<b>Approximate percentage of total issued Domestic share capital</b> (%)	<b>Approximate percentage of total issued share capital</b> (%)
Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) ("Holding Company")	410,311,100 (long position) (note 2)	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 (long position) (note 3)	77.31	46.87

Interests in the H Shares of the Company ("H Shares"):

	<b>Number of H Shares</b> (note 4)	<b>Approximate percentage of total issued H share capital</b> (%)	<b>Approximate percentage of total issued share capital</b> (%)
Citigroup Inc.	24,139,494 (long position) (note 5) 1,489,500 (lending pool)	7.00 0.43	2.76 0.17
HSBC Asset Management (Hong Kong) Limited	18,551,000 (long position) (note 6)	5.38	2.12
Invesco Asia Limited	17,609,000 (long position) (note 7)	5.10	2.01
State Street Corporation	17,591,208 (lending pool) (note 8)	5.10	2.01
UBS AG	17,429,466 (long position) (note 9)	5.06	1.99
J.P. Morgan Chase & Co.	17,253,507 (long position) (note 10) 16,767,507 (lending pool)	5.01 4.86	1.97 1.92

## SUPPLEMENTARY INFORMATION

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 the Stock Exchange.
5. 22,649,994 H Shares were directly held by Citigroup Inc. and 1,489,500 H Shares were held by Citigroup Inc. in its capacity as a custodian corporation/approved lending agent.
6. 18,551,000 H Shares were held by HSBC Asset Management (Hong Kong) Limited in its capacity as investment manager.
7. 17,609,000 H Shares were held by Invesco Asia Limited in its capacity as investment manager.
8. 17,591,208 H Shares were held by a corporation controlled by State Street Corporation.
9. 5,990,700 H Shares were directly held by UBS AG and 11,438,766 H Shares were held by certain corporations controlled by UBS AG.
10. 486,000 H Shares were directly held by J.P. Morgan Chase & Co.; and 16,767,507 H Shares were held by J.P. Morgan Chase & Co. as a custodian corporation/approved lending agent.

Save as disclosed above, so far as is known to the directors, supervisors and the chief executive of the Company, as at 30 June 2005, 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.



## SUPPLEMENTARY INFORMATION

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

As at 30 June 2005, 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 the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests in the Domestic Shares of the Company:

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

Interests in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO) are as follows:

	<b>Name of associated corporation</b>	<b>Type of interest</b>	<b>Approximate percentage of total issued share capital</b> (%)
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note:

1. Unlisted shares

Save as disclosed above, as at 30 June 2005, 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.

## **SUPPLEMENTARY INFORMATION**

### **INTERIM DIVIDEND**

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2005.

### **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 2005.

### **AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") 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 26 August 2005 to review the unaudited interim financial statements for the six months ended 30 June 2005 and provide 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 2005.

### **REMUNERATION COMMITTEE**

The Company has established a remuneration committee (the "Remuneration Committee") to comply with standard operations as a listed company. The objective of this committee is to review directors' and management's remuneration policies and projects. The Remuneration Committee is composed of three directors. The remuneration committee meeting was held on 26 April 2005 to pass the bill of 2005 with regard to directors' payroll and bonus as well as supervisors' payment.

### **COMPLIANCE WITH THE CODE**

To the best knowledge of the directors of the Company, the Company has complied with the code provisions of the Code, throughout the six months ended 30 June 2005.

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 the code provisions of the Code.

### **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has not adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with Directors, the Company has confirmed that each of the Directors complied with the Model Code.

## SUPPLEMENTARY INFORMATION

### DISCLOSURES UNDER CHAPTER 13 OF THE LISTING RULES

**(A) Loan agreement dated 1 August 2005 and entered into amongst, inter alios, the Company and a syndicate of banks (the “New Syndicated Loan Agreement”)**

The Company entered into the New Syndicated Loan Agreement on 1 August 2005 with, inter alios, a syndicate of banks for a three year term loan facility of up to US\$125,000,000 (equivalent to approximately HK\$975,000,000). Under the New Syndicated Loan Agreement, there would be an event of default if, at any time, (i) Holding Company holding approximately 46.87% of the entire issued share capital of the Company, ceases to (a) beneficially (directly or indirectly) own at least 40% of the entire issued share capital of the Company which is not subject to any security or similar arrangement; or (b) retain management control over the Company; or (ii) Mr. Zhang Bo (a director of the Company who is considered as a party acting in concert with Holding Company) and his family members collectively cease to retain management control over the Company or any of the subsidiaries of the Company. Upon the occurrence of any of the above events of default, all amounts outstanding in respect of all loans (including accrued interests) under the New Syndicated Loan Agreement shall become immediately due and payable and the obligations of the lenders under the New Syndicated Loan Agreement to make further advances shall cease. The aggregate amount of the facilities under the New Syndicated Loan Agreement that may be affected by such breach as at 26 August 2005 is US\$125,000,000 (equivalent to approximately HK\$975,000,000).

**(B) Loan agreements dated 8 September 2004 and entered into amongst, inter alios, the Company and a syndicate of banks (the “Old Syndicated Loan Agreements”)**

The Company entered into the Old Syndicated Loan Agreements on 8 September 2004 with, inter alios, a syndicate of banks for a three year term loan facility of up to US\$78,000,000 (equivalent to approximately HK\$608,400,000) and RMB183,000,000 (equivalent to approximately HK\$175,962,000), respectively. Under the Old Syndicated Loan Agreements, there would be an event of default if, at any time, (i) Holding Company ceases to remain as the single largest beneficial shareholder of the Company; or (ii) Holding Company and the members of the Company’s management team as at the date of the Old Syndicated Loan Agreements (or some but not all of such members) cease to (a) beneficially own in aggregate not less than 45% of the entire issued shareholding in or equity ownership interest in the Company; or (b) retain absolute management control (including control over the composition of the board of directors of the Company) over any of the members of the Group. Upon the occurrence of any of the above events of default, all amounts outstanding in respect of all loans (including accrued interests) under the Old Syndicated Loan Agreements shall become immediately due and payable and the obligations of the lenders under the Old Syndicated Loan Agreements to make further advances shall cease. The aggregate amounts of the facilities under the Old Syndicated Loan Agreements that may be affected by such breach as at 30 June 2005 were US\$78,000,000 (equivalent to approximately HK\$608,400,000) and RMB183,000,000 (equivalent to approximately HK\$175,962,000), respectively.

## INDEPENDENT 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 months ended 30 June 2005, as set out on pages 20 to 42.

### **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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 HKICPA. 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.

### **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 2005.

#### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

26 August 2005



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)***For the six months ended 30 June 2005*

	Notes	Six months ended 30 June 2005 RMB'000	Six months ended 30 June 2004 RMB'000
<b>TURNOVER</b>		<b>6,915,725</b>	4,577,976
Cost of sales		<b>(5,716,667)</b>	(3,742,760)
Gross profit		<b>1,199,058</b>	835,216
Other income and gains	5	<b>60,175</b>	60,073
Selling and distribution costs		<b>(185,260)</b>	(115,407)
Administrative expenses		<b>(101,596)</b>	(63,829)
Other operating expenses		<b>(43,298)</b>	(36,898)
Profit from operating activities	6	<b>929,079</b>	679,155
Finance costs	7	<b>(191,570)</b>	(114,547)
<b>Profit before tax</b>		<b>737,509</b>	564,608
Tax	8	<b>(262,458)</b>	(206,742)
<b>Profit for the period</b>		<b>475,051</b>	357,866
<b>Attributable to:</b>			
Equity holders of the parent		<b>471,594</b>	356,811
Minority interests		<b>3,457</b>	1,055
		<b>475,051</b>	357,866
<b>Earnings per share – basic (RMB)</b>	9	<b>0.54</b>	0.43
<b>Dividend per share</b>	10	<b>Nil</b>	Nil

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

As at 30 June 2005

		<b>30 June 2005 (unaudited)</b>	31 December 2004 (audited) (restated) (Notes 2, 3)
	Notes	<b>RMB'000</b>	RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	11	<b>9,956,040</b>	9,499,913
Intangible assets		<b>8,701</b>	9,301
Negative goodwill		–	(23,548)
Prepaid land lease payments	12	<b>122,832</b>	123,533
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,087,573</b>	9,609,199
<b>CURRENT ASSETS</b>			
Inventories		<b>2,754,120</b>	2,673,468
Trade receivables	13	<b>738,087</b>	598,419
Prepayments, deposits and other receivables		<b>226,440</b>	374,787
Amounts due from related parties	14	<b>260,687</b>	266,096
Pledged deposits		<b>844,211</b>	296,836
Time deposits over three months		<b>721,102</b>	325,400
Cash and cash equivalents		<b>2,269,018</b>	2,244,648
		<b>7,813,665</b>	6,779,654
<b>CURRENT LIABILITIES</b>			
Trade payables	15	<b>2,543,522</b>	1,329,391
Bills payable	16	<b>110,000</b>	220,000
Tax payable		<b>672,376</b>	498,270
Other payables and accruals		<b>904,584</b>	765,069
Interest-bearing bank loans	17	<b>3,033,505</b>	3,347,144
Amounts due to a related party	14	<b>864</b>	864
Amount due to the immediate holding company	14	<b>259,027</b>	238,864
Long term payable to the immediate holding company	18	<b>50,000</b>	50,000
Dividend payable		<b>38,517</b>	31,380
		<b>7,612,395</b>	6,480,982
<b>NET CURRENT ASSETS</b>		<b>201,270</b>	298,672
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,288,843</b>	9,907,871

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)***As at 30 June 2005*

	Notes	<b>30 June 2005 (unaudited)</b> RMB'000	31 December 2004 (audited) (restated) (Notes 2, 3) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	17	<b>3,721,911</b>	3,618,786
Long term payables to the immediate holding company	18	<b>128,927</b>	128,927
		<b>3,850,838</b>	3,747,713
		<b>6,438,005</b>	6,160,158
<b>CAPITAL AND RESERVES</b>			
Equity attributable to equity holders of the parent			
Share capital	19	<b>875,453</b>	875,453
Other reserves		<b>3,817,138</b>	3,817,138
Retained profits		<b>1,653,538</b>	1,158,396
Proposed final dividend		–	218,863
		<b>6,346,129</b>	6,069,850
Minority interests		<b>91,876</b>	90,308
		<b>6,438,005</b>	6,160,158

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)***For the six months ended 30 June 2005*

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory		Proposed final dividend RMB'000	Retained profits RMB'000	Minority interests RMB'000	Total RMB'000
			surplus reserve RMB'000	public welfare fund RMB'000				
As at 1 January 2005								
As previously reported	875,453	3,424,199	199,390	193,549	218,863	1,158,396	90,308	6,160,158
Opening adjustment (note 3(a))	-	-	-	-	-	23,548	-	23,548
As restated	875,453	3,424,199	199,390	193,549	218,863	1,181,944	90,308	6,183,706
Final 2004 dividend declared	-	-	-	-	(218,863)	-	-	(218,863)
Dividend paid to minority shareholders	-	-	-	-	-	-	(1,889)	(1,889)
Net profit for the period	-	-	-	-	-	471,594	3,457	475,051
As at 30 June 2005	875,453	3,424,199	199,390	193,549	-	1,653,538	91,876	6,438,005
Effects of opening adjustment attributable to:								
Equity holders of the parent	-	-	-	-	-	23,548	-	23,548

*For the six months ended 30 June 2004*

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory		Proposed final dividend RMB'000	Retained profits RMB'000	Minority interests RMB'000	Total RMB'000
			surplus reserve RMB'000	public welfare fund RMB'000				
As at 1 January 2004								
Final 2003 dividend declared	-	-	-	-	(45,808)	-	-	(45,808)
Dividend paid to minority shareholders	-	-	-	-	-	-	(2,434)	(2,434)
Contribution from minority interests for investment in subsidiaries	-	-	-	-	-	-	32,574	32,574
Issue of H shares	57,447	634,535	-	-	-	-	-	691,982
Net profit for the period	-	-	-	-	-	356,811	1,055	357,866
As at 30 June 2004	875,453	3,424,199	115,948	110,702	-	1,074,824	90,440	5,691,566

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)***For the six months ended 30 June 2005*

	<b>Six months ended 30 June 2005 RMB'000</b>	Six months ended 30 June 2004 RMB'000
<b>Net cash inflow from operating activities</b>	<b>1,936,505</b>	842,987
<b>Net cash outflow from investing activities</b>	<b>(1,608,280)</b>	(2,877,468)
<b>Net cash inflow/(outflow) before financing activities</b>	<b>328,225</b>	(2,034,481)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(298,573)</b>	1,921,127
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>29,652</b>	(113,354)
Cash and cash equivalents at beginning of the period	<b>2,244,648</b>	1,532,193
Effect of foreign exchange rate changes, net	<b>(5,282)</b>	(4,489)
<b>Cash and cash equivalents at end of the period</b>	<b>2,269,018</b>	1,414,350
<b>Analysis of cash and cash equivalents:</b>		
Cash and bank balances	<b>1,678,718</b>	803,224
Non-pledge time deposits with original maturity of less than three months when acquired	<b>590,300</b>	611,126
	<b>2,269,018</b>	1,414,350

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***1. CORPORATE INFORMATION**

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

The Group is principally engaged in the manufacture and sale of cotton yarns, grey fabrics and denims in the PRC and overseas.

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

As at 30 June 2005, the Company had direct interests in the following subsidiaries and joint ventures:

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



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 32, 33, 37, 38 and 39 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

**(a) HKAS 17 – Leases**

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

As at 30 June 2005

**2. PRINCIPAL ACCOUNTING POLICIES (continued)****(a) HKAS 17 – Leases (continued)**

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of fixed assets. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in fixed assets.

This change in accounting policy has had no effect on the condensed consolidated profit and loss account and retained profits. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

**(b) HKFRS 3 – Business Combinations and HKAS 36-Impairment of Assets**

Negative goodwill was carried in the balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated profit and loss account when the future losses and expenses were recognised.

Pursuant to HKFRS 3, any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the profit and loss account.

The effects of the above changes are summarised in note 3 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

As at 30 June 2005

**3. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES**

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the opening adjustment are summarized as follows:

**(a) Effect on opening balance of total equity at 1 January 2005**

Effect of new policies Increase/(decrease)	Note	Capital	Statutory	Statutory	Proposed	Retained	Minority	Total
		reserve	surplus	public	final	profits	interests	
		(unaudited)	(unaudited)	fund	dividend	(unaudited)	(unaudited)	(unaudited)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening adjustment:								
HKFRS 3								
Derecognition of negative goodwill	2(b)	-	-	-	-	23,548	-	23,548
Total effect at 1 January 2005		-	-	-	-	23,548	-	23,548

The following table summarizes the impact on profit after tax for the six months ended 30 June 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustment has been made for the adoption of HKFRS 3, the amount shown for the six months ended 30 June 2004 may not be comparable to the amount shown for the current interim period.

**(b) Effect on profit after tax for the six months ended 30 June 2005 and 2004**

Effect of new policies Increase/ (decrease)	Note	For the six months ended 30 June 2005			2004		
		Equity holders of the parent (unaudited) RMB'000	Minority interests (unaudited) RMB'000	Total (unaudited) RMB'000	Equity holders of the parent (unaudited) RMB'000	Minority interests (unaudited) RMB'000	Total (unaudited) RMB'000
Effect on profit after tax:							
HKFRS 3							
Recognition of negative goodwill	2(b)	(1,495)	-	(1,495)	-	-	-
Total effect for the period		(1,495)	-	(1,495)	-	-	-
Effect on earnings per share:							
Basic		RMB0.002			Nil		

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***4. SEGMENT INFORMATION**

The Group has only one business segment, which is the manufacture and sale of cotton yarns, grey fabrics and denims. 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 the Group's operations, is as follows:

	<b>Six months ended 30 June 2005</b>		
	<b>Sales to external</b>	<b>Cost of sales</b>	<b>Gross profit</b>
	<b>customers</b>		
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	
Mainland China	<b>3,486,494</b>	<b>2,575,222</b>	<b>911,272</b>
Hong Kong	<b>1,260,526</b>	<b>1,088,215</b>	<b>172,311</b>
East Asia	<b>1,158,206</b>	<b>1,101,548</b>	<b>56,658</b>
Others	<b>1,010,499</b>	<b>951,682</b>	<b>58,817</b>
<b>Total</b>	<b>6,915,725</b>	<b>5,716,667</b>	<b>1,199,058</b>

	<b>Six months ended 30 June 2004</b>		
	<b>Sales to external</b>	<b>Cost of sales</b>	<b>Gross profit</b>
	<b>customers</b>		
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	
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
<b>Total</b>	<b>4,577,976</b>	<b>3,742,760</b>	<b>835,216</b>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***5. OTHER INCOME AND GAINS**

	<b>Six months ended 30 June 2005 (unaudited) RMB'000</b>	Six months ended 30 June 2004 (unaudited) RMB'000
Interest income	<b>16,918</b>	8,071
Gain on sale of raw materials	<b>25,137</b>	34,895
Compensation from suppliers on supply of sub-standard goods	<b>12,431</b>	6,230
Negative goodwill recognised	–	1,495
Subsidy income	–	3,799
Others	<b>5,689</b>	5,583
Total other income and gains	<b>60,175</b>	60,073

**6. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>Six months ended 30 June 2005 (unaudited) RMB'000</b>	Six months ended 30 June 2004 (unaudited) (restated) RMB'000
Cost of goods sold	<b>5,697,267</b>	3,732,476
Amortisation of intangible assets	<b>600</b>	600
Depreciation (note 11)	<b>300,815</b>	209,109
Release of negative goodwill to income	–	(1,495)
Amortisation of prepaid land lease payments	<b>701</b>	558
Write-down of inventories	<b>19,400</b>	10,284

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***7. FINANCE COSTS**

	<b>Six months ended 30 June 2005 (unaudited) RMB'000</b>	Six months ended 30 June 2004 (unaudited) RMB'000
Interest on bank loans		
wholly repayable within five years	<b>196,070</b>	129,547
Less: interest capitalised (i)	<b>(4,500)</b>	(15,000)
	<b>191,570</b>	114,547

- (i) The capitalisation rate adopted for capitalising interests incurred during the six months ended 30 June 2005 ranged from 3.825% to 7.812% 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 six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

	<b>Six months ended 30 June 2005 (unaudited) RMB'000</b>	Six months ended 30 June 2004 (unaudited) RMB'000
Current – Hong Kong profits tax	–	–
– PRC corporate income tax (“CIT”)	<b>262,458</b>	206,742
Total tax charge for the period	<b>262,458</b>	206,742



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***8. TAX** (continued)

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

	<b>Six months ended 30 June 2005 (unaudited)</b>		Six months ended 30 June 2004 (unaudited)	
	<b>RMB'000</b>	<b>%</b>	RMB'000	%
Profit before tax	<b>737,509</b>		564,608	
At PRC statutory tax rate	<b>243,378</b>	<b>33.0</b>	186,321	33.0
Expenses not deductible for tax	<b>8,343</b>	<b>1.1</b>	18,692	3.3
Tax loss not recognised	<b>5,738</b>	<b>0.8</b>	–	–
Income not subject to tax	–	–	(1,254)	(0.2)
Tax exemption	<b>(3,358)</b>	<b>(0.4)</b>	(1,448)	(0.3)
Others	<b>8,357</b>	<b>1.1</b>	4,431	0.8
Tax charge at the Group's effective rate	<b>262,458</b>	<b>35.6</b>	206,742	36.6

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

Being sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to a state CIT rate of 30% and a local CIT rate of 3%. With regard to state CIT, they are entitled to a full exemption for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. With regard to local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption commencing from 2002 and 2004, respectively. Since Binteng Textile was approved for an income tax exemption for the six months ended 30 June 2005, no provision for CIT has been made by Binteng Textile for the current period. Luteng Textile was entitled to a 50% reduction of state CIT rate for the current period.

At 30 June 2005, there is no significant unrecognised deferred tax liability (30 June 2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures because the Group has no liability to additional taxes should such amounts be remitted.

The Group did not have any significant unprovided deferred tax during the period (six months ended 30 June 2004: Nil)

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***9. EARNINGS PER SHARE**

The calculations of basic earnings per share are based on:

	<b>Six months ended 30 June 2005 (unaudited) RMB'000</b>	Six months ended 30 June 2004 (unaudited) RMB'000
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**Earnings**

Net profit from ordinary activities attributable  
to equity holders of the parent used in basic earnings  
per share calculation

<b>471,594</b>	356,811
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**Number of shares**

<b>Six months ended 30 June 2005 (unaudited)</b>	Six months ended 30 June 2004 (unaudited)
--------------------------------------------------------------	----------------------------------------------------

**Shares**

Weighted average number of ordinary shares in issue during the  
Period used in basic earnings per share calculation

<b>875,452,500</b>	826,527,857
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The weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation for the six months ended 30 June 2004 has been adjusted to reflect the H shares issued by way of placing in the second quarter of 2004.

Diluted earnings per share amount for the six months ended 30 June 2005 and 2004 have not been disclosed as no diluting events existed during the periods.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***10. DIVIDEND**

The proposed final dividend for the year ended 31 December 2004 was approved by the Company's shareholders on 28 February 2005.

At a meeting of the board of directors held on 26 August 2005, the directors resolved not to pay an interim dividend to Shareholders (2004: Nil).

**11. FIXED ASSETS**

During the period, the Group acquired buildings, machinery and equipment, motor vehicles and construction-in-progress with an aggregate cost of approximately RMB758,503,000 (six months ended 30 June 2004: RMB2,448,982,600), and disposed of machinery and equipment and motor vehicles with an aggregate net book value of approximately RMB1,561,000 (six months ended 30 June 2004: RMB3,150,000). The depreciation charge of the Group for the six months ended 30 June 2005 was approximately RMB300,815,000 (six months ended 30 June 2004: RMB209,109,000).

**12. PREPAID LAND LEASE PAYMENTS**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) (restated) RMB'000
At cost	<b>127,097</b>	127,097
Less: accumulated amortisation	<b>(4,265)</b>	(3,564)
	<b>122,832</b>	123,533

Prepaid land lease payments are amortised over a period of 50 years.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***13. TRADE RECEIVABLES**

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

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Outstanding balances aged:		
Within 3 months	<b>719,685</b>	590,558
3 months to 6 months	<b>6,138</b>	3,106
6 months to 1 year	<b>10,813</b>	2,900
1 year to 2 years	<b>1,451</b>	1,855
	<b>738,087</b>	598,419

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.

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

**14. 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 repayment terms.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***15. TRADE PAYABLES**

An aged analysis of the trade payables as at the balance sheet date, based on the date of the significant risks and rewards of ownership of raw materials and fixed assets having been transferred to the Group, is as follows:

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Outstanding balances aged:		
Within 90 days	<b>2,450,820</b>	1,292,330
90 days to 3 years	<b>92,702</b>	37,061
	<b>2,543,522</b>	1,329,391

**16. BILLS PAYABLE**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Outstanding balances aged:		
Within 90 days	<b>110,000</b>	60,000
90 to 180 days	-	160,000
	<b>110,000</b>	220,000

As at 30 June 2005, bills payable of RMB60 million and RMB50 million were drawn by Weihai Weiqiao and Weihai Industrial Park, respectively, in favour of the Company which were discounted with banks by the Company prior to 30 June 2005.

The Group's bills payable as at 30 June 2005 were secured by the pledge of certain of the Group's time deposits of approximately RMB24 million (31 December 2004: approximately RMB67 million).

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

As at 30 June 2005

**17. BORROWINGS**

Set out below is information relating to the security interest and banking guarantees of the Group's bank loans as at 30 June 2005:

- (i) On 8 September 2004, the Company entered into a master agreement relating to a dual currency term loan facility (the "Agreement") with a syndicate of banks. The facility provides that the Company may borrow up to US\$78 million and RMB183 million, which were fully utilised as at 30 June 2005. The Agreement contained certain undertakings and financial covenants, including but not limited to maximum level of dividend payment, a minimum level of consolidated tangible net worth, a maximum level of consolidated total debts and consolidated total secured debts, maintenance of net consolidated current assets and certain financial ratios.
- (ii) Certain of the Group's bank loans amounting to approximately RMB4,498 million (31 December 2004: RMB4,879 million) were secured by the Group's buildings, machinery and equipment, and land use rights, which had an aggregate net book value of approximately RMB6,590 million as at 30 June 2005 (31 December 2004: RMB7,202 million).
- (iii) Certain of the Group's bank loans up to approximately RMB55 million (31 December 2004: RMB135 million) were secured by certain of the Group's raw materials in transit of approximately RMB55 million as at 30 June 2005 (31 December 2004: RMB135 million).
- (iv) Certain of the Group's bank loans up to approximately RMB135 million (31 December 2004: RMB115 million) were secured by certain of the Group's accounts receivable of up to approximately RMB197 million as at 30 June 2005 (31 December 2004: RMB144 million).
- (v) Weihai Civil Aviation Industrial Company Limited, a minority shareholder of Weihai Weiqiao, has guaranteed bank loans of Weihai Weiqiao of up to approximately RMB53 million as at 30 June 2005 (31 December 2004: RMB41 million).
- (vi) The Company has guaranteed bank loans of certain of its subsidiaries up to approximately RMB365 million as at 30 June 2005 (31 December 2004: RMB281 million).



**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***18. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY**

The long term payable to the immediate holding company as at 30 June 2005 and 31 December 2004 are unsecured, interest-free and are repayable over three years commencing 2005 by three instalments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively. In 2005, the immediate holding company agreed that it will not demand the repayment of the first instalment of RMB50,000,000 prior to 30 June 2005 and the repayment of the second instalment of RMB50,000,000 prior to 30 June 2006.

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Amount repayable:		
Within one year	<b>50,000</b>	50,000
In the second year	<b>50,000</b>	50,000
In the third to fifth years, inclusive	<b>78,927</b>	78,927
	<b>178,927</b>	178,927
Portion classified as current liabilities	<b>(50,000)</b>	(50,000)
Long term portion	<b>128,927</b>	128,927

**19. SHARE CAPITAL**

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Registered, issued and fully paid:		
530,770,000 (31 December 2004: 530,770,000) domestic shares of RMB1.00 each	<b>530,770</b>	530,770
344,682,500 (31 December 2004: 344,682,500) H Shares of RMB1.00 each	<b>344,683</b>	344,683
	<b>875,453</b>	875,453

The Company does not have any share option scheme.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***20. DISTRIBUTABLE RESERVES**

As at 30 June 2005, in accordance with 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 RMB184 million and RMB184 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's retained profits of approximately RMB1,484 million available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders as at 30 June 2005.

**21. 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 during the period, the Group had the following material transactions with the following related parties:

**(a) Transaction with related parties**

Name of related parties	Relationship with the Company	Nature of transactions	Six months ended 30 June 2005 (unaudited) RMB'000	Six months ended 30 June 2004 (unaudited) RMB'000
Holding Company	The immediate holding company	Expenses on provision of electricity and steam power	<b>467,742</b>	212,697
		Sale of fixed assets	-	379
		Expenses on property leasing	<b>4,768</b>	4,768
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	<b>62,184</b>	58,826
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabric	<b>42,858</b>	43,416

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***21. RELATED PARTY TRANSACTIONS (continued)****(a) Transaction with related parties (continued)**

Name of related parties	Relationship with the Company	Nature of transactions	Six months ended	Six months ended
			30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
Shandong Weiqiao Hengfu Textile Limited	A fellow subsidiary	Sale of cotton yarns	<b>10,340</b>	3,280
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of holding company	Sale of cotton yarns	<b>3,958</b>	1,764

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

**(b) Outstanding balances with related parties**

	Due from related parties		Due to related parties	
	30 June 2005 (unaudited) RMB'000	31 December 2004 (audited) RMB'000	30 June 2005 (unaudited) RMB'000	31 December 2004 (audited) RMB'000
Holding Company	–	–	<b>437,954</b>	417,791
Fellow subsidiaries	<b>260,687</b>	266,096	<b>864</b>	864

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

	Six months ended	Six months ended
	30 June 2005 (unaudited) RMB'000	30 June 2004 (unaudited) RMB'000
Short term employee benefits	<b>2,178</b>	2,164
Post-employment benefits	–	–
Share-based payments	–	–
Total compensation paid to key management personnel	<b>2,178</b>	2,164

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)***As at 30 June 2005***22. OPERATING LEASE COMMITMENTS**

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

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Within one year	<b>9,536</b>	9,536
In the second to fifth years, inclusive	<b>37,896</b>	38,196
After five years	<b>113,760</b>	118,228
	<b>161,192</b>	165,960

**23. CAPITAL COMMITMENTS**

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

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Contracted, but not provided for	<b>193,504</b>	242,901

**24. CONTINGENT LIABILITIES**

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

	<b>30 June 2005 (unaudited) RMB'000</b>	31 December 2004 (audited) RMB'000
Letters of credit issued	<b>1,317,497</b>	172,015

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

As at 30 June 2005

**25. SUBSEQUENT EVENTS**

On 5 July 2005, an Extraordinary General Meeting (“EGM”) was held to approve the agreement (“Supplemental Agreement”) dated 13 May 2005 entered into between the Company and Holding Company. The Supplemental Agreement is supplemental to the supply of electricity and steam agreement entered into between the Company and Holding Company on 25 August 2003. Pursuant to the Supplemental Agreement, for the quantities of purchases of electricity and steam in any financial year in excess of the amounts in 2004, the purchase price shall be adjusted, but must not be higher than the then prevailing market price. In this connection, the EGM also approved the revised annual caps of the relevant connected transaction as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

On 1 August 2005, the Company entered into a loan agreement with a syndicate of banks for a three year term loan facility (the “Facility”) up to US\$125 million (equivalent to about RMB1,013 million) with annual interest rate fixed by reference to LIBOR and a normal spread. As of 10 August 2005, an aggregate amount of US\$125 million (equivalent to about RMB1,013 million) has been drawn down under the Facility. The Facility contained certain undertakings and financial covenants, including but not limited to maximum level of dividend payment, minimum level of consolidated tangible net worth, maximum level of consolidated total debt and consolidated total secured debts, maintenance of net consolidated current assets and certain financial ratios.

On 5 August 2005, a special resolution was passed in an extraordinary general meeting to approve an issue by the Company, conditional upon such approvals or consents being granted by the relevant PRC regulatory authorities, of a short term debenture in the aggregate principal amount of up to RMB1.8 billion, on such terms and conditions as the directors may determine.

On 16 August 2005, the Company issued a circular to its shareholders in connection with a major and connected transaction, and certain continuing connected transactions, as summarized below. On 13 August 2005, the Company entered into an asset transfer agreement with Holding Company, pursuant to which the Company has agreed to acquire the Thermal Power Assets (as defined in the circular) for an aggregate consideration of RMB3,000 million. Such consideration will be satisfied by issuance of 250 million non-tradable domestic shares and cash of RMB2,710 million and RMB290 million, respectively. Further, the Company will lease from Holding Company the land use rights in respect of the land on which the Thermal Power Assets are currently located with annual rental payment of around RMB2.7 million. In addition, Holding Company will purchase electricity from the Company, which is in excess of the Group’s actual electricity consumption, at a rate agreed upon between both parties, from the date of Completion (as defined in the circular) to 31 December 2007. The aforementioned major and connected transaction and continuing connected transactions are subject to independent shareholders’ approval.

**26. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed interim financial statements were approved and authorised for issue by the board of directors on 26 August 2005.