

Report of the Directors

The directors of the Company ("Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2005.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2005 and the financial position of the Group and the Company as at 31 December 2005 are set out in the audited financial statements on pages 62 to 64 and pages 69 to 70.

The Directors recommended the payment of a final dividend of RMB0.287 per share for the year ended 31 December 2005, to shareholders of the Company on the register of members at the close of business on 4 May 2006. There was no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends. This recommendation has been incorporated in the audited financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the accountants' report for the three years ended 31 December 2002 and the audited consolidated financial statements for the three-month period ended 31 March 2003 in the Prospectus and the audited consolidated financial statements for the year ended 31 December 2003, and from the audited consolidated financial statements of the Group for the year ended 31 December 2004 and the year ended 31 December 2005 on pages 62 to 64, is set out below:

Results

	Year ended 31 December				2005 RMB'000
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	
Revenue	2,353,637	4,380,923	6,560,470	11,088,224	13,584,389
Cost of sales	(2,007,486)	(3,729,267)	(5,350,157)	(9,231,047)	(11,340,259)
Gross profit	346,151	651,656	1,210,313	1,857,177	2,244,130
Other income and gains	23,748	49,303	74,120	159,022	189,536
Selling and distribution costs	(40,794)	(78,565)	(148,375)	(275,899)	(344,868)
Administrative expenses	(27,212)	(40,189)	(89,703)	(143,524)	(151,059)
Other operating expenses	(9,470)	(19,641)	(35,116)	(59,509)	(81,788)
Finance costs	(46,009)	(101,506)	(157,797)	(290,383)	(420,167)
Profit before tax	246,414	461,058	853,442	1,246,884	1,435,784
Tax	(88,977)	(169,627)	(305,674)	(420,405)	(187,390)
Profit for the year	157,437	291,431	547,768	826,479	1,248,394
Attributable to:					
Equity holder of the parent	154,040	288,240	541,672	825,535	1,242,473
Minority interests	3,397	3,191	6,096	944	5,921

Assets and liabilities

	31 December				
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	2005 RMB'000
Total assets	2,632,421	5,538,972	11,339,925	16,388,853	24,704,766
Total liabilities	2,007,308	3,939,219	6,682,539	10,228,695	14,783,418

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2005 are set out in Note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's share capital during the year ended 31 December 2005, together with the reasons therefor, are set out in Note 33 to the financial statements.

The Company does not have any share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which could oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2005.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2005 are set out in Note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, in accordance with the PRC Company Law and the PRC Accounting Standards and Regulations, an amount of about RMB5,967 million standing to the credit of the Company's capital reserve account, and an amount of about RMB604 million standing to the credit of the Company's statutory reserve funds, as determined in accordance with the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, according to the Company's articles of association, the Company had retained profits of about RMB1,986 million for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2005, sales to the Group's five largest customers accounted for 12.0% of the Group's total sales for the year ended 31 December 2005. The sales to its largest customer accounted for 4.8% of the Group's total sales for the year ended 31 December 2005.

During the year ended 31 December 2005, purchases from the Group's five largest suppliers accounted for 18.0% of the Group's total purchases for the year ended 31 December 2005. During the year ended 31 December 2005, purchases from the Group's largest supplier accounted for 5.5% of the Group's total purchases for the year ended 31 December 2005.

The Group has sold and purchased certain products to and from certain companies with the same ultimate controlling shareholder of the Company, details of which are set out in the section headed "Connected Transactions" below.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers each of the independent non-executive Directors to be independent.

EMOLUMENTS OF DIRECTORS

There was no arrangement under which a Director has waived or agreed to waive any emoluments. Details of emoluments of Directors are set out in Note 8 to the financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and supervisors of the Company (the "Supervisors") (excluding the independent Supervisors) has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, independent non-executive Directors and independent Supervisors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Company's articles of association, each Director and Supervisor is eligible for re-election upon expiration of their term of office.

The Directors and Supervisors as at the date of this report and their respective term of office are as follows:

Executive Directors:

Zhang Bo	Until 16 March 2006
Zhang Hongxia	Until 16 March 2006
Qi Xingli	Until 16 March 2006
Zhao Suwen	Until 16 March 2006

Non-executive Directors:

Zhang Shiping	Until 16 March 2006
Wang Zhaoting	Until 16 March 2006

Independent non-executive Directors:

Wang Naixin	Until 16 March 2006
Xu Wenying	Until 26 June 2006
Chan Wing Yau, George	Until 16 March 2006

Supervisors:

Liu Mingping	Until 16 March 2006
Lu Tianfu (Note)	Until 16 March 2006
Wang Wei (Note)	Until 16 March 2006

Note: Independent Supervisor

Report of the Directors

Ordinary resolutions will be put to shareholders of the Company at the annual general meeting of the Company for the year ended 31 December 2005 to re-elect each of the Directors and Supervisors.

RE-ELECTION OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors is subject to re-election at the annual general meeting of the Company for the year ended 31 December 2005. The biographies of each of the Directors and Supervisors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report. Set out below are the additional information required under Rule 13.51(2) of the Listing Rules:

Zhang Bo

Save as disclosed in this annual report, Mr. Zhang does not hold any positions in the Company and its subsidiaries, and Mr. Zhang did not hold any directorships held in listed public companies in the last three years. Mr. Zhang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company, save that Mr. Zhang Shiping and Ms. Zhang Hongxia are his father and sister, respectively. Mr. Zhang is interested in 12,932,000 domestic shares of the Company. Mr. Zhang would enter into a service contract with the Company on the date of the annual general meeting for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB1,000,000 which is based on his length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Zhang.

Zhang Hongxia

Save as disclosed in this annual report, Ms. Zhang does not hold any positions in the Company and its subsidiaries, and Ms. Zhang did not hold any directorships held in listed public companies in the last three years. Mr. Zhang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company, save that Mr. Zhang Shiping and Mr. Zhang Bo are her father and brother, respectively. Ms. Zhang is interested in 17,700,400 domestic shares of the Company. Ms. Zhang would enter into a service contract with the Company on the date of the annual general meeting for the year ended 31 December 2005 for a term of 3 years. Her director's emolument is RMB1,000,000, which is based on her length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Ms. Zhang.

Qi Xingli

Save as disclosed in this annual report, Mr. Qi does not hold any positions in the Company and its subsidiaries, and Mr. Qi did not hold any directorships held in listed public companies in the last three years. Mr. Qi does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Qi is interested in 8,052,500 domestic shares of the Company. Mr. Qi would enter into a service contract with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB600,000 which is based on his length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Qi.

Zhao Suwen

Save as disclosed in this annual report, Ms. Zhao does not hold any positions in the Company and its subsidiaries, and Ms. Zhao did not hold any directorships held in listed public companies in the last three years. Ms. Zhao does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Ms. Zhao does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Ms. Zhao would enter into a service contract with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. Her director's emolument is RMB400,000 which is based on her length of services, experience and qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Ms. Zhao.

Zhang Shiping

Save as disclosed in this annual report, Mr. Zhang does not hold any positions in the Company and its subsidiaries, and Mr. Zhang did not hold any directorships held in listed public companies in the last three years. Mr. Zhang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company, save that Mr. Zhang Bo and Ms. Zhang Hongxia are his son and daughter, respectively. Mr. Zhang is interested in 5,200,000 domestic shares of the Company. Mr. Zhang would enter into a service contract with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB100,000 which is based on his length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Zhang.

Wang Zhaoting

Save as disclosed in this annual report, Mr. Wang does not hold any positions in the Company and its subsidiaries, and Mr. Wang did not hold any directorships held in listed public companies in the last three years. Mr. Wang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Wang does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Wang would enter into a service contract with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB50,000 which is based on his length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Wang.

Wang Naixin

Save as disclosed in this annual report, Mr. Wang does not hold any positions in the Company and its subsidiaries, and Mr. Wang did not hold any directorships held in listed public companies in the last three years. Mr. Wang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Ms. Wang does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Wang would enter into an appointment letter with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB50,000 which is based on his length of services, experience and qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Wang.

Xu Wenying

Save as disclosed in this annual report, Mr. Xu does not hold any positions in the Company and its subsidiaries, and Mr. Xu did not hold any directorships held in listed public companies in the last three years. Mr. Xu does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Xu does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Xu would enter into an appointment letter with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is RMB120,000 which is based on his length of services, experience and qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Xu.

Chan Wing Yau, George

Save as disclosed in this annual report, Mr. Chan does not hold any positions in the Company and its subsidiaries, and Mr. Xu did not hold any directorships held in listed public companies in the last three years. Mr. Chan does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Chan does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Chan would enter into an appointment letter with the Company on the date of the annual general meeting of the Company for the year ended 31 December 2005 for a term of 3 years. His director's emolument is HK\$600,000 which is based on his length of services, experience and qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Chan.

Liu Mingping

Save as disclosed in this annual report, Mr. Liu does not hold any positions in the Company and its subsidiaries, and Mr. Liu did not hold any directorships held in listed public companies in the last three years. Mr. Liu does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Liu does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Liu would enter into a service contract with the Company on the date of the annual general meeting for the year ended 31 December 2005 for a term of 3 years. His supervisor's emolument is RMB30,000 which is based on his length of services, experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Liu.

Lu Tianfu

Save as disclosed in this annual report, Mr. Lu does not hold any positions in the Company and its subsidiaries, and Mr. Lu did not hold any directorships held in listed public companies in the last three years. Mr. Lu does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Mr. Lu does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Mr. Lu entered into an appointment letter with the Company on the date of the annual general meeting for the year ended 31 December 2005 for a term of 3 years. His supervisor's emolument is RMB30,000 which is based on his experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Mr. Lu.

Report of the Directors

Wang Wei

Save as disclosed in this annual report, Ms. Wang does not hold any positions in the Company and its subsidiaries, and Ms. Wang did not hold any directorships held in listed public companies in the last three years. Ms. Wang does not have relationship with any other Directors, Supervisors, senior management, substantial shareholders, management shareholders or controlling shareholders of the Company. Ms. Wang does not have any interests in shares of the Company under Part XV of the Securities and Futures Ordinance. Ms. Wang entered into an appointment letter with the Company on the date of the annual general meeting for the year ended 31 December 2005 for a term of 3 years. Her supervisor's emolument is RMB30,000 which is based on her experience and/or qualification. There are no other matters that need to be brought to the attention of the shareholders of the Company in respect of the re-election of Ms. Wang.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in the note headed "Related Party Transactions" in Note 38 to the financial statements and the section headed "Connected Transactions" below. None of the Director or Supervisor is or was materially interested, either directly or indirectly, in any contract subsisting during or at the end of 2005 which is significant in relation to the business of the Group.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in the note headed "Related Party Transactions" in Note 38 to the financial statements and the section headed "Connected Transactions" below, there is no contract of significance between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries) and there is no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company (or any of its subsidiaries).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, so far as known to any Directors, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”) or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

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

Name of shareholders	Number of Domestic Shares <i>(note 1)</i>	Approximate percentage of total issued Domestic Share capital as at 31 December 2005 (%)	Approximate percentage of total issued share capital as at 31 December 2005 (%)
Holding Company (集團公司)	660,311,100 <i>(note 2)</i>	84.57	58.67
ZCSU (縣聯社)	660,311,100 <i>(note 3)</i>	84.57	58.67

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 as at 31 December 2005 <i>(%)</i>	Approximate percentage of total issued share capital as at 31 December 2005 <i>(%)</i>
HSBC Halbis Partners (Hong Kong) Limited	36,481,643 <i>(note 5)</i>	10.58	3.24
UBS AG	23,338,456 <i>(note 6)</i>	6.77	2.07
JP Morgan Chase & Co.	20,638,507 <i>(note 7)</i>	5.99	1.83
Legg Mason Inc.	18,636,000 <i>(note 8)</i>	5.41	1.66
Templeton Investment Counsel, LLC	17,307,500 <i>(note 9)</i>	5.02	1.54

Notes:

1. Unlisted shares.
2. These 660,311,100 Domestic Shares are directly held by Holding Company.
3. These 660,311,100 Domestic Shares are 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. 36,481,643 H Shares were held by HSBC Halbis Partners (Hong Kong) Limited in its capacity as investment manager.
6. 8,752,610 H Shares were directly held by UBS AG and 14,585,846 H Shares were respectively held by various companies controlled by UBS AG.

7. 732,000 H Shares were directly held by JP Morgan Chase & Co. and 19,906,507 H Shares were held by JP Morgan Chase & Co. in the capacity as custodian corporation/approved lending agent.
8. 18,636,000 H Shares were held by Legg Mason Inc. in its capacity as investment manager.
9. 17,307,500 H Shares were held by Templeton Investment Counsel, LLC in its capacity as investment manager.

Save as disclosed above, so far as is known to the Directors of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) who had any interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2005, the interests of the Directors, Supervisors and chief executive of the Company in the shares of the Company or any of 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:

Long positions in the Domestic Shares:

	Type of interest	Number of Domestic Shares (note 1)	Approximate percentage of total issued Domestic Share capital as at 31 December 2005 (%)	Approximate percentage of total issued share capital as at 31 December 2005 (%)
Zhang Hongxia (Executive Director)	Personal	17,700,400	2.27	1.57
Zhang Bo (Executive Director)	Personal	12,932,000	1.66	1.15
Qi Xingli (Executive Director)	Personal	8,052,500	1.03	0.72
Zhang Shiping (Non-Executive Director)	Personal	5,200,000	0.67	0.46

Report of the Directors

Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital as at 31 December 2005 (%)
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note:

1. Unlisted shares

Save as disclosed above, as at 31 December 2005, none of the Directors, Supervisors or the chief executive of the Company had an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) 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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2005.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group for the year ended 31 December 2005 are set out below:

During the year ended 31 December 2005, certain transactions were entered into between the Group and the following connected persons of the Company:

1. Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").
2. Weiqiao Bleach is 40% owned by Holding Company. Weilian Print is a 65% owned subsidiary of Holding Company. Weiqiao Dyeing is a 60% owned subsidiary of Holding Company. Shandong Hengfu Knitting Co., Ltd. is 60% owned by Holding Company. Shandong Weiqiao Hongyuan Home Textile, Ltd. is 60% owned by Holding Company. Shandong Weiqiao Tekuanfu Co., Ltd. is 90% owned by Holding Company. Shandong Weiqiao Clothes Co., Ltd. is 67% owned by Holding Company. As the above 7 companies are associates of a promoter/substantial shareholder of the Company, it constitutes a connected person of the Company under the Listing Rules.
3. Itochu Corporation ("Itochu") is the holder of 10.2% interests in Luteng Textile, a 75% owned subsidiary of the Company, and 25% interests in Binteng Textile, a 75% owned subsidiary of the Company. As it is a substantial shareholder of the above subsidiaries of the Company, it constitutes a connected person of the Company under the Listing Rules.

Under the Listing Rules, the transactions between the Company and the above connected persons constituted connected transactions of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

Set out below is a summary of the non-exempt connected transactions under the Listing Rules (“Non-Exempt Connected Transactions”):

Supply of cotton yarn and grey fabric by the Group to Holding Company, its subsidiaries and associates (“Parent Group”)

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn and grey fabric to Parent Group for the production of downstream cotton textile products. The agreement has a term of three years commencing from the date of the agreement. The prices of cotton yarn and grey fabric supplied by the Group to Parent Group were determined by reference to the prices at which comparable types of cotton yarn and grey fabric were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC.

Supply of cotton yarn and grey fabric by the Group to Itochu

The Group supplied cotton yarn and grey fabric to Itochu on normal commercial terms in order to maintain a close business relationship with Itochu. The prices at which cotton yarn and grey fabric were supplied by the Group to Itochu were determined by reference to the prices at which comparable types of cotton yarn and grey fabric were sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business.

Supply of electricity and steam by Holding Company to the Group

On 25 August 2003, the Company and Holding Company entered into a supply of electricity and steam agreement pursuant to which Holding Company agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the agreement. The Group was therefore able to obtain a stable supply of energy for its operations. The price at which electricity was provided to the Group by Holding Company was the lower of either RMB0.35 per kWh or the market price. The price at which steam was provided to the Group by Holding Company was the lower of either RMB60 per ton or the market price.

On 13 May 2005, the Company and Holding Company entered into a supplemental agreement for the purpose of specifying the pricing bases under the above supply of electricity and steam agreement.

Provision of processing services by Parent Group to the Group

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement pursuant to which Holding Company agreed to supply or procure its subsidiaries and/or associates (including but not limited to Weilian Print and Weiqiao Bleach) to provide, cotton yarn and grey fabric downstream processing services (e.g. dyeing, bleaching and printing) to the Group in order to accommodate the side demand from its customers for a term of three years commencing from the date of the agreement. The fees at which processing services were provided by Parent Group to the Group were determined by reference to the fees at which comparable types of processing services were provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

Lease of land use rights by Holding Company to the Company (excluding the land use rights in respect of the thermal power assets)

The Company and Holding Company entered into seven leasing agreements pursuant to which, Holding Company agreed to lease to the Company land use rights in respect of land respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, and the land use rights in respect of land located to the east of Zouping County in the economic development zone of Zouping County, Shandong Province, the PRC, for the Company's operations, with a right of renewal exercisable by

the Company. The principal terms of the agreements are as follows:

- (i) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental expense of RMB454,900 for the land relating to the First Production Area.
- (ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental expense of RMB868,000 for the land relating to the First Production Area.
- (iii) Land use rights lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, at an annual rental expense of RMB888,700 for the land relating to the Second Production Area.
- (iv) Land use rights lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, at an annual rental expense of RMB1,503,000 for the land relating to the Third Production Area.

- (v) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,167,000 for the land relating to the Zouping Economic Development Zone, a new production area established during the year.
- (vi) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB994,100 for the land relating to the Zouping Economic Development Zone.
- (vii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,000,000 for the land relating to the Zouping Economic Development Zone.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their business in Zouping County, Shandong Province, the PRC.

Establishment of Shandong Weiqiao Chuangye Finance Company Limited

On 17 March 2005, the Company entered into a promoters' agreement with Binzhou Industrial Park, Weihai Weiqiao, Holding Company, Weiqiao Dyeing, and Weilian Print, to establish Shandong Weiqiao Chuangye Finance Company Limited ("SWCF"), for the purpose of providing financial services to Holding Company and its subsidiaries, subject to approval by China Banking Regulatory Commission ("CBRC").

The registered capital of SWCF would be RMB400,000,000 (approximately HK\$377,000,000).

The establishment of SWCF is subject to the obtaining of the relevant approval of CBRC and registration with the local administration for industry and commerce. Upon establishment, SWCF will be owned as to 6.25% by the Company, 3.75% by Binzhou Industrial Park, 2.5% by Weihai Weiqiao, 68.75% by Holding Company, 12.5% by Weiqiao Dyeing, and 6.25% by Weilian Print.

Acquisition of Thermal Power Assets from Holding Company by the Company

On 13 August 2005, the Company entered into the asset transfer agreement with Holding Company, pursuant to which the Company has agreed to acquire the thermal power assets (the "Thermal Power Assets") from Holding Company for an aggregate consideration of RMB3,000,000,000 (equivalent to about HK\$2,879,000,000). The acquisition was completed in October 2005. After the acquisition, the Group owns and operates by itself the Thermal Power Assets, which have an installed capacity of about 660 MW and steam generation capacity of about 1,240 tons per hour, respectively.

Lease of land use rights by Holding Company to the Company in respect of the Thermal Power Assets

The Company and Holding Company entered into the leasing agreement pursuant to which, Holding Company has agreed to lease to the Company land use rights in respect of the four pieces of land on which the Thermal Power Assets are located, comprising of two pieces of land with a total area of about 199,453 sq.m. in Weiqiao Town, Zouping County, Shandong Province, a piece of land with an area of about 152,001 sq.m. in the Economic Development Zone of Zouping County, Shandong Province, and a piece of land with an area of about 98,355 sq.m. in the Economic Development Zone of Binzhou City, Shandong Province, respectively. The lease commenced on 31 October 2005 for a term of 20 years at a total annual rental expense of RMB2,699,000 (subject to adjustments).

Supply of excess electricity by the Company to Holding Company

The Company and Holding Company entered into the supply of excess electricity agreement pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual electricity consumption, to Holding Company for a term commencing from 31 October 2005 and ending on 31 December 2007 (both dates inclusive).

The price at which excess electricity is supplied to Holding Company by the Company shall be RMB0.45 per kWh or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, whichever is higher. If any applicable mandatory price for the supply of electricity is prescribed by the government, it would be adopted instead.

Further details of the Non-Exempt Connected Transactions are set out in the Prospectus and the Company's announcements dated 17 October 2003, 17 March 2005, 13 May 2005 and 13 August 2005, respectively.

Figures for the year ended 31 December 2005

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2005:

Transaction nature	Aggregate value for the year ended 31 December 2005 <i>(RMB'000)</i>
1. Supply of cotton yarn and cotton fabric	
(a) by the Group to Parent Group	417,040
(b) by the Group to Itochu	312,609
2. Supply of electricity and steam by Holding Company to the Group	701,925
3. Lease of land use rights by Holding Company to the Group (excluding the land use rights in respect of the Thermal Power Assets)	8,936
4. Plant and equipment leasing by the Company to Weiqiao Dyeing	250
5. Lease of land use rights by Holding Company to the Company in respect of the Thermal Power Assets	450
6. Supply of excess electricity by the Company to Holding Company	36,816

Confirmation by the independent non-executive Directors

The independent non-executive Directors have reviewed the Non-Exempt Connected Transactions and confirmed that each of the Non-Exempt Connected Transactions was:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into either in accordance with the relevant agreement governing such transactions or where there were no such agreements, on terms no less favourable than those available to or from independent third parties, as applicable; and
- (iv) was within the relevant annual cap which had been agreed with the Stock Exchange.

OTHER CONNECTED TRANSACTIONS

Payment Agent Arrangement

For the year ended 31 December 2005, Holding Company settled liabilities in an aggregate amount of RMB27,835,000 on behalf of the Company (with no fees/interest charged and no security over any of the assets of the Company being granted). As at 31 December 2005, the Company had an aggregate payables of RMB301,294,000 to Holding Company (with no fees/interest charged and no security over any of the assets of the Company being granted).

For the year ended 31 December 2005, the Company paid certain independent third parties an amount of RMB46,531,000 on behalf of Holding Company, with funds previously deposited by Holding Company in the accounts of the Company, in relation to the payment of the fees due for certain construction work by certain independent third parties for the benefit of Holding Company. As at 31 December 2005, Holding Company did not have any amount payable to the Company.

DISCLOSURES UNDER CHAPTER 13 OF THE LISTING RULES

On 1 August 2005, the Company, as borrower, entered into a syndicated loan agreement with 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). Such syndicated loan agreement includes covenants relating to specific performance of the controlling shareholder of the Company.

On 8 September 2004, the Company, as borrower, also entered into a syndicated loan agreement for a three year term loan facility 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. Such syndicated loan agreement also includes covenants relating to specific performance of the controlling shareholder of the Company.

RETIREMENT SCHEME

Details of the retirement scheme of the Group are set out in Note 7 to the financial statements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An audit committee meeting was held on 4 April 2006 to review the Group's annual report and financial statements and provide advice and recommendations to the board of directors of the Company.

INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2005. A resolution for the reappointment of Ernst & Young as international auditors of the Company will be proposed at the forthcoming annual general meeting.

For the three years ended 31 December 2005, the Company did not replace its auditors.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has sufficient public float under Rule 8.08 of the Listing Rules.

On Behalf of the Board of Directors

Zhang Bo

Chairman

Shandong, the PRC

4 April 2006