



魏橋紡織股份有限公司  
Weiqiao Textile Company Limited  
(Stock Code : 2698)



Interim Report 2006

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## Summary

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Revenue	+34.0% to RMB9,264 million
Gross profit	+19.7% to RMB1,435 million
Net profit attributable to equity holders of the parent	+27.3% to RMB601 million

### HIGHLIGHTS

- Revenue and net profit attributable to equity holders of the parent increased steadily through enhancement in output and optimization of product mix;
- Since the acquisition of the thermal power assets by Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”), power costs have been saved and a stable supply of energy is obtained;
- The Company maintained a leading position in the industry and optimized operation efficiency.

## Corporate Information

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTORS

Zhang Shiping  
Wang Zhaoting

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin  
Xu Wenying  
Chan Wing Yau, George

### SUPERVISORS

Liu Mingping  
Lu Tianfu  
Wang Wei

### COMPANY SECRETARY

Zhao Suwen

### AUDIT COMMITTEE

Wang Naixin  
Xu Wenying  
Chan Wing Yau, George

### REMUNERATION COMMITTEE

Zhang Bo  
Wang Naixin  
Xu Wenying

### AUTHORISED REPRESENTATIVES

Qi Xingli  
Zhao Suwen

### PLACE OF BUSINESS IN HONG KONG

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

### LEGAL ADDRESS IN THE PRC

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

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

### LEGAL ADVISOR AS TO HONG KONG LAW

Coudert Brothers in association with Orrick  
Herrington & Sutcliffe LLP

### INTERNATIONAL AUDITORS

Ernst & Young

## Corporate Information

### **HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE**

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

### **WEBSITE**

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

### **STOCK CODE**

2698

### **INVESTOR RELATIONS DEPARTMENT**

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### **INVESTOR AND MEDIA RELATIONS CONSULTANT**

Christensen International (Hong Kong) Limited  
Unit 2507, Tower 1  
Lippo Centre  
89 Queensway  
Hong Kong



## Chairman's Statement

It is my pleasure to present the unaudited consolidated results of Weiqiao Textile Company Limited (“Weiqiao Textile” or the “Company”) and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006 (the “Period”).

During the Period, Weiqiao Textile continued to achieve satisfactory results by pursuing its highly efficient operation mode in combination with the appropriate development strategies. For the six months ended 30 June 2006, the Group's production volume of cotton yarn, grey fabric and denim reached 407,000 tonnages, 752,000 kilo meters and 81,000 kilo meters respectively, representing an increase of 37.8%, 9.5% and 37.3% respectively, as compared with the corresponding period in last year. The Group's revenue was approximately RMB9,264 million, representing a growth of 34.0% as compared with the corresponding period in 2005. Net profit attributable to equity holders of the parent was approximately RMB601 million, representing an increase of 27.3% as compared with the corresponding period in 2005. This was mainly driven by the continued expansion of the Group's production scale and its more aggressive exploration of new market niches in China, thereby successfully further enlarging its share of the textile market in the mainland. Meanwhile, the Group also constantly upgraded its production facilities and technology standard to further optimize its product structure to meet the increasing demand for textile products in China.

The cost saving effect from the acquisition of thermal power assets last year was fully manifested during the Period. By way of generating power for internal use and selling the balance to the Holding Company, the Group was able to obtain a stable supply of energy and control its production costs even more effectively than before. It ensures a stable supply of energy and also generated a gain of RMB45 million to the Group in the first half of 2006.

According to the China Cotton Textile Association, above-scale textile enterprises in China grossed aggregate sales revenue of RMB290.6 billion in the first half of 2006, representing a growth of 26.13% as compared with the corresponding period in last year. For the same period, based on the statistics of the China Customs, the total exports of cotton textile products amounted to US\$7.808 billion, a comparatively modest increase of 18.72% as compared with the corresponding period in last year. On the whole, the robust domestic consumption on the mainland remained the backbone for the healthy growth of the industry.

In the first half of 2006, the price of cotton rose modestly by 14.3% as compared with the corresponding period in last year. The highest record of China's cotton price A index (CNCotton A Index) was approximately RMB14,824.5/ton, while the International Cotlook A (NE) Index averaged approximately 57.91 US cents/lb. The relative stability in cotton costs gave a buttress to the profitability of the Group.

In addition, Weiqiao Textile has successfully captured the growing demand for high-end textile products in the domestic and international markets. Having strengthened its competitive strength in the textile industry, the Group effectively scaled up its overall profitability in the medium to long term. In March 2006, it raised total net proceeds of HK\$829 million upon completion of the placing of 68,936,500 new H Shares at a placing price of HK\$12.05 per H share. The funds have been applied to, mainly, expand the Group's productivity of high value-added textile products.

## Chairman's Statement

### FUTURE OUTLOOK AND STRATEGIES

In view of the gradual transition of China's economy towards a domestic consumption driven one, as well as the PRC government's established policy on the development direction of the textile industry, Weiqiao Textile will adopt appropriate development strategies to cope with future market demand. In respect of the overseas market, the Group will grasp hold of worldwide opportunities to further expand its business coverage by leveraging its existing advantages in cost structure and economies of scale. In particular, it will seek to penetrate deeper into the medium and high-end markets.

Apart from the above, as the trend towards technology upgrade in China's textile industry keeps on moving forward, the Group is prepared to contribute its best. It will continue to enhance the standard of its production technology and acquire additional advanced production equipment so as to ensure that its products catch up with the top standard in the international market. Besides, in order to give a further boost to its product quality, Weiqiao Textile will allocate even more production lines to expand the production of high value-added products. The purpose is to better satisfy customers' demand for premium quality high-end products, which is expected to be the Group's major growth driver in the future.

As a composite stock of the Hang Seng China Enterprises Index and the MSCI China Index, the Company is gaining increasing recognition by domestic and international investors. It is proud to see Weiqiao Textile ranked No. 1 among the top 10 textile and garment Chinese enterprises in both the lists of the Top 200 Importers and the Top 200 Exporters announced by the China Customs in June 2006. This reflects the business strength of the Group.

As the leading enterprise in the textile industry, Weiqiao Textile understands clearly the importance of corporate social responsibility. Hence, the Group intends to make an active effort, as a role model in the industry, in the research of energy saving and environmentally friendly textile technologies. At the same time, the Company will keep on close contact with domestic and international investors. Besides, it will strictly observe the provisions under Appendix 14 to, and the relevant provisions for listed shares under, the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited. By doing so, the Company strives to achieve an even higher standard in disclosure and credit rating in order to reduce its investment costs and maximize its shareholders' interests.

## Chairman's Statement

Looking ahead, the Group will be committed to building up the prestige of its brand name and improving its corporate value in contribution to its long-term growth. The management is determined to deliver even better results for Weiqiao Textile, create even greater value for shareholders and witness the long-term favourable development of China's textile industry with its peers. Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders and business partners for their continuous trust and support, and to our staff for their devotion. Their trust, support and devotion enabled, and will continue to enable, Weiqiao Textile to achieve new heights.

**Zhang Bo**

*Chairman*

Shandong, China

8 September 2006



## Management Discussion and Analysis

### INDUSTRY OVERVIEW

The sales of cotton textiles in the PRC continued to maintain steady growth for the first half of 2006. Sales value of scalable enterprises of the cotton textile industry in the PRC reached RMB290.6 billion, which represented an increase of 26.13% over the same period last year. Exports of cotton textile were also satisfactory. According to the statistics of the Customs of the PRC, total exports of cotton textile products in the first half year of 2006 reached US\$7.808 billion, which represented a growth of 18.72% over the same period in 2005.

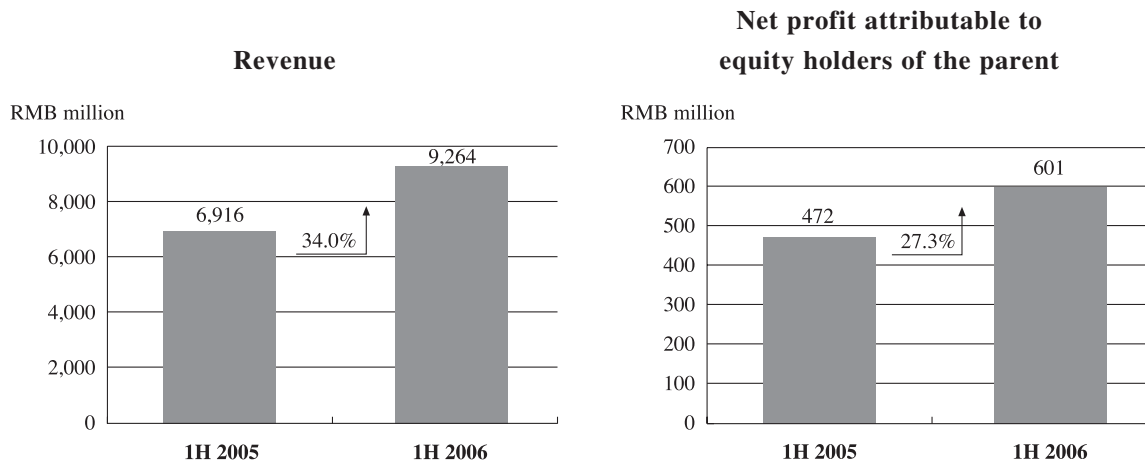
In the first half of 2006, international trading relations have been stabilized. From January to June 2006, exports of China textile products and garments to Europe and US amounted to US\$18.674 billion, representing 29.16% of the total exports of textile garments. Demands for cotton textile products in both domestic and overseas markets continued to be strong, resulting in the steady development of the cotton textile industry in the PRC. On the other hand, developing countries such as India, Pakistan and Indonesia continued to be in competition with China in the international markets by leveraging on their advantages of cheap labour and production costs, in addition to measures such as “Anti-dumping”, “Safeguard measures” and “Technical Barriers to Trade” adopted by import countries, prospect of the China textile industry is mixed with opportunities and challenges.

Appreciation of Renminbi, rising cotton prices, increase in energy costs and labour cost have aggravated cost pressure to the textile enterprises. In addition, purchase targets have also gradually diverted to high value-added products, which resulted in stronger negative impacts on smaller scale textile enterprises. Upstream enterprises in the medium to high end markets were able to continue to grow stronger and enhance their competitive advantages.

# Management Discussion and Analysis

## BUSINESS REVIEW

For the six months ended 30 June 2006, Weiqiao Textile continued to maintain steady growth in its revenue and net profit attributable to equity holders of the parent:

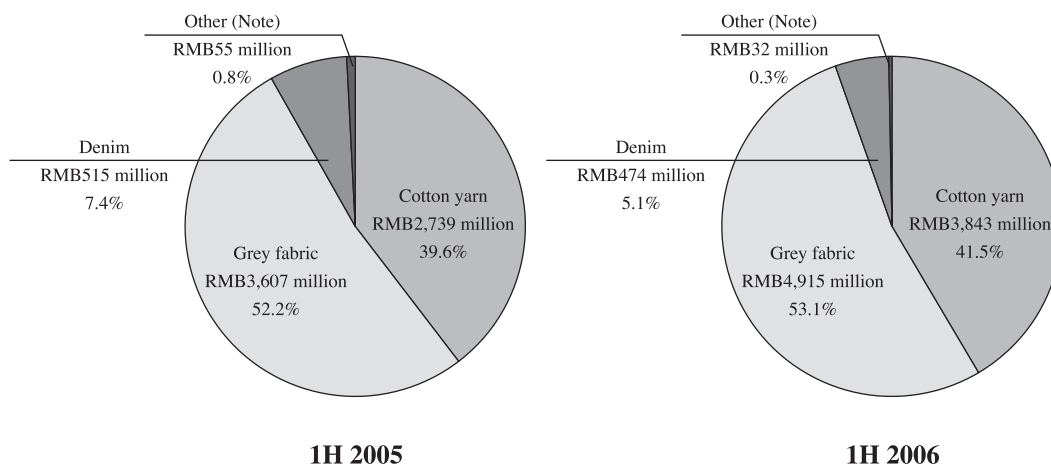


The increase in revenue and net profit attributable to equity holders of the parent during the six months ended 30 June 2006 was primarily a result of the Group's technical upgrade to the equipments, continued expansion of production scale, and implementing effective sales and marketing strategies, which met the demands of medium to high end customers with more high value-added products.

## Management Discussion and Analysis

The following charts provide the comparison of revenue in terms of products segment for the six months ended 30 June 2006 and the corresponding period in 2005:

### A breakdown of revenue in terms of product categories



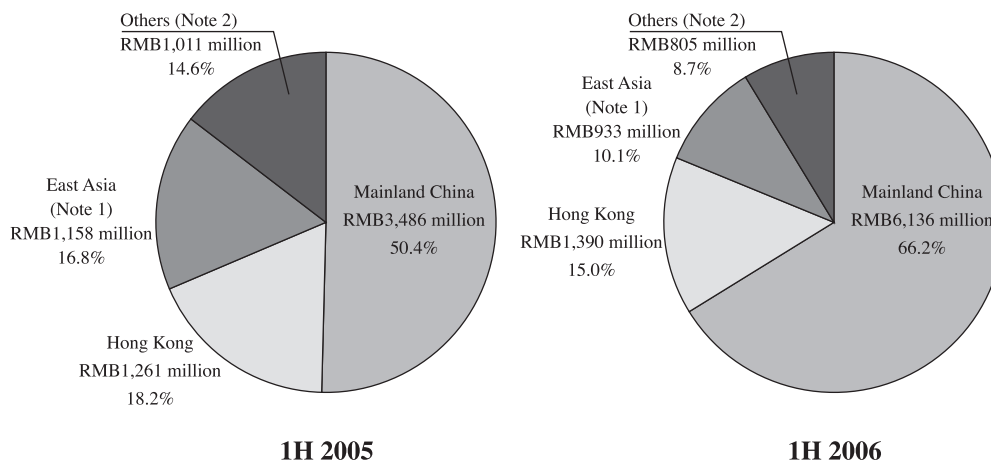
*Note:* Others include cotton seeds, tailings, clothes and other by-products.

The proportions of cotton yarn's revenue and grey fabric's revenue to the total revenue were slightly increased for the six months ended 30 June 2006 as compared with the same period in 2005, while proportion of denim's revenue to the total revenue was decreased by reason that the overall demand of the denim market was lower in the first half of 2006 as compared with the corresponding period in 2005, thereby affecting the denim sales.

## Management Discussion and Analysis

The following charts show the Group's revenue in terms of geographical location for the six months ended 30 June 2006 and the corresponding period in 2005:

### A breakdown of revenue in terms of geographical locations



*Note 1:* Comprises of Japan and South Korea;

*Note 2:* Mainly comprises of Taiwan, Thailand, the United States and Europe.

For the six months ended 30 June 2006, domestic sales of the Group has been significantly increased, which was mainly due to the change in the sales strategy of the Group during the Period, thereby enhancing its efforts in the exploration of domestic markets, and expanded its coverage in the domestic textile market.

Furthermore, the Group continued to maintain a strong customer base. As at 30 June 2006, the Group has over 7,000 customers in 30 provinces and cities in the PRC and over 680 customers in approximately 20 countries, representing an increase of 27.3% and 21.4%, respectively, when compared with the first half of 2005. Such growth is due to the Group's enhancement in its efforts in the exploration of domestic and overseas markets, and the continuously strong market demand.

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

## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Gross profit and gross profit margin

The following table is an analysis of gross profit and gross profit margin of the Group's major product categories in the first six months of 2005 and 2006, respectively:

Product category	For the six months ended 30 June			
	2006		2005	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	459,124	12.0	668,996	24.4
Grey fabric	876,854	17.8	382,871	10.6
Denim	95,750	20.2	136,229	26.4
Others	3,623	11.2	10,962	20.0
Total	1,435,351	15.5	1,199,058	17.3

For the six months ended 30 June 2006, the gross profit margin of the Group decreased to 15.5% as compared with the same period last year, which was primarily attributable to the keen competition in cotton yarn markets in the first half of the year. The Group had increased the sales of grey fabric in the high end markets to widen the sources of sales, and caused a decrease in the sales of high end cotton yarn. This resulted in significant decrease in gross profit of cotton yarn and increase in gross profit of grey fabric. The gross profit margin of denim decreased due to the downtrend of denim sales in markets.

#### SELLING AND DISTRIBUTION COSTS

During the first half of 2006, the Group's selling and distribution costs decreased by 12.4% to approximately RMB162 million from approximately RMB185 million for the first half of 2005. The reason was due to transportation costs reduced by 18.8% from approximately RMB133 million in the first half of 2005 to approximately RMB108 million in the first half of 2006, as a result of the significant reduction in unit transportation cost. Owing to continued increase in the Company's transportation volume, the Company made use of tender for both ocean freight and inland freight to reduce the overall transportation costs. Sales commission reduced by 44.0% from approximately RMB25 million in the first half of 2005 to approximately RMB14 million, which was due to the Company's efforts in market expansions, and reduction in sales via commission-bearers intermediates.

## **Management Discussion and Analysis**

### **ADMINISTRATIVE EXPENSES**

For the six months ended 30 June 2006, the Group's administrative expenses were approximately RMB100 million, representing a decrease of 2.0% as compared with approximately RMB102 million over the same period last year due to the highly effective human resources streamline management policies adopted by the Company.

### **FINANCE COSTS**

For the six months ended 30 June 2006, the Group's finance costs were approximately RMB329 million, representing an increase of 71.4% compared with RMB192 million over the same period last year. The increase in finance costs was mainly due to the increase in interest-bearing bank loan and increases in interest rates.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The cash and cash equivalents of the Group were approximately RMB3,929 million as at 30 June 2006, representing an increase of approximately RMB743 million from the end of 2005. For the six months ended 30 June 2006, the Group had a net cash outflow from investing activities of approximately RMB1,406 million and a net cash inflow of approximately RMB2,078 million from operating activities and incurred an exchange loss of approximately RMB12 million. The net debt-to-equity ratio decreased to 0.48.

The turnover days of the Group's accounts receivable were 15 days for the six months ended 30 June 2006, the number of turnover days was decreased when compared to the 19 days for the corresponding period of 2005 due to the effectiveness on the Group's policies of tightening the credit facilities.

Inventory turnover days decreased from 88 days for the six months ended 30 June 2005 to 77 days for the six months ended 30 June 2006. The decrease in inventory turnover days was mainly due to the decrease in lint cotton inventory of the Group in response to the rise in cotton price in the first half of the year. In addition, the expansion of production scale also speeded up the consumption of lint cotton, thus reducing the stock of lint cotton.

During the six months ended June 2006, the Group used financial instruments for reducing the risks of foreign exchange and interest rate exposure.

### **NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT AND EARNINGS PER SHARE**

During the six months ended 30 June 2006, net profit attributable to equity holders of the parent was approximately RMB601 million, representing an increase of 27.3% as compared with RMB472 million during the corresponding period in 2005.



## Management Discussion and Analysis

During the six months ended 30 June 2006, basic earnings per share of the Company was RMB0.51, representing a decrease of 5.6% as compared with the basic earning per share of RMB0.54 of the corresponding period in 2005. The decrease was mainly due to the diluted earnings as a result of issuance of domestic shares to Holding Company for the acquisition of thermal power assets in the second half of 2005 and placing of new H shares of the Company in March 2006.

### CAPITAL STRUCTURE

The Group continued to strive to maintain an appropriate mix of equity and debt to ensure an efficient capital structure in order to reduce capital costs. As of 30 June 2006, the liabilities of the Group including bank borrowings and long term payable to the holding company amounted to approximately RMB9,621 million and cash and cash equivalents amounted to approximately RMB3,929 million. Gearing ratio (total liabilities (including bank borrowings and long term amounts payable to the holding company) divided by total assets) was 57.1%.

Details of outstanding bank borrowings as at 30 June 2006 were set out in note 15 to the unaudited condensed consolidated interim financial statements. As at 30 June 2006, 33.1% of the Group's bank borrowings was subject to fixed interest rates while the remaining 66.9% was subject to floating interest rates.

As at 30 June 2006, the Group's borrowings were primarily denominated in Renminbi and US dollars, of which borrowings in US dollars represented 31.9% of the total borrowings, which its cash and cash equivalents were mainly denominated in Renminbi and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 7.4% of the total amount.

### ADDITIONAL ISSUE OF H SHARES

Weiqliao Textile completed the placement of 68,936,500 new H shares in March 2006 at a price of HK\$12.05 per H share. The net proceeds of the placement were approximately HK\$829 million. As at 30 June 2006, the Company applied the proceeds from the placement for the purposes as set out in the announcement issued by the Company on 2 March 2006 as follows:

	HK\$' million	
	Planned usage	Actual allocation
Capital investment to expand production capacity of existing high value-added cotton textile products	784	784
General working capital	45	45
Total	<u>829</u>	<u>829</u>

This project has been put into operation in the first half of this year, and its positive influence on the Company's results will be realized in the second half of the year.

## **Management Discussion and Analysis**

### **DETAILS OF PLEDGED ASSETS OF THE GROUP**

Details are set out in note 15 to the unaudited condensed consolidated interim financial statements.

### **EXPOSURE TO FOREIGN EXCHANGE RISKS**

Revenue and most of the expenditure of the Group are denominated in RMB and US dollars. For the six months ended 30 June 2006, 33.8% of the Group's revenue and 64.8% of the Group's cost of lint cotton procurement were denominated in US dollars. For the six months ended 30 June 2006, the Group has not experienced any significant difficulties or impact on its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

### **COMMITMENTS**

Details are set out in note 21 to the unaudited condensed consolidated interim financial statements.

### **CONTINGENT LIABILITIES**

Details are set out in note 22 to the unaudited condensed consolidated interim financial statements.

### **EMPLOYEES AND EMOLUMENT POLICIES**

As at 30 June 2006, the Group had a total of approximately 149,000 employees, representing an increase of approximately 9,000 employees as compared with the same period last year. The Group employed more manpower and provided the new recruits with training in order to satisfy the need of production expansion, which led to the increase in the number of staff. Total staff costs (including directors' and supervisors' remuneration) of the Group amounted to approximately RMB1,087 million during the Period, representing 11.7% of the Group's revenue. Employees were remunerated based on their performances, experience and the prevailing industry practice. The Group's remuneration policies and packages were reviewed by remuneration committee of the Company at least once a year.

### **TAXATION**

Income tax of the Group increased from approximately RMB262 million for the first half of 2005 to approximately RMB327 million for the first half of 2006, representing an increase of 24.8%. This increase was primarily due to the fact that profit before tax increased 25.6% from approximately RMB738 million in the first half of 2005 to approximately RMB927 million in the first half of 2006.

## Supplementary Information

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, so far as is known to the directors, supervisors and the chief executive of the Company, the interests of every person, other than a director, supervisor or chief executive of the Company, in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Future Ordinance were as follows:

Interests in the domestic shares of the Company:

	<b>Number of Domestic Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of total issued Domestic share capital</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital</b> <i>(%)</i>
Holding Company	679,058,600 (long position) <i>(Note 2)</i>	86.97	56.85
Zouping County Supply and Marketing Cooperation Union (“ZCSU”)	679,058,600 (long position) <i>(Note 3)</i>	86.97	56.85

## Supplementary Information

Interests in the H Shares of the Company:

	<b>Number of H Shares</b> <i>(Note 4)</i>	<b>Approximate percentage of total issued H share capital</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital</b> <i>(%)</i>
Brandes Investment Partners, L.P.	52,166,500 (long position) <i>(Note 5)</i>	12.61	4.37
UBS AG	38,876,516 (long position)	9.40	3.25
	1,077,000 (short position) <i>(Note 6)</i>	0.26	0.09
J.P. Morgan Case & Co.	33,039,329 (long position) <i>(Note 7)</i>	7.99	2.77
	27,114,329 (lending pool)	6.56	2.27
The Northern Trust Company (ALA)	25,020,992 (lending pool)	6.05	2.09
State Street Corporation	20,754,448 (lending pool) <i>(Note 8)</i>	5.02	1.74

## Supplementary Information

*Notes:*

1. Unlisted shares.
2. These 679,058,600 Domestic Shares were directly held by Holding Company.
3. These 679,058,600 Domestic Shares were deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
4. Shares listed on the Main Board of the Stock Exchange.
5. 52,166,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
6. 9,483,540 H Shares (long position) were directly held by UBS AG, 536,000 H Shares (short position) were security interests held by UBS AG, while 29,392,976 H Shares (long position) and 541,000 H Shares (short position) were held by certain corporations controlled by UBS AG.
7. 730,000 H Shares were directly held by J.P. Morgan Chase & Co., 5,195,000 H Shares were held by J.P. Morgan Chase & Co. in its capacity as investment manager, while 27,114,329 H Shares were held by J.P. Morgan Chase & Co. as a custodian corporation/approved lending agent.
8. 20,754,448 H Shares were shares under a lending pool of a corporation controlled by State Street Corporation.

Save as disclosed above, so far as is known to the directors, supervisors and the chief executive of the Company, as at 30 June 2006, there was no other person who had an interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register required to be kept under section 336 of the SFO.

## Supplementary Information

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

As at 30 June 2006, the interests of the directors of the Company in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests in the Domestic Shares of the Company:

	Type of interest	Number of Domestic Shares <i>(Note 1)</i>	Approximate percentage of total issued Domestic share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Zhang Hongxia (Executive Director)	Personal	17,700,400 (long position)	2.27	1.48
Zhang Bo (Executive Director, Chairman)	Personal	12,932,000 (long position)	1.66	1.08
Qi Xingli (Executive Director)	Personal	8,052,500 (long position)	1.03	0.67
Zhang Shiping (Non-executive Director)	Personal	5,200,000 (long position)	0.67	0.44



## Supplementary Information

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

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

*Note:*

1. Unlisted shares

Save as disclosed above, as at 30 June 2006, none of the directors, supervisors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2006.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

### AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in accordance with the requirements of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee comprises of the three independent non-executive directors of the Company. An audit committee meeting was held on 8 September 2006 to review the unaudited interim financial statements for the six months ended 30 June 2006 and provide advice and recommendations to the board of directors of the Company. External auditors were engaged by the Audit Committee to review the unaudited interim financial statements for the six months ended 30 June 2006.

## **Supplementary Information**

### **REMUNERATION COMMITTEE**

The Company has established a remuneration committee (the “Remuneration Committee”) to comply with corporate governance standards as a listed company. The objective of this committee is to set out and suggest the appraisal standards for directors and management, and review directors’ and management’s remuneration policies and projects. The Remuneration Committee is composed of three directors. The remuneration committee meeting was held on 4 April 2006 to pass the bill with regard to directors’ payroll and bonus as well as supervisors’ payment for the year ending 31 December 2006.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

To the best knowledge of the directors of the Company, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2006.

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the Period, in compliance with the code provisions of the Code.

### **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with directors of the Company, the Company has confirmed that each of the directors of the Company complied with the Model Code.

### **DISCLOSURES UNDER CHAPTER 13 OF THE LISTING RULES**

On 8 September 2004, the Company, as borrower, entered into a syndicated loan agreement for a three year term loan facility up to US\$78,000,000 (equivalent to approximately HK\$608,400,000) and RMB183,000,000 (equivalent to approximately HK\$175,962,000), respectively. Such syndicated loan agreement includes covenants relating to specific performance of the controlling shareholder of the Company.

On 1 August 2005, the Company, as borrower, also entered into a syndicated loan agreement with a syndicate of banks for a three-year term loan facility of up to US\$125,000,000 (equivalent to approximately HK\$975,000,000). Such syndicated loan agreement also includes covenants relating to specific performance of the controlling shareholder of the Company.

# Independent Auditors' Review Report



安永會計師事務所

**To the board of directors**

**Weiqiao Textile Company Limited**

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

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2006, as set out on pages 23 to 48.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

## **REVIEW CONCLUSION**

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2006.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

8 September 2006

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six-month period ended 30 June 2006

	Notes	Six-month period ended 30 June 2006 RMB'000	Six-month period ended 30 June 2005 RMB'000
Revenue	4	9,263,875	6,915,725
Cost of sales		(7,828,524)	(5,716,667)
Gross profit		1,435,351	1,199,058
Other income and gains	4	120,695	60,175
Selling and distribution costs		(162,095)	(185,260)
Administrative expenses		(99,701)	(101,596)
Other operating expenses		(38,190)	(43,298)
Finance costs	6	(328,746)	(191,570)
Profit before tax	5	927,314	737,509
Tax	7	(327,083)	(262,458)
Profit for the period		600,231	475,051
Attributable to:			
Equity holders of the parent		600,544	471,594
Minority interests		(313)	3,457
		600,231	475,051
Dividend	9	Nil	Nil
Earnings per share attributable to ordinary equity holders of the parent			
Basic (RMB)	8	0.51	0.54

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2006

		30 June 2006 (unaudited) RMB'000	31 December 2005 (audited) RMB'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	15,902,511	14,495,891
Prepaid land lease payments		128,914	130,305
Intangible assets		7,501	8,101
Deferred tax assets	17	68,632	61,422
<b>TOTAL NON-CURRENT ASSETS</b>		<b>16,107,558</b>	<b>14,695,719</b>
<b>CURRENT ASSETS</b>			
Inventories		3,283,244	3,645,228
Trade receivables	11	745,760	562,272
Amounts due from related parties	12	143,904	482,596
Prepayments, deposits and other receivables		102,356	458,595
Derivative financial instruments		12,788	8,243
Pledged deposits		468,300	512,138
Time deposits maturing over three months		939,351	1,154,040
Cash and cash equivalents		3,928,596	3,185,935
<b>TOTAL CURRENT ASSETS</b>		<b>9,624,299</b>	<b>10,009,047</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	13	2,389,501	2,244,091
Bills payable	14	350,135	589,300
Amount due to a related party	12	864	864
Other payables and accruals		1,202,572	841,358
Derivative financial instruments		9,146	6,104
Interest-bearing bank loans, current portion	15	4,104,253	5,135,412
Amount due to the immediate holding company	12	180,321	301,294
Long term payable to the immediate holding company, current portion	16	195,000	50,000
Tax payable		788,907	560,092
Dividend payable		67,708	38,517
Deferred income, current portion		3,574	3,574
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,291,981</b>	<b>9,770,606</b>
<b>NET CURRENT ASSETS</b>		<b>332,318</b>	<b>238,441</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>16,439,876</b>	<b>14,934,160</b>

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)** (Continued)

As at 30 June 2006

		<b>30 June 2006</b>	31 December 2005
		<b>(unaudited)</b>	(audited)
	Notes	<b>RMB'000</b>	RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, long term portion	15	<b>5,097,561</b>	4,555,510
Long term payables to the immediate holding company	16	<b>223,927</b>	368,927
Deferred income		<b>78,206</b>	79,993
Deferred tax liabilities	17	<b>8,976</b>	8,382
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>5,408,670</b>	5,012,812
<b>NET ASSETS</b>		<b>11,031,206</b>	9,921,348
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital	18	<b>1,194,389</b>	1,125,453
Reserves	19	<b>9,748,489</b>	8,378,550
Proposed final dividend		—	323,005
		<b>10,942,878</b>	9,827,008
Minority interests		<b>88,328</b>	94,340
<b>TOTAL EQUITY</b>		<b>11,031,206</b>	9,921,348



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the six-month period ended 30 June 2006*

	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	1,125,453	5,884,786	325,203	317,760	323,005	1,850,801	94,340	9,921,348
Dividend relating to								
additional issuance of shares*	—	—	—	—	19,785	(19,785)	—	—
Final 2005 dividend declared	—	—	—	—	(342,790)	—	—	(342,790)
Transfer of the statutory public welfare fund to the statutory surplus reserve**	—	—	317,760	(317,760)	—	—	—	—
Dividend paid to								
minority shareholders	—	—	—	—	—	—	(5,699)	(5,699)
Issue of additional H shares	68,936	789,180	—	—	—	—	—	858,116
Transfer from retained profits to the capital reserve***	—	1,760	—	—	—	(1,760)	—	—
Net profit for the period	—	—	—	—	—	600,544	(313)	600,231
As at 30 June 2006	<u>1,194,389</u>	<u>6,675,726</u>	<u>642,963</u>	<u>—</u>	<u>—</u>	<u>2,429,800</u>	<u>88,328</u>	<u>11,031,206</u>

\* On 4 April 2006, the board of directors resolved to propose a final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,125,452,500 amounting to RMB323 million. During the annual general meeting held on 6 June 2006, the shareholders approved the final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,194,389,000 as shown on the Register of Members on 4 May 2006 including additional issuance of 68,936,500 H shares issued on 10 March 2006 with the additional dividend amounting to RMB19.8 million. The final 2005 dividend was declared amounting to RMB343 million.

\*\* Pursuant to the Notice of Caiqi [2006]67 dated 15 March 2006 issued by the Ministry of Finance, the statutory public welfare fund is no longer to be provided with effect from 1 January 2006, and the balance of the statutory public welfare fund is required to be transferred to the statutory surplus reserve.

\*\*\* One of the subsidiaries, Binzhou Weiqiao Technology Industrial Park Company Limited (“Binzhou Industrial Park”), has received government grants of approximately RMB84 million which were credited to the capital reserve in accordance with the accounting principles generally accepted in the People’s Republic of China (the “PRC GAAP”) as a non-distributable reserve. In accordance with HKAS 20, such government grants were treated as deferred income and recognised in the consolidated income statement over the expected useful lives of the relevant items of property, plant and equipment to which the grants were related by equal annual instalments. The Group’s share of deferred income recognised in the consolidated income statement during the period was then transferred to the capital reserve.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Continued)

For the six-month period ended 30 June 2005

	Issued share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Proposed final dividend	Retained profits	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005	875,453	3,424,199	199,390	193,549	218,863	1,181,944	90,308	6,183,706
Final 2004 dividend declared	—	—	—	—	(218,863)	—	—	(218,863)
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,889)	(1,889)
Net profit for the period	—	—	—	—	—	471,594	3,457	475,051
As at 30 June 2005	<u>875,453</u>	<u>3,424,199</u>	<u>199,390</u>	<u>193,549</u>	<u>—</u>	<u>1,653,538</u>	<u>91,876</u>	<u>6,438,005</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six-month period ended 30 June 2006

	<b>Six-month period ended 30 June 2006 RMB'000</b>	Six-month period ended 30 June 2005 RMB'000
Net cash inflow from operating activities	<b>2,077,676</b>	1,936,505
Net cash outflow from investing activities	<b>(1,406,053)</b>	(1,608,280)
Net cash inflow before financing activities	<b>671,623</b>	328,225
Net cash inflow/(outflow) from financing activities	<b>83,012</b>	(298,573)
Net increase in cash and cash equivalents	<b>754,635</b>	29,652
Cash and cash equivalents at beginning of the period	<b>3,185,935</b>	2,244,648
Effect of foreign exchange rate changes, net	<b>(11,974)</b>	(5,282)
Cash and cash equivalents at end of the period	<b>3,928,596</b>	2,269,018
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>3,000,254</b>	1,678,718
Non-pledged time deposits with original maturity of less than three months when acquired	<b>928,342</b>	590,300
	<b>3,928,596</b>	2,269,018

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

30 June 2006

### 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 (the “Holding Company”), a limited liability company established in the PRC, and Zouping County Supply and Marketing Corporation Union (“ZCSU”), a collectively-owned enterprise formed in the PRC, respectively.

As at 30 June 2006, the Company had direct interests in the following subsidiaries and joint ventures:

Company name	Place and date of incorporation / registration and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interests directly attributable to the Company	Principal activities
<b>Subsidiaries</b>					
Weihai Weiqiao Textile Company Limited (“Weihai Weiqiao”)	Weihai, the PRC 25 July 2001	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarns and fabrics
Binzhou Industrial Park	Binzhou, the PRC 26 November 2001	Limited liability company	RMB600,000,000	98.5	Production and sale of cotton yarns and fabrics
Shandong Weiqiao Mianye Company Limited	Zouping, the PRC 30 September 2003	Limited liability company	RMB5,000,000	92	Purchase, processing and sale of raw cotton, cotton seeds and lint cotton
Weihai Weiqiao Technology Industrial Park Company Limited (“Weihai Industrial Park”)	Weihai, the PRC 30 January 2004	Limited liability company	RMB260,000,000	99.8	Production and sale of cotton yarns and fabrics

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

30 June 2006

**1. CORPORATE INFORMATION**(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
<b>Joint ventures</b>					
Shandong Luteng Textile Company Limited ("Luteng Textile" )	Zouping, the PRC 12 September 2002	Sino-foreign equity joint venture	US\$9,790,000	75	Production and sale of polyester yarns and related products
Shandong Binteng Textile Company Limited ("Binteng Textile")	Zouping, the PRC 12 March 2004	Sino-foreign equity joint venture	US\$15,430,000	75	Production and sale of compact yarns and related products

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

30 June 2006

### **2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s 2005 annual financial statements.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- (i) HKAS 39 — Financial Instruments: Recognition and Measurement (“HKAS 39”) — Amendment for financial guarantee contracts- which amended the scope of HKAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under HKAS 39, as amended, financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.
- (ii) HKAS 39 — Amendment for hedges of forecast intragroup transactions — which amended HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements; and
- (iii) HKAS 39 — Amendment for the fair value option — which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

The adoption of these amendments did not affect the Group’s results of operations or financial position.

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

30 June 2006

**3. 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:

	<b>Six-month period ended 30 June 2006</b>		
	<b>Sales to external</b>		
	<b>customers</b>	<b>Cost of sales</b>	<b>Gross profit</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Mainland China	6,136,310	5,143,003	993,307
Hong Kong	1,390,094	1,219,304	170,790
East Asia	933,078	797,568	135,510
Others	804,393	668,649	135,744
Total	<u>9,263,875</u>	<u>7,828,524</u>	<u>1,435,351</u>

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

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

30 June 2006

**4. 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:

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
<b>Revenue</b>		
Sale of textile goods	<u>9,263,875</u>	<u>6,915,725</u>
<b>Other income</b>		
Bank interest income	24,783	16,918
Compensation from suppliers on supply of sub-standard goods	21,230	12,431
Penalty income from employees	3,457	2,815
Recognition of deferred income	1,787	—
Others	<u>1,221</u>	<u>2,874</u>
	<u>52,478</u>	<u>35,038</u>
<b>Gains</b>		
Sale of electricity and steam	143,294	—
Less: Cost thereon	<u>(98,230)</u>	<u>—</u>
Gains on sale of electricity and steam	45,064	—
Gains on sale of raw materials and spare parts	321	25,137
Foreign exchange differences, net	21,329	—
Fair value gains, net:		
Derivative financial instruments-transactions not qualifying as hedges	<u>1,503</u>	<u>—</u>
	<u>68,217</u>	<u>25,137</u>
Total other income and gains	<u>120,695</u>	<u>60,175</u>



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

30 June 2006

**5. PROFIT BEFORE TAX**

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

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
Cost of goods sold	7,767,198	5,697,267
Staff costs:		
Wages, salaries and social security costs	1,063,606	818,982
Retirement benefits scheme contributions	23,849	11,088
	<u>1,087,455</u>	<u>830,070</u>
Depreciation ( <i>Note 10</i> )	479,691	300,815
Amortisation of prepaid land lease payments	1,391	701
Amortisation of intangible assets	600	600
Auditors' remuneration	1,654	1,342
Directors' and supervisors' remuneration	2,144	2,178
Foreign exchange differences, net	(21,329)	5,282
Provision for bad and doubtful debts	—	6,000
Provision against inventories	34,200	19,400
Minimum lease payments under operating leases:		
Land and buildings	7,312	4,738
	<u>7,312</u>	<u>4,738</u>

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

30 June 2006

**6. FINANCE COSTS**

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
Interest on bank loans wholly repayable within five years	<b>338,746</b>	196,070
Less: Interest capitalised	<b>(10,000)</b>	(4,500)
	<b><u>328,746</u></b>	<u>191,570</u>

**7. TAX**

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the six-month period ended 30 June 2006 (six-month period ended 30 June 2005: Nil).

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
Current - Hong Kong	—	—
- Mainland China	<b>333,699</b>	262,458
Deferred	<b>(6,616)</b>	—
Total tax charge for the period	<b><u>327,083</u></b>	<u>262,458</u>

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

30 June 2006

**7. TAX** (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the location in which the Company and the majority of 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:

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>		<b>Six-month period ended 30 June 2005 (unaudited) RMB'000</b>	
		<b>%</b>		<b>%</b>
Profit before tax	<b>927,314</b>		737,509	
Tax at PRC statutory tax rate	<b>306,013</b>	<b>33.0</b>	243,378	33.0
Expenses not deductible for tax	<b>15,974</b>	<b>1.7</b>	8,343	1.1
Tax loss not recognised	<b>6,790</b>	<b>0.7</b>	5,738	0.8
Tax exemption	<b>(1,301)</b>	<b>(0.1)</b>	(3,358)	(0.4)
Others	<b>(393)</b>	<b>—</b>	8,357	1.1
Tax charge at the Group's effective rate	<b>327,083</b>	<b>35.3</b>	262,458	35.6

Under the PRC income tax law, the companies (except for Luteng Textile and 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 GAAP.

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 the 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 the local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption commencing from 2002 and 2004, respectively. Luteng Textile and Binteng Textile were both entitled to a 50% reduction in the State CIT for the current period.

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

30 June 2006

**8. EARNINGS PER SHARE**

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

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
<b>Earnings</b>		
Net profit from ordinary activities attributable to equity holders of the parent used in the basic earnings per share calculation	<u><b>600,544</b></u>	<u>471,594</u>
<b>Number of shares</b>		
	<b>Six-month period ended 30 June 2006 (unaudited)</b>	Six-month period ended 30 June 2005 (unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u><b>1,168,490,204</b></u>	<u>875,452,500</u>

The weighted average numbers of ordinary shares in issue during the period used in the basic earnings per share calculation for the six-month period ended 30 June 2006 has been adjusted to reflect the issuance of 68,936,500 H shares by way of placing on 10 March 2006.

Diluted earnings per share amounts for the six-month periods ended 30 June 2006 and 2005 have not been disclosed as no diluting events existed during the periods.

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

*30 June 2006*

### **9. DIVIDEND**

On 4 April 2006, the board of directors resolved to propose a 2005 final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,125,452,500 amounting to RMB323 million. During the annual general meeting held on 6 June 2006, the shareholders approved the final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,194,389,000 as shown on the Register of Members on 4 May 2006, with the final 2005 dividend declared amounting to RMB343 million.

At a meeting of the board of directors held on 8 September 2006, the directors recommended not to pay an interim dividend to shareholders (2005: Nil).

### **10. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired buildings, machinery and equipment, motor vehicles and construction in progress with an aggregate cost of approximately RMB1,886,832,000 (six-month period ended 30 June 2005: RMB758,503,000), and disposed of machinery and equipment and motor vehicles with an aggregate net carrying value of approximately RMB521,000 (six-month period ended 30 June 2005: RMB1,561,000).

The depreciation charge of the Group for the six-month period ended 30 June 2006 was approximately RMB479,691,000 (six-month period ended 30 June 2005: RMB300,815,000).

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)

30 June 2006

### 11. TRADE RECEIVABLES

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

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 (audited) RMB'000
Within 3 months	<b>731,630</b>	546,539
3 to 6 months	<b>9,160</b>	7,610
6 months to 1 year	<b>543</b>	3,765
1 to 2 years	<b>4,427</b>	4,358
	<u><b>745,760</b></u>	<u>562,272</u>

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers 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 fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

### 12. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/RELATED PARTIES

The balances with the immediate holding company and related parties are unsecured, interest-free and have no fixed repayment terms.

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

30 June 2006

**13. 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:

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Within 3 months	<b>2,060,818</b>	1,944,107
3 to 5 months	<b>113,757</b>	99,186
5 months to 1 year	<b>190,301</b>	200,798
Over 1 year	<b>24,625</b>	—
	<u><b>2,389,501</b></u>	<u>2,244,091</u>

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

**14. BILLS PAYABLE**

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Within 3 months	<b>270,135</b>	499,300
3 to 6 months	<b>80,000</b>	90,000
	<u><b>350,135</b></u>	<u>589,300</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)

30 June 2006

### 15. BORROWINGS

Set out below is information relating to the security interest and banking guarantees of the Group's bank loans as at 30 June 2006:

- (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, a maximum level of dividend payment, minimum level of consolidated tangible net worth, maximum level of consolidated total debt, and consolidated total secured debts and the maintenance of net consolidated current assets and certain financial ratios.
- (ii) Other than certain of the bank loans in the aggregate amount of US\$367 million (RMB2,933 million equivalent) as at 30 June 2006 (31 December 2005: US\$431 million (RMB3,481 million equivalent) and HK\$110 million (RMB114 million equivalent)), all of the Group's bank loans are denominated in RMB.
- (iii) Certain of the Group's bank loans amounting to approximately RMB5,497 million (31 December 2005: RMB6,205 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 RMB7,710 million as at 30 June 2006 (31 December 2005: RMB8,021 million).
- (iv) Certain of the Group's bank loans of up to approximately RMB85 million (31 December 2005: RMB85 million) were secured by certain of the Group's trade receivables of up to approximately RMB108 million (31 December 2005: RMB111 million) as at 30 June 2006.
- (v) Certain of the Group's bank loans amounting to approximately RMB40 million (31 December 2005: RMB40 million) were secured by certain of the Group's pledged deposits of approximately RMB42 million (31 December 2005: RMB42 million) as at 30 June 2006.



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

30 June 2006

**15. BORROWINGS** (Continued)

(vi) Weihai Civil Aviation Industrial Company Limited, the minority shareholder of Weihai Weiqiao, has guaranteed bank loans for Weihai Weiqiao of up to approximately RMB10 million (31 December 2005: RMB10 million) as at 30 June 2006.

(vii) Liu Guangmin, the minority shareholder of Weiqiao Industrial Park, guaranteed bank loans for Weiqiao Industrial Park of up to approximately RMB1 million (31 December 2005: RMB1 million) as at 30 June 2006.

(viii) The Company has guaranteed bank loans for certain of its subsidiaries up to approximately RMB508 million (31 December 2005: RMB506 million) as at 30 June 2006.

**16. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY**

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Amounts repayable:		
Within one year	<b>195,000</b>	50,000
In the second year	<b>223,927</b>	368,927
In the third to the fifth years, inclusive	—	—
	<b>418,927</b>	418,927
Portion classified as current liabilities	<b>(195,000)</b>	(50,000)
Non-current portion	<b>223,927</b>	368,927

The long term payable to the immediate holding company as at 30 June 2006 and 31 December 2005 are unsecured and interest-free.

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

30 June 2006

**17. DEFERRED TAX**

The movements in the deferred tax assets and liabilities during the period are as follows:

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	Six-month period ended 30 June 2005 (unaudited) RMB'000
<b>Deferred tax assets</b>		
At 1 January	61,422	—
Credited to the income statement during the period	7,210	—
	<hr/>	<hr/>
At 30 June	68,632	—
	<hr/>	<hr/>
<b>Deferred tax liabilities</b>		
At 1 January	8,382	—
Charged to the income statement during the period	594	—
	<hr/>	<hr/>
At 30 June	8,976	—
	<hr/>	<hr/>
Credited to the income statement, net	6,616	—
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>30 June 2006 (unaudited) RMB'000</b>	31 December 2005 (audited) RMB'000
<b>Deferred tax assets</b>		
Provision against inventories	38,746	27,460
Provision for bad and doubtful debts	7,626	7,831
Net fair value gains of derivative financial instruments	(1,202)	(706)
Government grants recognised as deferred income	26,987	27,577
Difference in depreciation for tax purposes	(8,811)	(7,623)
Others	5,286	6,883
	<hr/>	<hr/>
	68,632	61,422
	<hr/> <hr/>	<hr/> <hr/>
<b>Deferred tax liabilities</b>		
Difference in depreciation for tax purposes	8,976	8,382
	<hr/> <hr/>	<hr/> <hr/>

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

30 June 2006

**18. SHARE CAPITAL**

	<b>30 June 2006</b>	31 December 2005
	<b>(unaudited)</b>	(audited)
	<b>RMB'000</b>	RMB'000
<b>Shares</b>		
Registered, issued and fully paid:		
780,770,000 (31 December 2005: 780,770,000)		
domestic shares of RMB1.00 each	<b>780,770</b>	780,770
413,619,000 (31 December 2005: 344,682,500)		
H shares of RMB1.00 each	<b>413,619</b>	344,683
	<b>1,194,389</b>	1,125,453

The Company does not have any share option scheme.

During the six-month period ended 30 June 2006, 68,936,500 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\$12.05 (equivalent to approximately RMB12.49) per H share. These H shares were listed on the Hong Kong Stock Exchange on 10 March 2006.

**19. DISTRIBUTABLE RESERVES**

As at 30 June 2006, in accordance with the PRC Company Law, an amount of approximately RMB6,673 million standing to the credit of the Company's capital reserve account and an amount of approximately RMB604 million standing to the credit of the Company's statutory surplus reserve, as determined under the PRC GAAP, were available for distribution by way of the future capitalisation issue. In addition, the Company's retained profits of approximately RMB2,260 million were available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders as at 30 June 2006.

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

30 June 2006

**20. RELATED PARTY TRANSACTIONS**

The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with members of ZCSU. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to entities in which ZCSU is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

In addition to the transactions and balances detailed elsewhere in these unaudited condensed consolidated interim financial statements during the period, the Group had the following material transactions with the following related parties:

**(a) Transaction with related parties**

Name of related parties	Relationship with the Company	Nature of transactions	Six-month	Six-month
			period ended 30 June 2006	period ended 30 June 2005
			(unaudited) RMB'000	(unaudited) RMB'000
Holding Company	The immediate holding company	Expenses on provision of electricity and steam	32,952	467,742
		Expenses on property leasing	7,285	4,768
		Revenue on supply of electricity	130,608	—
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	145,545	62,184
		Revenue on plant and equipment leasing	500	—
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	116,314	42,858
Shandong Weiqiao Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	20,416	10,340
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of Holding Company	Sale of cotton yarns	7,172	3,958
Shandong Weiqiao Hongyuan Home Textile Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	3,425	—
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	27,029	—
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of denims	523	—
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	174	—

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

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

30 June 2006

**20. RELATED PARTY TRANSACTIONS** (Continued)

**b) Outstanding balances with related parties included in the condensed consolidated balance sheet**

	<b>Due from related parties</b>		<b>Due to related parties</b>	
	<b>30 June 2006 (unaudited) RMB'000</b>	<b>31 December 2005 (audited) RMB'000</b>	<b>30 June 2006 (unaudited) RMB'000</b>	<b>31 December 2005 (audited) RMB'000</b>
Holding Company	—	—	<b>599,248</b>	720,221
Fellow subsidiaries	<b>140,803</b>	480,814	<b>864</b>	864
An associate of Holding Company	<b>3,101</b>	1,782	—	—

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

	<b>Six-month period ended 30 June 2006 (unaudited) RMB'000</b>	<b>Six-month period ended 30 June 2005 (unaudited) RMB'000</b>
Short term employee benefits	<b>2,165</b>	2,178
Post-employment benefits	<b>19</b>	—
Share-based payments	—	—
Total compensation paid to key management personnel	<b>2,184</b>	2,178

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

30 June 2006

**21. COMMITMENTS**

**(a) Capital commitments**

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

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Contracted, but not provided for	<b>240,917</b>	65,451
Authorised, but not contracted for	<b>350,000</b>	270,570
	<u><b>590,917</b></u>	<u>336,021</u>

**(b) Operating lease commitments**

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

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Within one year	<b>19,176</b>	12,235
In the second to fifth years, inclusive	<b>75,860</b>	48,395
After five years	<b>246,757</b>	149,332
	<u><b>341,793</b></u>	<u>209,962</u>

**22. CONTINGENT LIABILITIES**

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

	<b>30 June 2006</b> <b>(unaudited)</b> <b>RMB'000</b>	31 December 2005 <b>(audited)</b> <b>RMB'000</b>
Letters of credit issued	<b>242,302</b>	497,740
	<u><b>242,302</b></u>	<u>497,740</u>

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

*30 June 2006*

### **23. SUBSEQUENT EVENTS**

On 11 August 2006, the Company entered into a three-year term loan facility (the “Third Syndicate Loan Agreement”) with a syndicate of banks. The facility provides that the Company may borrow up to US\$280 million. According to the terms of the Third Syndicate Loan Agreement, the Company will firstly use the proceeds borrowed under the Third Syndicate Loan Agreement to repay in full all outstanding borrowings under the First Syndicate Loan Agreement and the Second Syndicate Loan Agreement (Note 15(i)) and apply the remaining balance for general funding purpose. In addition, the Third Syndicate Loan Agreement contains certain undertakings and financial covenants including, but not limited to a maximum level of dividend payment, minimum level of consolidated tangible net worth, maximum level of consolidated total debts and consolidated total secured debt, and the maintenance of net consolidated current assets and certain financial ratios. As of 18 August 2006, an aggregate of US\$280 million (equivalent to approximately RMB2,233 million) has been drawn down under the facility of the Third Syndicate Loan Agreement. The outstanding balance under the First Syndicate Loan Agreement of RMB109.8 million and US\$46.8 million (equivalent to approximately RMB373.2 million) and the Second Syndicate Loan Agreement of US\$111.1 million (equivalent to approximately RMB886 million) were subsequently repaid in full.

In connection with the aforementioned facility under the Third Syndicate Loan Agreement, the Company entered certain interest rate swap arrangements totalling US\$195 million with various banks during the period from 29 August 2006 to 1 September 2006.

### **24. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed interim financial statements were approved and authorised for issue by the board of directors on 8 September 2006.