

Continued to
outperform peers
through production
scale and **efficiency**





Chairman's Statement

It is my pleasure to present the annual results of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company", together with its subsidiaries, collectively, the "Group") for the year ended 31 December 2005 (the "Year").

China's textile industry underwent both challenges and changes in 2005. During the Year, the textile industry experienced cost inflation caused by the rise of oil price, the moderate increase in cotton price and the appreciation of Renminbi. Meanwhile, due to the substantial increase in the export of China's textile products, some of the textile products import regions proposed measures on trade protection, triggering the trade disputes between China and the European Union and the US. The development path of China's textile industry could only be mapped out after the uncertainties had been eliminated upon the final agreement was reached.

Weiqiao Textile's mode of operations and operating strategies, both of which were efficient and effective, continued to contribute to the Group's outstanding performance. For the year ended 31 December 2005, the Group's turnover was RMB13.584 billion, representing a growth of 22.5% as compared with 2004. Net profit attributable to shareholders was approximately RMB1.242 billion, representing an increase of 50.5% as compared with 2004. Earnings per share were approximately RMB1.35. The Board has recommended payment of final dividend of RMB0.287 per share for the year ended 31 December 2005.



During the Year, the Group strived to improve both the grade and the quality of its products, resulting the gross profit of the Group's products be maintained at 16.5%, in which gross profit margin of cotton yarn continued to improve. The gross profit margin of cotton yarn rose to 21.7% from 17.2% in 2004.



Although the price increase in energy and raw materials exerted pressure to the operating costs of textile industry, the Group managed to cope with the problems with the proactive measures it had taken. In October 2005, the Company acquired the thermal power assets ("thermal power assets") from Shandong Weiqiao Chuangye Group Company Limited ("Holding Company") for the textile operations. Such acquisition enabled the Group to ensure a stable power supply and reduce connected transactions, and more importantly, to maintain the major element of the production costs at a reasonable and competitive level. In fact, the benefits for the acquisition of power plant have been manifested. The Company earned revenue of approximately RMB44 million by selling power and steam to Holding Company and third parties.

In accordance with "The Provisional Measures on the Relief of Enterprise Income Tax Owing to the Investment in Domestic Equipment Used for Technological Reform" issued by the Ministry of Finance and State Administration of Tax of the PRC, the Company and its non-wholly owned subsidiary, Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"), were granted a tax relief of approximately RMB287,689,000 in aggregate by the local tax bureau for purchasing of PRC manufactured machinery and equipment in respect of technical renovation in 2005. Pursuant to the prevailing tax laws in China, the Group may apply similar tax relief in future.

Chairman's Statement



Entering 2006, as the agreements on textile products negotiation were reached between China and the US and between China and the European Union, notwithstanding the uncertainties and problems in association with the regional multi-lateral free trade, trade liberalization is still irresistible under market globalization. With the abolition of textile products quotas and the trend of making global purchase, textile products merchandisers around the globe make purchase in China, contributing to the persistent enlargement of the international and domestic market. The growth of textile industry in China will become steady in future and it is expected that the focus of competition in the industry will shift to the quality, from the quantity, of the products, with an objective to raise the profitability. The growth and the competition in the industry tend to be healthy.

Besides, with the Chinese government's determined policy that the economy will be driven by domestic demand, the future growth of the economy will be driven by the growth of consumption, instead of investment. The growth of domestic demand will reduce the reliance of textile industry on export, which in turn generate a new market of growth for enterprises in the industry and effectively eliminate the operating risks of the textile industry. Being the leader in the industry, Weiqiao Textile will enjoy more opportunities. With more textile resources being diverted to China, the persistent economic development in China will further promote the domestic demand, and hence creating a more favourable operating environment for Weiqiao Textile.



Being the largest cotton textile manufacturer in China, Weiqiao Textile will closely monitor the market development, both in the Mainland and abroad, and make appropriate and timely adjustment to the Group's expansion strategy and future development. Having undergone the rapid development over the past few years, the Group, through optimizing the utilization rate of equipment, promoting the productivity and efficiency of equipment and yielding higher benefits of the scale of operations, has continued to outperform its peer, manifesting a stronger foundation and greater competitive edges. In future, we will continue to perfect the production technique, enhance production technology, and improve efficiency with a view to boosting the quantity and quality of our products for catering the needs of different types of customers.

In the meantime, the Group will also strengthen the corporate governance, build up the prestige

of its brand name and improve the values of the enterprises for contributing a strong medium to long-term drive of growth. The management is determined to produce better results for Weiqiao Textile, to create values for shareholders and to witness the long-term favourable development of China's textile industry with its peers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, investors and business partners for their continuous dedication and support and to the staff for their devotion. Their dedication, support and efforts have enabled Weiqiao Textile to achieve a new height.

A handwritten signature in black ink, appearing to be 'Zhang Bo'.

Zhang Bo

Chairman

Shangdong, the PRC
4 April 2006