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 Company and its subsidiaries (collectively, the "Group") are 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, the immediate holding company and the ultimate holding company of the Group are Shandong Weiqiao Chuangye Group Company ("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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and the liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year'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 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
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 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
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
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

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

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 property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid 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 buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derivative financial instruments – Forward currency contracts and interest rate swaps

Forward currency contracts and interest rate swaps are classified as held for trading and stated at fair value through profit or loss. Gains or losses on these derivative financial instruments held for trading are recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, negative goodwill arising on acquisition was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits.

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 acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures approximately qualitative information approximately the Group's objective, policies and processes for managing capital; quantitative data approximately what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions and the fair value option, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 4, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005

	Effect of adopting		
	HKAS 17#	**HKFRS 3***	
	Prepaid land	**Derecognition of**	
Effect of new policies	**lease payments**	**negative goodwill**	**Total**
(Increase/(decrease))	RMB'000	RMB'000	RMB'000
Assets			
Property, plant and equipment	(123,533)	–	(123,533)
Prepaid land lease payments	121,087	–	121,087
Negative goodwill	–	23,548	23,548
Prepayments, deposits and other receivables	2,446	–	2,446
			23,548
Liabilities/equity			
Retained profits	–	23,548	23,548

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005

	Effect of adopting				
Effect of new policies (Increase/(decrease))	HKAS 17 Prepaid land lease payments RMB'000	HKASs 32 and 39 Derivative financial instruments RMB'000	HKFRS 3 Derecognition of negative goodwill RMB'000	HKAS 12 Deferred tax on derivative financial instruments RMB'000	Total RMB'000
Assets					
Property, plant and equipment	(133,087)	–	–	–	(133,087)
Prepaid land lease payments	130,305	–	–	–	130,305
Negative goodwill	–	–	20,558	–	20,558
Prepayments, deposits and other receivables	2,782	–	–	–	2,782
Derivative financial instruments	–	8,243	–	–	8,243
Deferred tax assets	–	–	–	2,014	2,014
					30,815
Liabilities/equity					
Derivative financial instruments	–	6,104	–	–	6,104
Deferred tax liabilities	–	–	–	2,720	2,720
Retained profits	–	2,139	20,558	(706)	21,991
					30,815

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKFRS 3 Derecognition of negative goodwill RMB'000
1 January 2004	
Retained profits	–
1 January 2005	
Retained profits	23,548

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting			
Effect of new policies	HKASs 32 and 39 Derivative financial instruments RMB'000	HKFRS 3 Discontinuation of recognition of negative goodwill as income RMB'000	HKAS 12 Deferred tax on derivative financial instruments RMB'000	Total RMB'000
Year ended 31 December 2005				
Increase/(decrease) in other income and gains	2,139	(2,990)	–	(851)
Increase in tax	–	–	(706)	(706)
Total increase/(decrease) in profit	2,139	(2,990)	(706)	(1,557)
Increase/(decrease) in basic earnings per share	RMB 0.002	RMB(0.003)	RMB(0.001)	RMB(0.002)
Year ended 31 December 2004				
Total increase in profit	–	–	–	–
Increase in basic earnings per share	–	–	–	–

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture company is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement. A joint venture company is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39 investment, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

The Company has unilateral control over the Group joint ventures, Shandong Luteng Textile Company Limited ("Luteng Textile") and Shandong Binteng Textile Company Limited ("Binteng Textile") since their incorporation on 12 September 2002 and 12 March 2004, respectively.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is an post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful life and annual depreciation rates used for this purpose are as follows:

	Estimated useful life	Annual depreciation rate
Buildings	6 – 40 years	2.4 – 16.0%
Machinery and equipment	3 – 33 years	2.9 – 32.0%
Motor vehicles	4 – 10 years	9.5 – 24.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents a building, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments and short term investments.

Long term investments
Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except :

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except :

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, where the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- electricity and steam income, when electricity or steam has been supplied; and

- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Retirement benefits scheme

The Company and its subsidiaries participate in defined contribution retirement schemes organised by the local government authorities in the PRC. Employees holding city and township residency are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company and its subsidiaries are required to make contributions to the retirement schemes at a rate of 20% of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.58% is applied to the expenditure on the individual assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Estimation of fair value of financial derivatives

The Group estimates the fair value of financial derivatives based on the financial modelling which require various source of information and assumption.

Realisability of deferred tax assets

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for provision for assets to the extent that it is probable (i.e. more likely than that) that future taxable profits will be available against to utilise deferred tax assets. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised. The carrying amount of deferred tax assets is reviewed at each balance sheet date to assess realisation of deferred tax assets.

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 the location of the Group's operations, is as follows:

Year ended 31 December 2005

	Sales to external customers RMB'000	**Cost of sales RMB'000**	**Gross profit RMB'000**
Mainland China	**7,334,154**	**5,688,023**	**1,646,131**
Hong Kong	**2,372,547**	**2,123,222**	**249,325**
East Asia	**2,138,200**	**1,959,334**	**178,866**
Others	**1,739,488**	**1,569,680**	**169,808**
	13,584,389	**11,340,259**	**2,244,130**

Year ended 31 December 2004

	Sales to external customers RMB'000	Cost of sales RMB'000	Gross profit RMB'000
Mainland China	6,291,081	4,886,573	1,404,508
Hong Kong	1,869,948	1,641,237	228,711
East Asia	1,864,803	1,735,844	128,959
Others	1,062,392	967,393	94,999
	11,088,224	9,231,047	1,857,177

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, after allowance for trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

		Group	
		2005	2004
	Notes	**RMB'000**	RMB'000
Revenue			
Sale of textile goods		**13,584,389**	11,088,224
Other income			
Bank interest income		**32,159**	24,154
Compensation from suppliers on supply of sub-standard goods		**59,208**	61,664
Penalty income from employees		**6,312**	8,036
Negative goodwill recognised	*18*	**–**	2,990
Recognition of deferred income	*31*	**596**	–
Others		**3,067**	1,077
		101,342	97,921
Gains			
Sale of electricity and steam		**44,125**	–
Less: cost thereon		**(29,491)**	–
Gains on sale of electricity and steam		**14,634**	–
Gains on sale of raw materials and spare parts		**3,215**	61,101
Foreign exchange differences, net		**68,206**	–
Fair value gains, net:			
Derivative financial instruments transactions not qualifying as hedges	*28*	**2,139**	–
		88,194	61,101
		189,536	159,022

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold		**11,253,204**	9,212,247
Staff costs (excluding directors' and supervisors' remuneration *(note 8)*):			
Wages, salaries and social security costs		**1,657,581**	1,003,091
Retirement benefits scheme contributions		**30,080**	23,653
		1,687,661	1,026,744
Depreciation	*15*	**737,008**	498,007
Amortisation of prepaid land lease payments	*16*	**2,446**	1,266
Repairs and maintenance		**296,625**	264,552
Losses/(gains) on disposal of items of property, plant and equipment		**(94)**	1,787
Amortisation of intangible assets	*17*	**1,200**	1,200
Auditors' remuneration		**5,377**	3,200
Directors' and supervisors' remuneration	*8*	**4,214**	4,211
Foreign exchange differences, net		**(68,206)**	9,150
Provision for bad and doubtful debts		**–**	2,000
Provision against inventories		**37,719**	18,800
Negative goodwill recognised as income	*18*	**–**	(2,990)
Realised losses on derivative financial instruments transactions		**4,271**	–
Fair value gains, net:			
Derivative financial instruments transactions not qualifying as hedges	*5, 28*	**(2,139)**	–
Research and development costs included in:			
Wages and salaries		**5,713**	3,016
Consumption of consumables		**4,445**	5,428
		10,158	8,444
Minimum lease payments under operating lease:			
Land and building		**9,986**	9,536

7. RETIREMENT BENEFITS

The aggregate contribution of the Group to retirement benefits scheme was approximately RMB30.1 million for the year ended 31 December 2005 (2004: RMB23.7 million). As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, as required to be disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Fees	**4,034**	3,996
Other emoluments:		
Salaries, allowances and benefits in kind	**152**	179
Retirement benefits scheme contributions	**28**	36
	180	215
	4,214	4,211

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

There was no emolument paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2004: Nil).

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	RMB'000	RMB'000
Mr. Wang Naixin	**50**	50
Mr. Xu Wenying	**120**	120
Mr. Chan Wing Yau, George	**624**	636
	794	806

There were no other emoluments payable to the independent non-executive directors.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2005				
Executive directors:				
Mr. Zhang Bo	**1,000**	**42**	**8**	**1,050**
Ms. Zhang Hongxia	**1,000**	**42**	**8**	**1,050**
Mr. Qi Xingli	**600**	**39**	**7**	**646**
Ms. Zhao Suwen	**400**	**29**	**5**	**434**
	3,000	**152**	**28**	**3,180**
Non-executive directors:				
Mr. Zhang Shiping	**100**	**–**	**–**	**100**
Mr. Wang Zhaoting	**50**	**–**	**–**	**50**
	150	**–**	**–**	**150**
	3,150	**152**	**28**	**3,330**
2004				
Executive directors:				
Mr. Zhang Bo	1,000	43	9	1,052
Ms. Zhang Hongxia	1,000	42	8	1,050
Mr. Qi Xingli	600	37	7	644
Ms. Zhao Suwen	350	28	6	384
	2,950	150	30	3,130
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Mr. Wang Zhaoting	50	–	–	50
	150	–	–	150
	3,100	150	30	3,280

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2005				
Mr. Liu Mingping	**30**	**–**	**–**	**30**
Mr. Lu Tianfu	**30**	**–**	**–**	**30**
Ms. Wang Wei	**30**	**–**	**–**	**30**
	90	**–**	**–**	**90**
2004				
Mr. Liu Mingping	30	29	6	65
Mr. Lu Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
	90	29	6	125

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2004: five), details of whose remuneration are set out in note 8 above.

10. FINANCE COSTS

	Group 2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	**437,867**	316,383
Less: Interest capitalised	**(17,700)**	(26,000)
	420,167	290,383

11. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2004: Nil).

	Group	
	2005	2004
	RMB'000	RMB'000
Current – Hong Kong	**–**	–
– Mainland China	**240,430**	420,405
Deferred	**(53,040)**	–
Total tax charge for the year	**187,390**	420,405

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

	Group			
	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,435,784**		1,246,884	
Tax at PRC statutory tax rate	**473,809**	**33.0**	411,472	33.0
Expenses not deductible for tax	**17,992**	**1.2**	10,333	0.8
Tax loss not recognised	**6,852**	**0.5**	5,002	0.4
Tax exemption *(note (a))*	**(7,558)**	**(0.5)**	(1,913)	(0.1)
Tax concessions in respect of purchase of PRC manufactured machinery and equipment *(note (b))*	**(287,689)**	**(20.0)**	–	–
Others	**(16,016)**	**(1.1)**	(4,489)	(0.4)
Tax charge at the Group's effective rate	**187,390**	**13.1**	420,405	33.7

11. TAX (continued)

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

Notes:

(a) 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 to have income tax exemption in 2005, no provision for CIT has been made by Binteng Textile for the current year. Luteng Textile was entitled to a 50% reduction of State CIT rate for the current year.

(b) The amount represents tax concession, approved by the local tax bureau, in respect of purchases of PRC manufactured machinery and equipment. The tax concession is calculated as 40% of the purchase of PRC manufactured machinery and equipment for 2003 and 2004, and limited to the amount of increase in income tax for the current year as compared with the tax amount of the preceding year.

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

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB1,154,290,000 (2004: RMB791,559,000) (note 34).

13. PROFIT APPROPRIATIONS

(a) Under the PRC Company Law and the respective companies' articles of association, net profit after tax as determined in accordance with the PRC Accounting Regulations can only be distributed as dividends after making up prior years' cumulative losses, if any, and making allowance for the following statutory reserve funds, which cannot be used for purposes other than those created and non-distributable as cash dividends:

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile and Binteng Textile, are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC Accounting Regulations, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

(ii) Statutory public welfare fund

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile and Binteng Textile, are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC Accounting Regulations, to the statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company and its subsidiaries, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

The directors of the respective companies resolved to appropriate 10% of the profit attributable to shareholders, determined in accordance with the PRC Accounting Regulations, to each of the statutory surplus reserve and the statutory public welfare fund for the years ended 31 December 2005 and 2004.

(iii) General reserve fund, employee's bonus and welfare fund and enterprise expansion fund

In accordance with the PRC Joint Venture Law, dividends can be distributed by Luteng Textile and Binteng Textile after allowance has been made by offsetting any prior years' losses out of the annual statutory net profit after tax, determined in accordance with the PRC Accounting Regulations, and allocations to the statutory reserve funds, comprising a general reserve fund, an employee's bonus and welfare fund and an enterprise expansion fund. The amount of transfer to the various statutory reserve funds is determined at the discretion of the respective board of directors of Luteng Textile and Binteng Textile.

13. PROFIT APPROPRIATIONS (continued)

(b) Dividend

	2005 RMB'000	2004 RMB'000
Proposed final – RMB0.287 (2004: RMB0.25) per share	**323,005**	218,863

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC Accounting Regulations; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

	2005 RMB'000	2004 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,242,473**	825,535

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**920,657,979**	851,123,852

The weighted average numbers of ordinary shares in issue during the year used in the basic earnings per share calculations for 2005 have been adjusted to reflect the issuance of 250,000,000 domestic shares as a purchase consideration for acquisition of thermal power assets whereas the one for 2004 have been adjusted to reflect the issuance of 57,447,000 H shares by way of placing in 2004 (note 33).

Diluted earnings per share amounting for the years ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed during these years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005					
At 1 January 2005:					
Cost					
As previously reported	2,142,118	7,649,999	32,102	796,314	10,620,533
Effect of adopting HKAS 17 *(note 2.4)*	(70,190)	–	–	(56,908)	(127,098)
As restated	2,071,928	7,649,999	32,102	739,406	10,493,435
Accumulated depreciation					
As previously reported	(77,282)	(914,080)	(5,725)	–	(997,087)
Effect of adopting HKAS 17 *(note 2.4)*	3,565	–	–	–	3,565
As restated	(73,717)	(914,080)	(5,725)	–	(993,522)
Net carrying amount	1,998,211	6,735,919	26,377	739,406	9,499,913
At 1 January 2005, net of accumulated depreciation	1,998,211	6,735,919	26,377	739,406	9,499,913
Additions	126,576	944,811	8,094	1,654,654	2,734,135
Purchase from Holding Company *(note 35(a))*	1,425,180	1,570,296	4,524	–	3,000,000
Disposals	–	(1,149)	–	–	(1,149)
Depreciation provided during the year	(48,831)	(679,205)	(8,972)	–	(737,008)
Transfers	221,019	1,880,729	–	(2,101,748)	–
At 31 December 2005, net of accumulated depreciation	3,722,155	10,451,401	30,023	292,312	14,495,891
At 31 December 2005:					
Cost	3,844,703	12,044,210	44,720	292,312	16,225,945
Accumulated depreciation	(122,548)	(1,592,809)	(14,697)	–	(1,730,054)
Net carrying amount	3,722,155	10,451,401	30,023	292,312	14,495,891

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2004					
At 1 January 2004:					
Cost					
As previously reported	1,113,632	4,385,593	20,405	1,307,700	6,827,330
Effect of adopting HKAS 17 *(note 2.4)*	(70,190)	–	–	(56,908)	(127,098)
As restated	1,043,442	4,385,593	20,405	1,250,792	6,700,232
Accumulated depreciation					
As previously reported	(34,271)	(462,809)	(2,420)	–	(499,500)
Effect of adopting HKAS 17 *(note 2.4)*	2,299	–	–	–	2,299
As restated	(31,972)	(462,809)	(2,420)	–	(497,201)
Net carrying amount	1,011,470	3,922,784	17,985	1,250,792	6,203,031
At 1 January 2004, net of accumulated depreciation	1,011,470	3,922,784	17,985	1,250,792	6,203,031
Additions	27,188	115,433	11,697	3,646,494	3,800,812
Disposals	–	(5,923)	–	–	(5,923)
Depreciation provided during the year	(41,745)	(452,957)	(3,305)	–	(498,007)
Transfers	1,001,298	3,156,582	–	(4,157,880)	–
At 31 December 2004, net of accumulated depreciation	1,998,211	6,735,919	26,377	739,406	9,499,913
At 31 December 2004:					
Cost	2,071,928	7,649,999	32,102	739,406	10,493,435
Accumulated depreciation	(73,717)	(914,080)	(5,725)	–	(993,522)
Net carrying amount	1,998,211	6,735,919	26,377	739,406	9,499,913

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2005					
At 1 January 2005:					
Cost	1,410,628	5,962,120	22,946	98,891	7,494,585
Accumulated depreciation	(59,045)	(696,150)	(3,638)	–	(758,833)
Net carrying amount	1,351,583	5,265,970	19,308	98,891	6,735,752
At 1 January 2005, net of accumulated depreciation	1,351,583	5,265,970	19,308	98,891	6,735,752
Additions	128,315	529,575	8,006	1,024,077	1,689,973
Purchase from Holding Company *(note 35 (a))*	1,425,180	1,570,296	4,524	–	3,000,000
Disposal to subsidiaries	–	(76,422)	–	–	(76,422)
Disposals	–	(692)	–	–	(692)
Depreciation provided during the year	(43,752)	(495,279)	(7,083)	–	(546,114)
Transfers	41,865	1,051,726	–	(1,093,591)	–
At 31 December 2005, net of accumulated depreciation	2,903,191	7,845,174	24,755	29,377	10,802,497
At 31 December 2005:					
Cost	3,005,988	9,035,268	35,476	29,377	12,106,109
Accumulated depreciation	(102,797)	(1,190,094)	(10,721)	–	(1,303,612)
Net carrying amount	2,903,191	7,845,174	24,755	29,377	10,802,497

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2004					
At 1 January 2004:					
Cost	785,602	3,192,123	13,175	1,248,358	5,239,258
Accumulated depreciation	(30,556)	(356,315)	(1,434)	–	(388,305)
Net carrying amount	755,046	2,835,808	11,741	1,248,358	4,850,953
At 1 January 2004, net of accumulated depreciation	755,046	2,835,808	11,741	1,248,358	4,850,953
Additions	17,353	182,029	9,771	2,273,076	2,482,229
Contribution to subsidiaries*	(3,584)	(112,101)	–	(72,622)	(188,307)
Disposals	–	(37,432)	–	–	(37,432)
Depreciation provided during the year	(28,489)	(340,998)	(2,204)	–	(371,691)
Transfers	611,257	2,738,664	–	(3,349,921)	–
At 31 December 2004, net of accumulated depreciation	1,351,583	5,265,970	19,308	98,891	6,735,752
At 31 December 2004:					
Cost	1,410,628	5,962,120	22,946	98,891	7,494,585
Accumulated depreciation	(59,045)	(696,150)	(3,638)	–	(758,833)
Net carrying amount	1,351,583	5,265,970	19,308	98,891	6,735,752

At 31 December 2005, certain of the Group's buildings, machinery and equipment with value of approximately RMB7,938 million (2004: RMB7,174 million) were pledged to secure certain of the Group's bank loans (note 29).

Prior to its transfer to buildings, and machinery and equipment, the carrying amount of construction in progress included capitalised interest of RMB17.7 million (2004: RMB26 million) in current year (note 10).

* The Company contributed items of property, plant and equipment with aggregate amount of approximately RMB188 million (approximate to the carrying amount of such items of property, plant and equipment) to its subsidiaries in 2004.

16. PREPAID LAND LEASE PAYMENTS

Group

	2005	2004
	RMB'000	RMB'000
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.4)*	**123,533**	124,799
As restated	**123,533**	124,799
Additions	**12,000**	–
Recognised during the year	**(2,446)**	(1,266)
Carrying amount at 31 December	**133,087**	123,533
Current portion included in prepayments, deposits and other receivables	**(2,782)**	(2,446)
Non-current portion	**130,305**	121,087

The leasehold lands are held under long term lease and are situated in the PRC.

At 31 December 2005, certain of the Group's land use rights with a net carrying amount of approximately RMB83 million (2004: RMB28 million) were pledged to secure certain of the Group's bank loans (note 29).

17. INTANGIBLE ASSETS

The intangible assets of the Group represent technology rights of US$1,450,000 (equivalent to approximately RMB12 million) injected by a minority shareholder to a subsidiary of the Company as capital contribution in September 2002.

	2005	2004
	RMB'000	RMB'000
At 1 January:		
Cost	**12,001**	12,001
Accumulated amortisation	**(2,700)**	(1,500)
Net carrying amount	**9,301**	10,501
At 1 January, net of accumulated amortisation	**9,301**	10,501
Amortisation provided during the year	**(1,200)**	(1,200)
At 31 December, net of accumulated amortisation	**8,101**	9,301
At 31 December:		
Cost	**12,001**	12,001
Accumulated amortisation	**(3,900)**	(2,700)
Net carrying amount	**8,101**	9,301

18. NEGATIVE GOODWILL

Group

	2005 **RMB'000**	2004 RMB'000
At 1 January:		
Cost as previously reported	**(29,902)**	(29,902)
Effect of adopting HKFRS 3 *(note 2.4)*	**29,902**	–
Cost as restated	**–**	(29,902)
Accumulated amortisation as previously reported	**6,354**	3,364
Effect of adopting HKFRS 3 *(note 2.4)*	**(6,354)**	–
Accumulated amortisation as restated	**–**	3,364
Net carrying amount	**–**	(26,538)
Cost at 1 January, net of accumulated amortisation	**–**	(26,538)
Amortisation during the year	**–**	2,990
Cost and carrying amount at 31 December	**–**	(23,548)
At 31 December:		
Cost	**–**	(29,902)
Accumulated amortisation	**–**	6,354
Net carrying amount	**–**	(23,548)

19. INVESTMENTS IN SUBSIDIARIES

Details of the interests in subsidiaries of the Company are set out below:

	2005 **RMB'000**	2004 RMB'000
Unlisted investments, at cost	**1,200,891**	1,200,891
Amounts due from subsidiaries	**1,660,119**	1,302,996
Amounts due to subsidiaries	**(146,635)**	(428,250)
	2,714,375	2,075,637

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed repayment terms. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair value.

Particulars of the subsidiaries and joint ventures of the Company as at 31 December 2005 are as follows:

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
Subsidiaries					
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, the PRC/ Mainland China 25 July 2001	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarns and fabrics
Binzhou Industrial Park	Binzhou, the PRC/ Mainland China 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/ Mainland China 30 September 2003	Limited liability company	RMB5,000,000	92	Purchase, processing and sale of raw cotton, cotton seeds and lint cotton
Weihai Weiqiao Industrial Park Company Limited ("Weihai Industrial Park")	Weihai, the PRC/ Mainland China 30 January 2004	Limited liability company	RMB260,000,000	99.8	Production and sale of cotton yarns and fabrics

19. INVESTMENTS IN SUBSIDIARIES (continued)

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
Joint ventures					
Luteng Textile	Zouping, the PRC/ Mainland China 12 September 2002	Sino-foreign equity joint venture	US$9,790,000	75	Production and sale of polyester yarns and related products
Binteng Textile	Zouping, the PRC/ Mainland China 12 March 2004	Sino-foreign equity joint venture	US$15,430,000	75	Production and sale of polyester yarns and related products

20. INVENTORIES

	Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**791,186**	606,548
Work in progress	**644,315**	396,632
Semi-finished goods	**636,778**	608,871
Finished goods	**1,098,061**	807,572
Consumables	**71,657**	57,322
Raw materials in transit	**403,231**	196,523
Total	**3,645,228**	2,673,468

20. INVENTORIES (continued)

	Company	
	2005	2004
	RMB'000	RMB'000
Raw materials	**620,494**	429,411
Work in progress	**491,680**	286,185
Semi-finished goods	**455,238**	504,896
Finished goods	**892,660**	650,920
Consigned materials for processing	**22,699**	11,716
Consumables	**59,447**	52,060
Raw materials in transit	**403,231**	196,523
Total	**2,945,449**	2,131,711

Certain of the Group's raw materials in transit of approximately RMB141 million as at 31 December 2005 (2004: RMB135 million) were utilised to secure certain of the Group's bank loans, as further detailed in note 29 to the financial statements.

21. TRADE RECEIVABLES

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

	Group	
	2005	2004
	RMB'000	RMB'000
Within 3 months	**546,539**	590,558
3 to 6 months	**7,610**	3,106
6 months to 1 year	**3,765**	2,900
1 year to 2 years	**4,358**	1,855
	562,272	598,419

21. TRADE RECEIVABLES (continued)

	Company 2005 RMB'000	2004 RMB'000
Within 3 months	**524,442**	569,977
3 to 6 months	**7,564**	3,075
6 months to 1 year	**3,765**	2,900
1 year to 2 years	**4,358**	1,855
	540,129	577,807

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of credit period is not uncommon for customers with a long term relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the Group's trade receivables relating to a large number of diversified customers, there is no significant concentration of credit risks. Trade receivables are non-interest-bearing.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group 2005 RMB'000	2004 RMB'000 (Restated)
Prepayments to suppliers	**446,216**	363,431
Prepaid land lease payments, current portion	**2,782**	2,446
Export value-added tax ("VAT") refundable	**63**	–
Other receivables and prepayments	**9,534**	11,356
Total	**458,595**	377,233

	Company 2005 RMB'000	2004 RMB'000
Prepayments to suppliers	**445,687**	362,699
Other receivables and prepayments	**8,969**	2,270
Total	**454,656**	364,969

23. 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.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005	2004
	RMB'000	RMB'000
Cash and bank balances	**3,134,935**	1,748,717
Time deposits	**1,717,178**	1,118,167
	4,852,113	2,866,884
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(470,000)**	(229,836)
Pledged for bank loans *(note 29)*	**(42,138)**	–
Pledged for issuance of bills payable *(note 26)*	**–**	(67,000)
	(512,138)	(296,836)
Non-pledged time deposits maturing over three months	**(1,154,040)**	(325,400)
Cash and cash equivalents	**3,185,935**	2,244,648

	Company	
	2005	2004
	RMB'000	RMB'000
Cash and bank balances	**2,872,886**	1,618,216
Time deposits	**1,717,178**	1,044,033
	4,590,064	2,662,249
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(470,000)**	(222,702)
Pledged for bank loans *(note 29)*	**(42,138)**	–
	(512,138)	(222,702)
Non-pledged time deposits maturing over three months	**(1,154,040)**	(325,400)
Cash and cash equivalents	**2,923,886**	2,114,147

Short term time deposits are made for varying periods of one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents, the pledged time deposits and the non-pledged time deposits maturing over three months approximate to their fair values.

25. 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 items of property, plant and equipment being transferred to the Group, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within 3 months	**1,944,107**	1,292,330
3 months to 1 year	**299,984**	37,061
	2,244,091	1,329,391

	Company	
	2005	2004
	RMB'000	RMB'000
Within 3 months	**1,802,599**	1,134,213
3 months to 1 year	**297,187**	23,967
	2,099,786	1,158,180

Trade payables are non-interest-bearing and are normally settled on 150-day terms.

26. BILLS PAYABLE

	Group	
	2005	2004
	RMB'000	RMB'000
Within 3 months	**499,300**	60,000
3 to 6 months	**90,000**	160,000
	589,300	220,000

26. BILLS PAYABLE (continued)

	Company 2005 RMB'000	Company 2004 RMB'000
Within 3 months	**449,300**	–

Certain of the Group's bills payable amounting to RMB140 million as at 31 December 2005 were drawn by Weihai Weiqiao and Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2005.

No time deposits of the Group was pledged to secure the Group's bills payable as at 31 December 2005 (2004: RMB67 million).

27. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2004 are government grants totalling RMB70 million, mainly provided by the Finance Bureau of the Binzhou City to Binzhou Industrial Park for the purpose of providing support for the development of Binzhou Industrial Park and product development, which have been recognised as income and deferred income in current year, as further detailed in note 31 to the financial statements.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company Assets RMB'000	Group and Company Liabilities RMB'000
Forward currency contracts	–	1,323
Interest rate swaps	8,243	4,781
	8,243	6,104

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

The Company has entered into several forward currency contracts and various interest rate swaps contracts to manage its exchange rate exposures and interest rate exposures, respectively, which did not meet the criteria for hedge accounting. Decrease and increase in the fair values of non-hedging currency derivatives and interest rate swaps derivatives amounting to RMB1,323,000 and RMB3,462,000, respectively, were charged and credited to the income statement during the year, respectively (2004: Nil and Nil).

29. INTEREST-BEARING BANK LOANS

	Effective interest rate	Maturity	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
Current						
Unsecured	*(1)*	2006 or on demand	**2,893,584**	984,547	**2,670,514**	832,299
Secured	*(2)*	2006	**2,241,828**	2,362,597	**1,864,828**	1,820,490
			5,135,412	3,347,144	**4,535,342**	2,652,789
Non-current						
Unsecured	*(3)*	2007-2008	**326,281**	832,808	**32,281**	662,808
Secured	*(4)*	2007-2008	**4,229,229**	2,785,978	**3,971,229**	2,871,978
			4,555,510	3,618,786	**4,003,510**	3,534,786
Total			**9,690,922**	6,965,930	**8,538,852**	6,187,575

(1) Interest rates ranging from 5.5% to 7.6% per annum, from six-month LIBOR+1.2% to six-month LIBOR+1.3%, at three-month LIBOR+2.0% and at one-year SIBOR+1.8%;

(2) Interest rates ranging from 4.5% to 7.3% per annum and at six-month LIBOR+2.0% and from three-month LIBOR+2.2% to three-month LIBOR+3.0%;

(3) Interest rates ranging from 6.4% to 6.7% per annum; and

(4) Interest rates ranging from 4.8% to 8.4% per annum and from three-month LIBOR+2.2% to three-month LIBOR+2.5%.

29. INTEREST-BEARING BANK LOANS (continued)

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**5,135,412**	3,347,144	**4,535,342**	2,652,789
In the second year	**2,342,780**	1,226,904	**2,102,781**	1,142,904
In the third to fifth years, inclusive	**2,212,730**	2,391,882	**1,900,729**	2,391,882
	9,690,922	6,965,930	**8,538,852**	6,187,575

(i) On 8 September 2004, the Company entered into a loan agreement (the " First Syndicate Loan Agreement") with a syndicate of banks for a three year term loan facility up to US$78 million (equivalent to approximately RMB629 million) and RMB183 million. On 1 August 2005, the Company entered into another syndicate loan agreement (the " Second Syndicate Loan Agreement") for a three year term loan facility up to US$125 million (equivalent to approximately RMB1,009 million). The above-mentioned syndicate loan agreements 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 31 December 2005, the Company did not comply with certain financial covenant ratios as set out in the above-mentioned syndicate loan agreements. The Company obtained a first consent letter on 23 January 2006 and 13 January 2006 from the Agent of the First Syndicate Loan Agreement and the Second Syndicate Agreement, respectively, to amend and revise certain financial covenant ratios for the year ended 31 December 2005. The Company obtained a second consent letter on 28 March 2006 and 29 March 2006 from the Agent of the Second Syndicate Loan Agreement and the First Syndicate Loan Agreement, respectively, to amend and revise certain financial covenant ratios for the year ended 31 December 2005. The Company complied with the second revised financial covenant ratios as at 31 December 2005, but not the original respective financial covenants as set out in the above-mentioned syndicate loan agreements nor the first revised ones as set out in the first consent letter dated 13 January 2006 and 23 January 2006 for the Second Syndicate Loan Agreement and the First Syndicate Loan Agreement, respectively.

29. INTEREST-BEARING BANK LOANS (continued)

On 31 December 2005, total amounts of outstanding loans drawn under the above-mentioned syndicate loan agreements were approximately RMB1,659 million, of which RMB1,110 million was reclassified from non-current liabilities to current liabilities in the consolidated balance sheet and balance sheet as at 31 December 2005 because, at 31 December 2005, the Company did not have the unconditional consent letter from the respective Agent to revise and amend certain financial covenants in the syndicate loan agreements, with which the Company did not comply as at 31 December 2005. The consent letters of the First Syndicate Loan Agreement and the Second Syndicate Loan Agreement were subsequently obtained after the balance sheet date.

In addition, according to the Second Syndicate Loan Agreement, the Group shall ensure that the amounts of its capital expenditure substantially follow RMB1,200 million for the year 2005 or otherwise ensure the incurrence of any other amounts of capital expenditure will have no Material Adverse Effect as defined therein. The Group's capital expenditures for the year ended 31 December 2005 amounted to approximately RMB5,734 million. In this regard, pursuant to the general undertaking clause of the Second Syndicate Loan Agreement, the Company, on 31 March 2006, submitted a written confirmation to the Agent of the Second Syndicate Loan Agreement stating that the Directors of the Company are of the opinion that the incurrence of RMB5,734 million of capital expenditure will not affect the production and operation and performance of its repayment obligation in the Second Syndicate Loan Agreement.

Besides, the Company entered into two banking facility agreements on 30 June 2005 and 20 July 2005 with two respective banks with facility up to US$15 million (equivalent to approximately RMB121.1 million) and US$20 million (equivalent to approximately RMB161.4 million), respectively. The Company also entered into a term loan facility agreement on 9 November 2005 with a bank for a facility up to US$10 million (equivalent to approximately RMB80.7 million). On 31 December 2005, the facilities under the above banking facility agreements and the term loan facility agreement were fully drawn down and classified under current liabilities as they were due for repayment before 31 December 2006. Included in all the above banking facility agreements and the term loan facility agreement was a cross default clause, under which an event of default shall have occurred if the Company defaults in the performance of any of its obligations in respect of any agreements. Since the Company did not comply with the original respective financial covenants as set forth in the First Syndicate Loan Agreement and the Second Syndicate Loan Agreement as at 31 December, 2005, the Company was in default according to the terms and conditions in the above banking facility agreements and the term loan facility agreement accordingly.

29. INTEREST-BEARING BANK LOANS (continued)

The Company has obtained waivers for cross default from the bank in respect of the banking facility dated 20 July 2005 on 29 March 2006 and 3 April 2006. The Company has also obtained, on 29 March 2006 and 4 April 2006, from the bank in respect of the banking facility dated 9 November 2005, a letter confirming that the loan facility granted thereunder remains valid and effective. Furthermore, the Company obtained, on 30 March 2006, a waiver for cross default from the bank in respect of the banking facility dated 30 June 2005.

(ii) Other than certain of the Group's bank loans in the aggregate amount of US$431 million (RMB3,481 million equivalent) and HK$110 million (RMB114 million equivalent) as at 31 December 2005 (2004: US$297 million), all of the Group's bank loans are denominated in RMB.

(iii) Certain of the Group's bank loans amounting to approximately RMB6,205 million (2004: RMB4,879 million) were secured by certain of the Group's buildings, machinery and equipment, and land use rights (prepaid land lease payments) of an aggregate net carrying value of approximately RMB8,021 million (2004: RMB7,202 million) as at 31 December 2005.

(iv) Certain of the Group's bank loans amounting to approximately RMB40 million (2004: Nil) were secured by certain of the Group's pledged deposits of approximately RMB42 million (2004: Nil) as at 31 December 2005.

(v) Certain of the Group's bank loans of RMB20 million as at 31 December 2004 were secured by certain of the Group's export VAT refundables of RMB72 million as at 31 December 2004.

(vi) Certain of the Group's bank loans of RMB85 million (2004: RMB115 million) were secured by accounts receivable of RMB111 million (2004: RMB144 million) as at 31 December 2005. These accounts receivable were received by the Group and included in the Group's cash and cash equivalents prior to 31 December 2005.

(vii) Certain of the Group's bank loans up to approximately RMB141 million (2004: RMB135 million) were secured by certain of the Group's raw materials in transit of approximately RMB141 million (2004: RMB135 million) as at 31 December 2005.

(viii) Weihai Civil Aviation Industrial Company Limited, the minority shareholder of Weihai Weiqiao, has guaranteed bank loans of Weihai Weiqiao of up to approximately RMB10 million (2004: RMB41 million) as at 31 December 2005.

29. INTEREST-BEARING BANK LOANS (continued)

(ix) Liu Guangmin, the minority shareholder of Weiqiao Industrial Park, guaranteed bank loans of Weihai Industrial Park of up to approximately RMB1 million (2004: Nil) as at 31 December 2005.

(x) The Company guaranteed bank loans of certain of its subsidiaries up to approximately RMB506 million (2004: RMB281 million) as at 31 December 2005.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Bank loans:				
Unsecured	**967,641**	**2,252,224**	722,633	1,094,722
Secured	**2,368,135**	**4,102,922**	2,134,525	3,014,050

	Company			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Bank loans:				
Unsecured	**695,571**	**2,007,224**	600,385	894,722
Secured	**1,907,135**	**3,928,922**	1,822,972	2,869,496

The carrying amounts of the Group's and the Company's current bank loans approximate to their fair values. The carrying amounts and fair value of the Group's non-current bank loans are as follows:

	Carrying amounts		**Fair value**	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Fixed rate bank loans	**1,469,825**	725,478	**1,426,865**	708,691
Floating rate bank loans	**3,085,685**	2,893,308	**3,085,685**	2,893,308
Total	**4,555,510**	3,618,786	**4,512,550**	3,601,999

30. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Amounts repayable:		
Within one year	**50,000**	50,000
In the second year	**368,927**	50,000
In the third year to the fifth year	**–**	78,927
	418,927	178,927
Portion classified as current liabilities	**(50,000)**	(50,000)
Non-current portion	**368,927**	128,927

The long term payable to the immediate holding company as at 31 December 2005 and 31 December 2004 are unsecured and interest-free.

31. DEFERRED INCOME

Deferred income recognised in the consolidated balance sheet, arising from the government grants received by Binzhou Industrial Park, is as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
At 1 January	**–**	–
Addition	**84,163**	–
Recognised as income during the year	**(596)**	–
At 31 December	**83,567**	–
Portion classified as current liability	**(3,574)**	–
Non-current portion	**79,993**	–

Binzhou Industrial Park received government grants during current year and prior years approximating to RMB14 million and RMB70 million, respectively. The grants were provided by the Finance Bureau of the Binzhou City for the purpose of providing support for the development of Binzhou Industrial Park and product development. Since Binzhou Industrial Park fulfilled with the conditions attaching to the government grants in the year, which were confirmed by the Finance Bureau of the Binzhou City, the Group recognised the government grants as deferred income over the expected useful lives of the relevant fixed assets to which the grants related by equal annual instalments.

32. DEFERRED TAX

The movement in the deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets				
At 1 January	**–**	–	**–**	–
Credited to the income statement during the year	**61,422**	–	**19,655**	–
At 31 December	**61,422**	–	**19,655**	–
Deferred tax liabilities				
At 1 January	**–**	–	**–**	–
Charged to the income statement during the year	**8,382**	–	**–**	–
At 31 December	**8,382**	–	**–**	–
Credited to the income statement, net *(note 11)*	**53,040**	–	**19,655**	–

32. DEFERRED TAX (continued)

The principal components of the Group's and the Company's deferred tax are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets				
Provision against inventories	**27,460**	–	**13,758**	–
Provision for bad and doubtful debts	**7,831**	–	**7,343**	–
Net fair value gains of derivative financial instruments	**(706)**	–	**(706)**	–
Government grants recognized as deferred income	**27,577**	–	**–**	–
Difference in depreciation for tax purpose	**(7,623)**	–	**(7,623)**	–
Others	**6,883**	–	**6,883**	–
At 31 December	**61,422**	–	**19,655**	–
Deferred tax liabilities				
Difference in depreciation for tax purpose	**8,382**	–	**–**	–
At 31 December	**8,382**	–	**–**	–

There was no material unprovided deferred tax during the year.

33. SHARE CAPITAL

	2005 **RMB'000**	2004 RMB'000
Shares		
Registered, issued and fully paid:		
780,770,000 (2004: 530,770,000) domestic shares of RMB1.00 each	**780,770**	530,770
344,682,500 (2004: 344,682,500) H shares of RMB1.00 each	**344,683**	344,683
	1,125,453	875,453

The Company does not have any share option scheme.

During the year and 2004, the movements in share capital were as follows:

(a) In 2005, 250,000,000 domestic shares of the Company with a par value of RMB1.00 each were issued to Holding Company as part of consideration for the acquisition of thermal power assets at a price of RMB10.84 (equivalent to approximately HK$10.40) per domestic share. After the issue of the consideration shares to Holding Company, Holding Company increased its equity interests in the Company from 46.87% to 58.67%.

(b) In 2004, 57,447,000 H shares of the Company with a par value of RMB1.00 each were issued to the public by way of placing at a price of HK$11.60 (equivalent to approximately RMB12.34) per H Share. These H Shares were listed on the Hong Kong Stock Exchange in June 2004.

A summary of the transactions during the year and 2004 with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of shares in issue	**Issued share capital RMB'000**	**Capital reserve account RMB'000**	**Total RMB'000**
At 1 January 2004	818,005,500	818,006	2,789,664	3,607,670
Issue of H shares (b)	57,447,000	57,447	649,087	706,534
	875,452,500	875,453	3,438,751	4,314,204
Shares issue expenses	–	–	(14,552)	(14,552)
At 1 January 2005	875,452,500	875,453	3,424,199	4,299,652
Issue of domestic shares (a)	250,000,000	250,000	2,460,000	2,710,000
At 31 December 2005	1,125,452,500	1,125,453	5,884,199	7,009,652

34. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

Company

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004	2,789,664	104,333	104,333	45,808	654,033	3,698,171
Final 2003 dividend declared	–	–	–	(45,808)	–	(45,808)
Issue of H Shares *(note 33(b))*	649,087	–	–	–	–	649,087
Share issue expenses *(note 33(b))*	(14,552)	–	–	–	–	(14,552)
Net profit for the year *(note 12)*	–	–	–	–	791,559	791,559
Transfer from/(to) reserves	–	79,749	79,749	–	(159,498)	–
Proposed final 2004 dividend	–	–	–	218,863	(218,863)	–
At 31 December 2004	3,424,199	184,082	184,082	218,863	1,067,231	5,078,457
Final 2004 dividend declared	–	–	–	(218,863)	–	(218,863)
Issue of domestic shares *(note 33(a))*	2,460,000	–	–	–	–	2,460,000
Net profit for the year *(note 12)*	–	–	–	–	1,154,290	1,154,290
Transfer from/(to) reserve	–	117,937	117,937	–	(235,874)	–
Proposed final 2005 dividend	–	–	–	323,005	(323,005)	–
At 31 December 2005	5,884,199	302,019	302,019	323,005	1,662,642	8,473,884

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) During the year, the Company acquired certain thermal power assets from Holding Company for an aggregate consideration of RMB3,000 million which was satisfied as to RMB2,710 million (equivalent to approximately HK$2,601 million) by way of allotment and issuance of 250,000,000 domestic shares and RMB290 million (equivalent to approximately HK$278 million) by two cash installments payable in 2007.

(b) Following the approval by the local tax bureaus, the Group was entitled to tax concession in respect of purchases of PRC manufactured machinery and equipment. The tax concession is calculated as 40% of the purchase of PRC manufactured machinery and equipment for 2003 and 2004 and limited to the amount of increase in income tax for the current year as compared with the tax amount of the preceding year. The tax concession reduced current year income tax and tax payable by approximately RMB288 million (note 11(b)).

36. CONTINGENT LIABILITIES

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

	Group	
	2005	2004
	RMB'000	RMB'000
Letters of credit issued	**497,740**	172,015

	Company	
	2005	2004
	RMB'000	RMB'000
Letters of credit issued	**497,740**	172,015
Bills discounted with recourse	**–**	220,000
Guarantee given to banks in connection with facilities granted to subsidiaries	**506,199**	281,000
	1,003,939	673,015

37. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group and the Company had the following capital commitments, principally for construction in process, the acquisition of items of property, plant and equipment and investment:

	Group	
	2005	2004
	RMB'000	RMB'000
Contracted, but not provided for	**65,451**	242,901
Authorised, but not contracted for	**270,570**	–
	336,021	242,901

	Company	
	2005	2004
	RMB'000	RMB'000
Contracted, but not provided for	**40,451**	242,901
Authorised, but not contracted for	**40,000**	–
	80,451	242,901

Besides, on 17 March 2005, the Company, Binzhou Industrial Park, Weihai Weiqiao, Holding Company, Shandong Weiqiao Dyeing and Weaving Co., Ltd. and Shandong Weilian Printing and Dyeing Co., Ltd. entered into an agreement to establish Shangdong Weiqiao Chuangye Finance Company Limited ("SWCF") with equity interest of 6.25%, 3.75%, 2.5%, 68.75%, 12.5% and 6.25%, respectively. The establishment of SWFC is subject to an approval of China Banking Regulatory Commission. The registered capital of SWCF amounted to RMB400 million of which the capital commitments of the Company's share and the Group's share are RMB25 million and RMB50 million, respectively.

(b) Operating lease commitments

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

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	**12,235**	9,536
In the second to fifth years, inclusive	**48,395**	38,196
After five years	**149,332**	118,228
	209,962	165,960

37. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

	Company 2005 RMB'000	2004 RMB'000
Within one year	**12,175**	9,476
In the second to fifth years, inclusive	**48,152**	37,953
After five years	**148,622**	117,457
	208,949	164,886

38. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with the 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 the wholly unrelated parties. Related parties refer to entities of 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 disclosed in notes 23, 29 and 30 to these financial statements during the year, the Group had the following transactions with related parties:

(a) Transactions with related parties

Name of related party	Relationship with the Company	Nature of transactions	2005 RMB'000	2004 RMB'000
Holding Company	The immediate holding company	Expenses on provision of electricity and steam	**701,925**	554,140
		Expenses on property leasing	**9,986**	9,536
		Revenue on supply of electricity	**36,816**	–
		Sale of fixed assets	**–**	379
		Settlement of liabilities by Holding Company on behalf of the Company	**27,835**	142,410
		Settlement of liabilities by the Company on behalf of Holding Company	**46,531**	8,646

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Name of related party	Relationship with the Company	Nature of transactions	2005 RMB'000	2004 RMB'000
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	**242,315**	120,213
		Revenue on plant and equipment leasing	**250**	–
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	**126,870**	116,085
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of Holding Company	Sale of cotton yarns	**8,713**	7,478
Shandong Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	**33,646**	7,880
Shandong Weiqiao Hongyuan Home Textile, Ltd.	A fellow subsidiary	Sale of grey fabrics	**531**	–
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	**4,882**	–
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of denims	**83**	–

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

In the preparation for listing of the Company, the Company and Holding Company entered into a supply of electricity and steam agreement on 25 August 2003. Pursuant to the agreement, Holding Company agreed to supply electricity and steam to Group, at a rate of lower of the market price and RMB0.35 per kWh including VAT at the rate of 17% for electricity, and at a rate of lower of the market price and RMB60 per ton including VAT at the rate of 13% for steam. Pursuant to the supplemental agreement of the supply of electricity and steam dated 31 May 2005, it has been agreed that if the aggregate amount of electricity and steam to be purchased by the Group from Holding Company in any financial year of the Company were equal to or less than that of similarly purchased for the financial year ended 31 December 2004 ("Planned Electricity and Steam Purchase"), the price for the Planned Electricity and Steam Purchase shall be the lower of either RMB0.35 per kWh (including VAT at the rate of 17%) and RMB60 per ton (including VAT at the rate of 13%) or the then prevailing market price. The price for any excess purchase shall be adjusted, but must not be higher than the then prevailing market price.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Also, in preparation for listing of the Company, on 25 August 2003, the Company entered into several agreements with Holding Company and its subsidiaries other than the companies now comprising the Group (collectively referred to as the "Holding Group"), which govern the supply of cotton by Holding Company, for the supply of cotton yarns and grey fabrics to the provision of processing services by the Holding Group.

Up to 31 December 2005, except for the land lease agreement relating to the acquisition of thermal power assets ("Asset Transfer Agreement") which will be mentioned below, the Group has entered into ten property lease agreements with Holding Company, with a right of renewal exercisable by the Group. The significant terms of such agreements are summarized 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 13 September 2002 with the commencement date and expiry date on 13 September 2002 and 13 September 2022, respectively, at an annual rental expense of RMB60,700 for the land relating to the Second Production Area.

(vi) Operating lease agreement of a building dated 10 May 2000 with the commencement date and expiry date on 10 May 2000 and 10 May 2006, respectively, at an annual rental expense of RMB600,000 for a building located at No. 34 Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC. The Company and Holding Company terminated this agreement on 31 January 2005.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

(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 RMB2,167,000 for the land relating to the Zouping Industrial Park Area, a new production area established during the year.

(viii) 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 Industrial Park Area.

(ix) 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 Industrial Park Area.

(x) Operating lease agreement dated 31 January 2005 with the commencement date and expiry date on 1 February 2005 and 1 February 2010, respectively, at an annual rental expense of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

In addition to the above, the Company had the following transactions with Holding Company relating to the acquisition of thermal power assets (note 35(b)). On 13 August 2005, the Company entered into the Asset Transfer Agreement with Holding Company to acquire the thermal power assets for an aggregate consideration of RMB3,000,000,000 (equivalent to approximately HK$2,879,000,000). Such consideration was satisfied as to:

(a) RMB2,710,000,000 (equivalent to approximately HK$2,601,000,000) by way of allotment and issuance of 250,000,000; and

(b) RMB290,000,000 (equivalent to approximately HK$278,000,000) by two cash instalments payable in 2007.

On 27 October 2005, the Company obtained the new business license indicating the increased registered capital of the Company from Shandong Provincial Administration Bureau for Industry and Commerce, indicating the completion of Asset Transfer Agreement (the "Completion").

Subsequent to the Asset Transfer Agreement, the Company and Holding Company agreed that the former was allowed to participate in thermal power assets operation prior to Completion (the "Transition Period") in order to have smooth transition pursuant to the Asset Transfer Agreement. During the Transition Period, the Company purchased coal from external parties and used the thermal power assets as defined in the Asset Transfer Agreement to generate electricity and steam for the Group's own use. Pursuant to the above-mentioned arrangement, Holding Company agreed to assume the other operating expenses incurred in the supply of electricity and steam to the Group with the thermal power assets during the Transition Period.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Upon the Completion, the Company and Holding Company entered into the supply of excess electricity agreement on 2 November 2005, pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual consumption, to Holding Company for a term commencing from 31 October 2005 and ending on 31 December 2007. The price at which excess electricity is supplied to Holding Company by the Group shall be the RMB0.45 per kWh (including VAT at the rate of 17%) or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid (such price is currently within the range from RMB0.37 per kWh to RMB0.40 per kWh), whichever is higher. However, if any applicable mandatory price for the electricity by the PRC government, such as mandatory price would be adopted instead for the year ended 31 December 2005. Supply of electricity to Holding Company for the period ended 31 December 2005 amounted to approximately RMB37 million.

Upon the Completion, a land lease agreement has been entered into between the Company and Holding Company on 2 November 2005. Holding Company agreed to lease to the Company the land use right in respect of premises of the land on which the thermal power assets are located. The aggregate annual rent payable by the Company to Holding Company for each of the twenty calendar years commencing from 31 October 2005 is RMB2,699,000 (equivalent to approximately HK$2,546,000) and may be adjusted annually in accordance with the valuation amount to be determined by the Company's appointed independent international property valuer.

The related party transactions above-mentioned also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties included in consolidated balance sheet

	Due from related parties		Due to related parties	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Holding Company	**–**	–	**720,221**	417,791
Fellow subsidiaries	**480,814**	262,945	**864**	864
An associate of Holding Company	**1,782**	3,151	**–**	–

38. RELATED PARTY TRANSACTIONS (continued)

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

	2005	2004
	RMB'000	RMB'000
Short term employee benefits	**4,306**	4,175
Post-employment benefits	**28**	36
Share-based payments	**–**	–
Total compensation paid to key management personnel	**4,334**	4,211

Further details of directors' and supervisor's remuneration are included in note 8 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial assets and liabilities are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have written risk management policies and guideline. However, the Company's management periodically analyses and formulates strategies to manage the Group's exposure to financial risk. Generally, the Group introduces conservative strategies on its risk management. The Group's accounting policies in relation to derivative financial instruments are set out in note 2.5 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These interest rate swaps can reduce part of interest rate risk of the underlying debt obligations to some extent.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales, purchases and borrowings of the Group in United States Dollars ("USD"). The Group is exposed to foreign currency risk arising from the exposure of USD to RMB. Considering that the fluctuation of exchange rate between USD and RMB is not significant, the Group believes its exposure to exchange rate risk is normal. The Group also entered into certain foreign forward contracts to reduce part of the foreign currency exposure to some extent.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the possibility that the counterparty of transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss.

The credit limits of trade receivable was determined and monitored by the management on an ongoing basis. In addition, at each balance sheet date, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrevocable amounts. Therefore, the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and certain derivative instruments arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The objective of liquidity management is to ensure sufficient cash flows to meet all financial commitment and to capitalize on opportunities for business expansion. This includes the Group's ability to meet operation demand, to repay borrowings as they mature, and to make new loans and investments as opportunities arise. Liquidity is managed on a daily basis by the finance department under the direction of general manager and financial controller. The finance department is responsible for ensuring that the Group has adequate liquidity for all operations. The Group manages liquidity risk by holding sufficient liquid assets (mainly, cash) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

40. POST BALANCE SHEET EVENTS

The Company completed the placement of 68,936,500 new H shares on 2 March 2006 at a price of HK$12.05 (equivalent to approximately RMB12.49) per H share. The net proceeds of the placement were approximately HK$829 million (equivalent to approximately RMB859 million). The above placing proceeds are subject to capital verification as required under rules and regulations in the PRC.

41. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 4 April 2006.