



魏橋紡織股份有限公司
Weiqiao Textile Company Limited

(Stock code : 2698)



Interim Report 2007



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Summary

- Revenue increased by 0.03% to RMB9,267 million.
- Gross profit increased by 5.5% to RMB1,514 million.
- Net profit attributable to equity holder of the Company increased by 11.5% to RMB670 million.
- The Group enhanced operating efficiency and continued to maintain its leading position in the industry.
- The Group continued to upgrade equipment and optimized product mix through technological reforms, resulting a stable growth in the net profit attributable to equity holders of the Company.
- The Group continued to enhance its energy saving measures and strived to control production costs more effectively and minimize the effects to the environment.

Corporate Information

EXECUTIVE DIRECTORS

Zhang Hongxia (*Chairman*)
Zhang Yanhong
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 Hongxia
Wang Naixin
Xu Wenying

AUTHORISED REPRESENTATIVES

Qi Xingli
Zhao Suwen

PLACE OF BUSINESS IN HONG KONG

39th Floor, Gloucester Tower
The Landmark
15 Queen's Road
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

STOCK CODE

2698

INVESTOR RELATIONS DEPARTMENT

Contact Person: Mr. Wang Donghua
Tel: (8621) 2707 2788
Fax: (8621) 2707 2588
Email: wangdonghua@wqfz.com

INVESTOR AND MEDIA RELATIONS CONSULTANT

Christensen International (Hong Kong) Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: weiqiao@christensenIR.com

Chairman's Statement

It is my pleasure to present the unaudited consolidated interim results of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007 (the "Period").

The Group continued to improve its operation efficiency through technological reform and continuous upgrade of equipment and optimization of product mix. During the Period, the Group's revenue increased slightly to approximately RMB9,267 million. Net profit attributable to equity holders of the Company was approximately RMB670 million, representing an increase of 11.5% compared to that of the corresponding period of 2006; earnings per share were RMB0.56.

The first half of 2007 presented both opportunities and challenges for the textile industry in the PRC. On the one hand, the industry is benefiting from the rapid development of the economy in the PRC and, on the other hand, it is facing new requirements and challenges arising from changes in the marco policies.

In the first half of the year, GDP amounted to over RMB10,000 billion, representing a growth of 11.5% as compared to the last corresponding period, and the total retail sales of consumer goods for the country grew by 15.4% year-on-year to RMB4,204.4 billion as compared to the last corresponding period, of which, the sales of textile apparel products, recorded a significant growth of 25.0%, demonstrating a strong growth momentum in domestic demands.

In respect of exports, due to the continuous appreciation of RMB, the downward adjustments to the VAT rebate for export, the continuous increase in lending interest rate as well as the rise in labour costs, the growth of export of China's textile products slowed down slightly. According to statistics from the China Customs, the total export of textile products and apparel of the PRC amounted to US\$75.47 billion, representing a growth of 17.5% as compared to the same period of last year.

The Group continued to reinforce its efforts in energy saving and consumption reducing with a view to control its production costs more effectively and minimize the effects on environment, so as to ensure the Group could maintain its satisfactory growth in operating results in such a challenging environment. During the Period, the Group's production volume of cotton yarn, grey fabric and denim were to 437,000 tones, 781,000,000 meters and 88,000,000 meters, representing a growth of 7.4%, 3.9% and 8.6%, respectively, the cotton prices remained relatively stable in the Period. Thanks to the Group's economies of scale and its improving product mix, the Group successfully improved its gross profit margin at 16.3%, an increase of 0.8 percentage points as compared to the same period last year.

Chairman's Statement

FUTURE OUTLOOK AND STRATEGIES

In view of the gradual shift of the PRC's economy towards an economy driven by domestic demands, Weiqiao Textile will expand its market share domestically to meet the demands in the market. In respect of overseas market, the Group will grasp opportunities worldwide to further expand the geographical coverage of its business and penetrate deeper into the medium and high-end markets by leveraging on its existing advantages in economies of scale and product mix.

Undoubtedly, there will be both challenges and opportunities for prospects of the textile industry of the RPC, among which the appreciation of RMB, adjustments to 'VAT rebate for export' policy and the newly introduced processing trade deposit system would bring most immediate influences. Due to the continuous increase in the capacity of the textile industry of the PRC, costs of production, including cotton price, labor and energy cost may increase; as a result, overall industry profitability will be impacted.

Nevertheless, in view of the increasingly advantageous position of China's textile apparel exports, and the rise in domestic consumption effectively offsets the influence on export, export of textile products from the PRC to Europe will increase as the textiles safeguard trade agreement between the PRC and Europe will expire at the end of year. Therefore, the Group remains prudently optimistic toward its prospect and the overall environment of the industry.

In addition, the Group believes that the textile industry in the PRC will continue to pursue its course in technological reform and industry enhancement and the market consolidation of the industry will further speed up in the future. As a leader in the industry, the Group will continue to pursue technological reform and equipment upgrade and produce more high value-added products, so as to maintain its leading position in the industry.

Meanwhile, the Group will continue its research in energy saving and emission reduction measures and speed up the R&D and promotion of its relevant technology, with a hope to further improve its operating performance in response to the expectation of the country on industry upgrading and enhance the corporate image of the Group.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, investors 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 progress and develop. In the days to come, the Group will continue its endeavours to deliver good results and create values for shareholders.

Zhang Hongxia
Chairman

Shandong, China
31 August 2007

Management Discussion and Analysis

INDUSTRY OVERVIEW

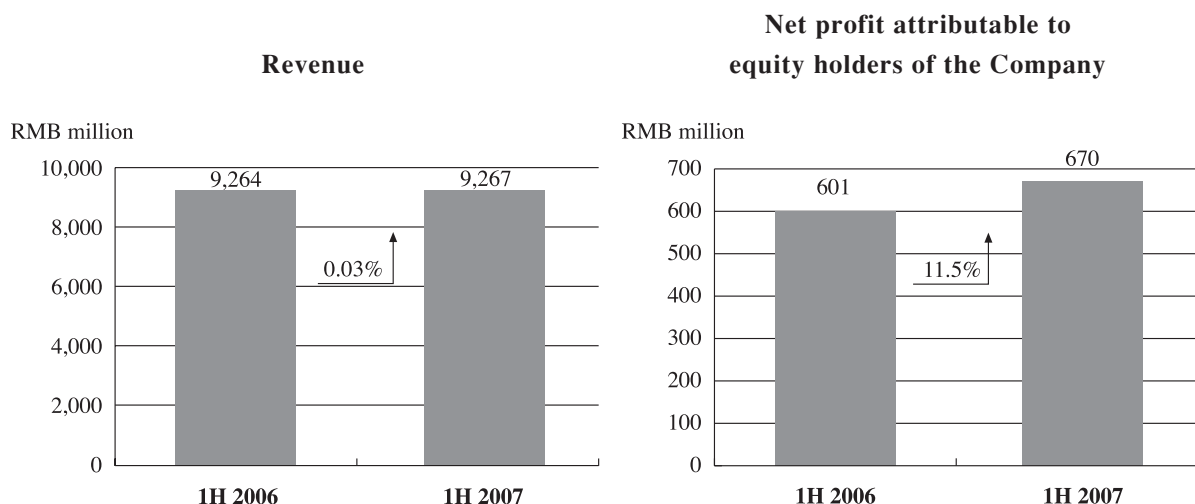
During the Period, the domestic sales and export of the PRC's textile and apparel products continued their growths, of which the growth of domestic sales was particularly satisfactory. As the total retail sales of consumer goods of the country grew by 15.4% to RMB4,204.4 billion as compared to the last corresponding period, the consumption of textile and apparel products recorded a significant growth of 25.0%, demonstrating a strong growth momentum in domestic demands.

According to statistics from China Customs, the total export of textile and apparel products of the PRC amounted to US\$75.47 billion, representing a growth of 17.5% as compared to the last corresponding period. During the period from January to June 2007, the PRC's export of textile apparel to European Union and the USA amounted to US\$24.06 billion in aggregate, accounting for 31.9% of its total export of textile apparel.

Furthermore, the textile industry in the PRC is facing the challenges arising from the changes in the macro policy on the industry, the continuous appreciation of RMB, the continuous increase in lending interest rate and the high production costs such as electricity and labor costs. Various policies issued by the government including the policies set to cut VAT rebate for export, introduced processing trade deposit system and implement energy saving and emission reduction measures, will impose great pressure on the operation of textile and apparel enterprises which will ultimately speed up industry consolidation.

BUSINESS REVIEW

Despite the changing environment of the textile industry, Weiqiao Textile achieved a steady operating result by capitalizing on its competitive strengths and improved its operating efficiency through technological reform and continuous upgrade of equipment and optimization of product mix.

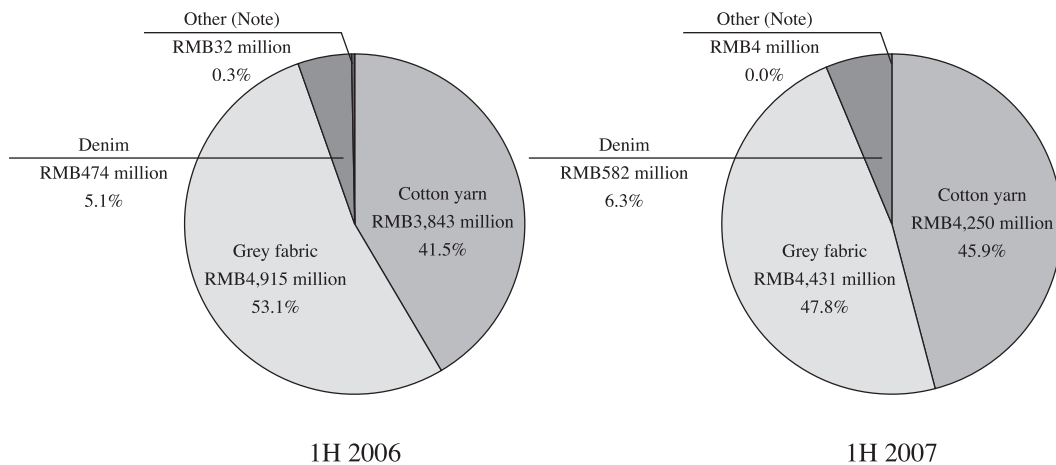


Management Discussion and Analysis

For the six months ended 30 June 2007, the revenue represented a slight growth over the same period of last year, which was mainly due to the appreciation of RMB and the higher cost of exports under the macroeconomic austerity measures, affecting the domestic demand for textiles products from downstream enterprises. Consequently, the growth of the Group's revenue during the Period under review slowed down. The increase of 11.5% in net profit attributable to equity holders of the Company was a result of the Group's continued implementation of effective sales and marketing strategies and optimization of product mix to increase the proportion of sales of high value-added products.

The following charts provide the comparison of revenue in terms of products segment for the six months ended 30 June 2007 and the corresponding period in 2006:

A breakdown of revenue in terms of product categories



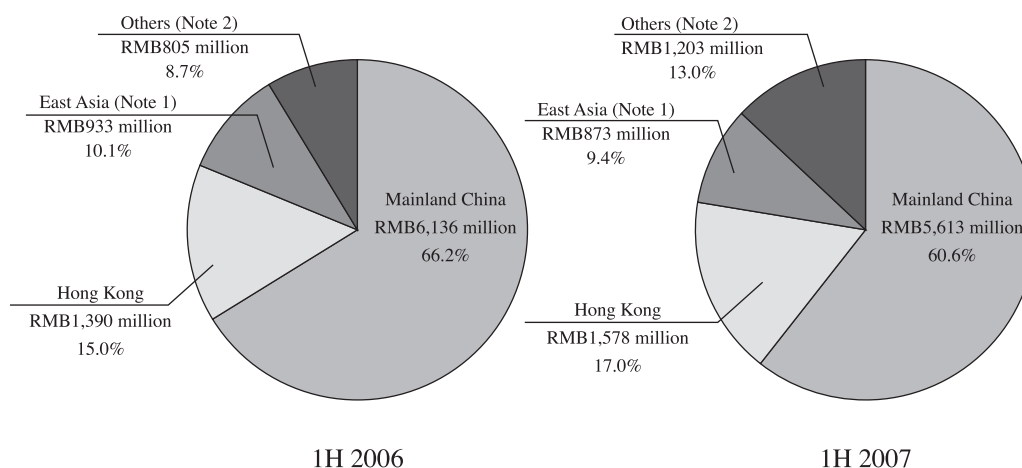
Note: Others include cotton seeds, tailings and other by-products.

For the six months ended 30 June 2007, the increase in the revenue of cotton yarn was due to strong demand in the cotton yarn market in the first half of the year. The Group captured market opportunities and increased the sales for cotton yarn. Whereas the reduction in the sales of grey fabric was due to the appreciation in RMB as well as rise in export costs resulting from macroeconomic austerity measures which led to the reduction in demand for grey fabric from domestic downstream clients. Revenue of denim increased because the Group lowered the sale price according to the change in market.

Management Discussion and Analysis

The following charts show the Group's revenue in terms of geographical location for the six months ended 30 June 2007 and the corresponding period in 2006:

A breakdown of revenue in terms of geographical locations



Note 1: East Asia comprises of Japan and South Korea;

Note 2: Others mainly comprises of Southeast Asia, the United States and Europe.

The Group continued its sales strategy of seeking opportunities to expand overseas market while focusing on the domestic market. For the six months ended 30 June 2007, the percentage of the domestic sales of the Group in its total sales was maintained at approximately 60.6%. Meanwhile, since the increase in Hong Kong's demand for cotton yarn is growing, the Group strengthened its sales to Hong Kong.

Furthermore, the Group continued to maintain an extensive customer base. As at 30 June 2007, the Group has over 7,800 customers in 30 provinces and cities in the PRC and over 750 customers in approximately 20 countries and regions, representing an increase of 11.4% and 10.3%, respectively, when compared with the first half of 2006. Such growth is due to the Group's enhancement of its efforts in the exploration of domestic and overseas markets, and the increasingly strong market demand in the high-end products.

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 2006 and 2007, respectively:

Product category	For the six months ended 30 June			
	2006		2007	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	459,124	12.0	712,060	16.8
Grey fabric	876,854	17.8	710,608	16.0
Denim	95,750	20.2	91,060	15.7
Others	3,623	11.2	396	8.9
Total	<u>1,435,351</u>	15.5	<u>1,514,124</u>	16.3

The Group improved its operating efficiency through technological reform, upgrade of equipment and optimization of product mix. For the six months ended 30 June 2007, the overall gross profit margin of the Group improved to the level of 16.3%, representing an increase of 0.8 percentage points as compared with the same period last year. The Group increased direct sales of high-end cotton yarn on the basis of maintaining a stable profit margin of grey fabrics, thus the profit margin of cotton yarn rose. The decrease in the gross profit margin of denim was primarily a result of the reduction of selling price by the Group according to the change in market. Contrasting to the individual gross profit margin of the three products, the Group paid more emphasis on the consolidated gross profit margin. The Group will develop based on the target of integration and maximization the Group's comprehensive benefits as according to market condition.

Management Discussion and Analysis

Selling and Distribution Costs

During the first half of 2007, the Group's selling and distribution costs increased by 23.5% to approximately RMB200 million from approximately RMB162 million in the first half of 2006. Transportation costs increased by 48.1% from approximately RMB108 million in the first half of 2006 to approximately RMB160 million, mainly as a result of the increase in unit transportation cost due to oil price rise and partly due to the fact that some export goods of the Group used to be by sea were then transported by land as required by customers. Sales commission increased by 21.4% from approximately RMB14 million in the first half of 2006 to approximately RMB17 million, primarily due to the increase in revenue generated from export sales and the corresponding increase in related commission.

Administrative Expenses

For the six months ended 30 June 2007, the Group's administrative expenses were approximately RMB81 million, representing a decrease 19.0% as compared with approximately RMB100 million in the same period last year, which was primarily due to the Group's highly effective management and its streamlined teams of executives.

Finance Costs

For the six months ended 30 June 2007, the Group's finance costs were approximately RMB373 million, representing an increase of 13.4% as compared with RMB329 million over the same period last year. The increase in finance costs was mainly due to the increase in the interest rate of interest-bearing bank loans.

Liquidity and Financial Resources

The cash and cash equivalents of the Group were approximately RMB3,766 million as at 30 June 2007, representing a decrease of approximately RMB444 million as compared with that as at 31 December 2006. For the six months ended 30 June 2007, the Group had a net cash outflow from investing activities of approximately RMB2,234 million and a net cash inflow of approximately RMB2,230 million from operating activities and incurred an exchange gain of approximately RMB849,000.

The turnover days of the Group's trade receivables were 22 days for the six months ended 30 June 2007 as compared with 15 days for the same period in 2006. The increase in the turnover days was due to an increase in export revenue and the extension of the credit period.

Inventory turnover days decreased from 77 days for the six months ended 30 June 2006 to 72 days for the six months ended 30 June 2007.

During the six months ended June 2007, the Group used financial instruments for reducing the risks of changes in interest rate.

Management Discussion and Analysis

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

During the six months ended 30 June 2007, net profit attributable to equity holders of the Company was approximately RMB670 million, representing an increase of 11.5% as compared with RMB601 million during the corresponding period in 2006.

During the six months ended 30 June 2007, basic earnings per share of the Company were RMB0.56.

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 2007, the debts of the Group included interest-bearing bank borrowings and long-term payables to the immediate holding company totalling approximately RMB9,686 million and cash and cash equivalents amounted to approximately RMB3,766 million. Net debt to equity ratio was 48.3% (the ratio of total interest-bearing bank borrowings and long-term payables to the immediate holding company, net of cash and cash equivalents to total equity) (as at 30 June 2006: 51.6%).

As at 30 June 2007, 30.9% of the Group's bank borrowings was subject to fixed interest rates while the remaining 69.1% was subject to floating interest rates.

As at 30 June 2007, the Group's borrowings were primarily denominated in RMB and US dollars, of which borrowings in US dollars represented 42.3% 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 1.9% of the total amount.

Details of Pledged Assets of the Group

Details are set out in note 16 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 2007, 39.4% of the Group's revenue and 48.7% of the Group's cost of lint cotton procurement were denominated in US dollars. For the six months ended 30 June 2007, 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 currency to meet its requirements.

Management Discussion and Analysis

Commitments

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

Contingent Liabilities

Details are set out in note 23 to the unaudited condensed consolidated interim financial statements.

Employees and Emolument Policies

As at 30 June 2007, the Group had a total of approximately 144,000 employees, representing a decrease of approximately 5,000 employees as compared with the same period last year. The change in the number of employees was due to the technological reforms conducted by the Group in the first half of the year which reduced the number of staff in the units. Total staff costs of the Group amounted to approximately RMB1,073 million during the Period, representing 11.6% 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 periodically by the management of the Company.

Taxation

Income tax of the Group increased from approximately RMB327 million in the first half of 2006 to approximately RMB381 million in the first half of 2007, representing an increase of 16.5%. This increase was primarily due to the fact that profit before tax increased by 13.8% from approximately RMB927 million in the first half of 2006 to approximately RMB1,055 million in the first half of 2007.

Supplementary Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, so far as known to the directors, supervisors and chief executive of the Company, the following persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Interests in the domestic shares of the Company:

	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>
Shandong Weiqiao Chuangye Group Company ("Holding Company")	719,353,100 (long position) <i>(Note 2)</i>	92.13	60.23
Zouping County Supply and Marketing Cooperation Union ("ZCSU")	719,353,100 (long position) <i>(Note 3)</i>	92.13	60.23

Interests in the H Shares of the Company:

	Number of H Shares <i>(Note 4)</i>	Approximate percentage of total issued H share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
Brandes Investment Partners, L.P.	65,972,000 (long position) <i>(Note 5)</i>	15.95	5.52
ABN AMRO Holding N.V.	32,439,713 (long position)	7.84	2.72
	29,840,980 (lending pool) <i>(Note 6)</i>	7.21	2.50
AllianceBernstein L.P.	29,180,000 (long position) <i>(Note 7)</i>	7.05	2.44

Supplementary Information

	Number of H Shares <i>(Note 4)</i>	Approximate percentage of total issued H share capital <i>(%)</i>	Approximate percentage of total issued share capital <i>(%)</i>
ABN AMRO Mellon Global Securities Services B.V.	28,815,254 (long position) <i>(Note 8)</i>	6.97	2.41
	28,815,254 (lending pool)	6.97	2.41
Mellon Financial Corporation	28,815,254 (long position) <i>(Note 9)</i>	6.97	2.41
	28,815,254 (lending pool)	6.97	2.41
Cheah Cheng Hye	20,817,000 (long position) <i>(Note 10)</i>	5.03	1.74
Value Partners Limited	20,817,000 (long position) <i>(Note 11)</i>	5.03	1.74
Templeton Investment Counsel, LLC	20,802,930 (long position) <i>(Note 12)</i>	5.03	1.74
The Northern Trust Company	41,004,700 (lending pool) <i>(Note 13)</i>	9.91	3.43
State Street Corporation	20,960,241 (lending pool) <i>(Note 14)</i>	5.07	1.75

Supplementary Information

Notes:

1. Unlisted shares.
2. These 719,353,100 Domestic Shares were directly held by Holding Company.
3. These 719,353,100 Domestic Shares were deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
4. Shares listed on the Main Board of the Stock Exchange.
5. 65,972,000 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
6. 2,598,733 H Shares in which ABN AMRO Holding N.V. was deemed interested under SFO were directly held by ABN AMRO Bank N.V., which is a corporation wholly controlled by ABN AMRO Holding N.V., while 29,840,980 H Shares were held by ABN AMRO Holding N.V. as a custodian corporation/approved lending agent.
7. 28,149,500 H Shares were held by AllianceBernstein L.P. in its capacity as investment manager, while 1,030,500 H Shares were held by certain corporations controlled by AllianceBernstein L.P.
8. 28,815,254 H Shares were held by ABN AMRO Mellon Global Securities Services B.V. as a custodian corporation/approved leading agent.
9. 28,815,254 H Shares in which Mellon Financial Corporation was deemed interested under SFO were held by certain corporations controlled by Mellon Financial Corporation.

ABN AMRO Mellon Global Securities Services B.V. is owned as to 50% by Mellon Bank N.A., which in turn is a wholly-owned subsidiary of Mellon Financial Corporation.

10. 20,817,000 H Shares in which Cheah Cheng Hye was deemed interested under SFO were held by a corporation controlled by Cheah Cheng Hye.
11. 20,817,000 H Shares were held by Value Partners Limited in its capacity as investment manager.
Value Partners Limited is owned as to 35.65% by Cheah Cheng Hye.
12. 20,802,930 H Shares were held by Templeton Investment Counsel, LLC in its capacity as investment manager.
13. 41,004,700 H Shares were held by The Northern Trust Company as a approved lending agent.
14. 20,960,241 H Shares in which State Street Corporation was deemed interested under SFO were directly held by State Street Bank & Trust Company, which is a corporation wholly controlled by State Street Corporation.

Save as disclosed above, so far as known to the directors, supervisors and the chief executive of the Company, as at 30 June 2007, there was no other person (not being a director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

Supplementary Information

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

As at 30 June 2007, the interests of the directors, supervisors or chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the Domestic Shares of the Company:

	Type of interest	Number of Domestic Shares (Note 1)	Approximate percentage of total issued Domestic share capital (%)	Approximate percentage of total issued share capital (%)
Zhang Hongxia (Executive Director/Chairman)	Beneficial	17,700,400 (long position)	2.27	1.48
Qi Xingli (Executive Director)	Beneficial	8,052,500 (long position)	1.03	0.67
Zhang Shiping (Non-executive Director)	Beneficial	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:

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

Note:

1. Unlisted shares

Save as disclosed above, as at 30 June 2007, none of the directors, supervisors or 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) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2007.

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 2007.

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 31 August 2007 to review the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 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 condensed consolidated interim financial statements for the six months ended 30 June 2007.

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 arrangements. The Remuneration Committee is composed of three directors. The remuneration committee meeting was held on 30 March 2007 at which the resolution with regard to directors’ payroll and bonus as well as supervisors’ payment for the year ending 31 December 2007.

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 contained in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2007.

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 Group has adopted a code for securities transactions on terms no less exacting than the required standard of 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.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

The electronic version of this announcement is published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.wqfz.com>). An interim report for the six months ended 30 June 2007 containing all the applicable information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange and the Company in due course.

Independent Auditors' Review Report



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

To the Board of Directors

Wei qiao Textile Company Limited

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 48 which comprises the condensed consolidated balance sheet of Wei qiao Textile Company Limited and its subsidiaries (the "Group") as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

31 August 2007

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six-month period ended 30 June 2007

		Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
	Notes		
Revenue	4	9,267,339	9,263,875
Cost of sales		(7,753,215)	(7,828,524)
Gross profit		1,514,124	1,435,351
Other income and gains	4	218,157	120,695
Selling and distribution costs		(199,956)	(162,095)
Administrative expenses		(81,388)	(99,701)
Other expenses		(23,114)	(38,190)
Finance costs	6	(372,950)	(328,746)
Profit before tax	5	1,054,873	927,314
Tax	7	(381,244)	(327,083)
Profit for the period		673,629	600,231
Attributable to:			
Equity holders of the parent		669,543	600,544
Minority interests		4,086	(313)
		673,629	600,231
Dividend	9	Nil	Nil
Earnings per share attributable to ordinary equity holders of the parent			
Basic (RMB) - for profit for the period	8	0.56	0.51

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2007

		30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	16,339,195	15,947,476
Prepaid land lease payments		127,634	129,041
Other intangible assets		6,301	6,901
Deferred tax assets	18	113,389	121,044
TOTAL NON-CURRENT ASSETS		16,586,519	16,204,462
CURRENT ASSETS			
Inventories		3,057,989	3,577,564
Trade receivables	11	1,095,527	693,838
Amounts due from related parties	12	275	5,044
Prepayments, deposits and other receivables		95,976	56,046
Derivative financial instruments		7,970	5,524
Pledged deposits		211,512	106,526
Non-pledged time deposits maturing over three months		2,491,958	1,281,914
Cash and cash equivalents		3,765,743	4,209,714
TOTAL CURRENT ASSETS		10,726,950	9,936,170
CURRENT LIABILITIES			
Trade payables	13	1,932,037	788,543
Bills payable	14	653,000	660,000
Amounts due to related parties	12	8,397	9,260
Other payables and accruals	15	1,383,442	1,390,308
Derivative financial instruments		856	9,742
Interest-bearing bank loans, current portion	16	3,993,228	3,940,242
Amount due to the immediate holding company	12	15,582	162,798
Long term payable to the immediate holding company, current portion	17	—	137,103
Tax payable		1,156,810	954,170
Dividend payable		104,223	67,708
Deferred income, current portion		5,151	5,151
TOTAL CURRENT LIABILITIES		9,252,726	8,125,025
NET CURRENT ASSETS		1,474,224	1,811,145
TOTAL ASSETS LESS CURRENT LIABILITIES		18,060,743	18,015,607

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)*As at 30 June 2007*

		30 June 2007	31 December 2006
		(unaudited)	(audited)
	Notes	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	16	5,692,875	5,789,384
Deferred income		93,765	96,340
Deferred tax liabilities	18	5,924	8,082
TOTAL NON-CURRENT LIABILITIES		5,792,564	5,893,806
NET ASSETS		12,268,179	12,121,801
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	19	1,194,389	1,194,389
Reserves	20	10,977,362	10,307,819
Proposed final dividend		—	525,531
		12,171,751	12,027,739
Minority interests		96,428	94,062
TOTAL EQUITY		12,268,179	12,121,801

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six-month period ended 30 June 2007

	Attributable to equity holders of the parent								
	Issued	Capital	Statutory	Statutory	Retained	Proposed	Total	Minority	Total
	capital	reserve	surplus	public	profits	final			
RMB'000	RMB'000	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	1,850,801	323,005	9,827,008	94,340	9,921,348
Dividend relating to additional issuance of shares (i)	—	—	—	—	(19,785)	19,785	—	—	—
Final 2005 dividend declared	—	—	—	—	—	(342,790)	(342,790)	—	(342,790)
Transfer of the statutory public welfare fund to the statutory surplus reserve (ii)	—	—	317,760	(317,760)	—	—	—	—	—
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(5,699)	(5,699)
Issue of additional H shares	68,936	789,180	—	—	—	—	858,116	—	858,116
Transfer from retained profits to the capital reserve (iii)	—	1,760	—	—	(1,760)	—	—	—	—
Net profit for the period	—	—	—	—	600,544	—	600,544	(313)	600,231
As at 30 June 2006	1,194,389	6,675,726 ^(iv)	642,963 ^(iv)	— ^(iv)	2,429,800 ^(iv)	— ^(iv)	10,942,878	88,328	11,031,206

	Attributable to equity holders of the parent								
	Issued	Capital	Statutory	Retained	Proposed	Total	Minority	Total	
	Capital	reserve	surplus	profits	final				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2007	1,194,389	6,678,052	819,437	2,810,330	525,531	12,027,739	94,062	12,121,801	
Final 2006 dividend declared	—	—	—	—	(525,531)	(525,531)	—	(525,531)	
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,720)	(1,720)	
Transfer from retained profits to the capital reserve (iii)	—	2,537	—	(2,537)	—	—	—	—	
Net profit for the period	—	—	—	669,543	—	669,543	4,086	673,629	
As at 30 June 2007	1,194,389	6,680,589 ^(iv)	819,437 ^(iv)	3,477,336 ^(iv)	— ^(iv)	12,171,751	96,428	12,268,179	

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

For the six-month period ended 30 June 2007

- (i) 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.
- (ii) Pursuant to the revised The People's Republic of China Company Law (the "PRC Company Law") which was approved on 27 October 2005 and the Notice of Caiqi [2006]67 dated 15 March 2006 issued by the Ministry of Finance, appropriation to the statutory public welfare fund is no longer needed 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.
- (iii) One of the subsidiaries, Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"), has received government grants of approximately RMB141 million, among which approximately RMB106 million were credited to the capital reserve in accordance with the accounting principles generally accepted in the People's Republic of China ("PRC GAAP") as a non-distributable reserve after obtaining the approval from the local Finance Bureau. 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.
- (iv) These reserve accounts comprise the consolidated reserves of RMB10,977,362,000 and RMB9,748,489,000 in the condensed consolidated balance sheets as at 30 June 2007 and 30 June 2006, respectively.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six-month period ended 30 June 2007

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Net cash inflow from operating activities	2,229,861	2,077,676
Net cash outflow from investing activities	(2,234,110)	(1,406,053)
Net cash (outflow)/inflow before financing activities	(4,249)	671,623
Net cash (outflow)/inflow from financing activities	(440,571)	83,012
Net (decrease)/increase in cash and cash equivalents	(444,820)	754,635
Cash and cash equivalents at beginning of the period	4,209,714	3,185,935
Effect of foreign exchange rate changes, net	849	(11,974)
Cash and cash equivalents at end of the period	<u>3,765,743</u>	<u>3,928,596</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	3,697,924	3,000,254
Non-pledged time deposits with original maturity of less than three months when acquired	<u>67,819</u>	<u>928,342</u>
	<u>3,765,743</u>	<u>3,928,596</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2007

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 2007, 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
Subsidiaries					
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
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

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

30 June 2007

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
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
Joint ventures					
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

The Company has unilateral control over the Group's joint ventures, Luteng Textile and Binteng Textile since their incorporation on 12 September 2002 and 12 March 2004, respectively.

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

30 June 2007

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been 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 2006 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 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (collectively referred to as the “HKFRSs”) issued by the HKICPA as follows:

	Applicable for periods beginning on or after
HK(IFRIC) — Int 7 Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) — Int 8 Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) — Int 10 Interim Financial Reporting and Impairment	1 November 2006
HKAS 1 Amendment — Capital Disclosures	1 January 2007
HKFRS 7 Financial Instruments: Disclosures	1 January 2007

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

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretation, will have no material impact on the financial position and results of the Group.

	Applicable for periods beginning on or after
HK(IFRIC) — Int 11 HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12 Service Concession Arrangements	1 January 2008
HKAS 23 (Revised) Borrowing Costs	1 January 2009
HKFRS 8 Operating Segments	1 January 2009

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

30 June 2007

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:

	Six-month period ended 30 June 2007		
	Sales to external		
	customers	Cost of sales	Gross profit
	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000
Mainland China	5,613,392	4,614,498	998,894
Hong Kong	1,578,389	1,337,077	241,312
East Asia	873,150	766,296	106,854
Others	1,202,408	1,035,344	167,064
	<u>9,267,339</u>	<u>7,753,215</u>	<u>1,514,124</u>

	Six-month period ended 30 June 2006		
	Sales to external		
	customers	Cost of sales	Gross profit
	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000
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
	<u>9,263,875</u>	<u>7,828,524</u>	<u>1,435,351</u>

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

30 June 2007

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Revenue		
Sale of textile goods	<u>9,267,339</u>	<u>9,263,875</u>
Other income		
Bank interest income	39,415	24,783
Compensation from suppliers on supply of sub-standard goods	23,643	21,230
Penalty income from employees	3,213	3,457
Recognition of deferred income	2,575	1,787
Revenue on plant and equipment leasing	500	500
Others	1,259	721
	<u>70,605</u>	<u>52,478</u>
Gains		
Sale of electricity and steam	94,830	143,294
Less: cost thereon	(68,694)	(98,230)
	<u>26,136</u>	<u>45,064</u>
Gains on sale of electricity and steam	26,136	45,064
Gains on sale of waste and spare parts	7,655	321
Foreign exchange differences, net	94,535	21,329
Realised gains on derivative financial instrument transactions	7,893	—
Fair value gains, net:		
Derivative financial instruments - transactions not qualifying as hedges	11,333	1,503
	<u>147,552</u>	<u>68,217</u>
	<u>218,157</u>	<u>120,695</u>

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

30 June 2007

5. PROFIT BEFORE TAX

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

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Cost of goods sold	7,677,038	7,767,198
Staff costs (excluding directors' and supervisors' remuneration):		
Wages, salaries and social security costs	1,046,402	1,063,606
Retirement benefits scheme contributions	24,749	23,849
	<u>1,071,151</u>	<u>1,087,455</u>
Depreciation (<i>note 10</i>)	530,805	479,691
Recognition of prepaid land lease payments	1,407	1,391
Amortisation of intangible assets	600	600
Auditors' remuneration	1,750	1,654
Directors' and supervisors' remuneration	1,883	2,144
Foreign exchange differences, net	(94,535)	(21,329)
Provision against inventories	7,700	34,200
Minimum lease payments under operating leases:		
Land and buildings	<u>10,659</u>	<u>7,312</u>

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

30 June 2007

6. FINANCE COSTS

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Interest on bank loans wholly repayable within five years	373,868	338,746
Less: Interest capitalised	(8,815)	(10,000)
	<u>365,053</u>	<u>328,746</u>
Other finance costs:		
Increase in discounted amounts of long term payable to the immediate holding company	7,897	—
	<u>372,950</u>	<u>328,746</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 2007 (six-month period ended 30 June 2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Current - Mainland China	375,747	333,699
Deferred (<i>note 18</i>)	5,497	(6,616)
	<u>381,244</u>	<u>327,083</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

7. TAX (Continued)

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:

	Six-month period ended 30 June 2007 (unaudited) RMB'000		Six-month period ended 30 June 2006 (unaudited) RMB'000	
		%		%
Profit before tax	<u>1,054,873</u>		<u>927,314</u>	
Tax at PRC statutory tax rate	348,108	33.0	306,013	33.0
Expenses not deductible for tax	9,105	0.9	15,974	1.7
Tax loss not recognised	716	0.1	6,790	0.7
Tax exemption (i)	(2,922)	(0.3)	(1,301)	(0.1)
Change in tax rates (note 18)	10,373	1.0	—	—
Others	<u>15,864</u>	<u>1.4</u>	<u>(393)</u>	<u>—</u>
Tax charge at the Group's effective rate	<u>381,244</u>	<u>36.1</u>	<u>327,083</u>	<u>35.3</u>

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 have been prepared in accordance with PRC GAAP.

- (i) Being Sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to the State CIT rate of 30% and the 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 2007

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

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.

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>669,543</u>	<u>600,544</u>

	Number of shares	
	Six-month period ended 30 June 2007 (unaudited)	Six-month period ended 30 June 2006 (unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>1,194,389,000</u>	<u>1,168,490,204</u>

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

Diluted earnings per share amounts for the six-month periods ended 30 June 2007 and 2006 have not been disclosed as no diluting events existed during these periods.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

9. DIVIDEND

The proposed final dividend for the year ended 31 December 2006 was approved by the Company's shareholders on 5 June 2007.

At a meeting of the board of directors held on 31 August 2007, the directors did not recommend to pay an interim dividend to shareholders (six-month period ended 30 June 2006: 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 RMB924,075,000 (six-month period ended 30 June 2006: RMB1,886,832,000), and disposed of machinery and equipment and motor vehicles with an aggregate net carrying value of approximately RMB1,551,000 (six-month period ended 30 June 2006: RMB521,000).

The depreciation charge of the Group for the six-month period ended 30 June 2007 was approximately RMB530,805,000 (six-month period ended 30 June 2006: RMB479,691,000).

11. TRADE RECEIVABLES

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

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Within 3 months	1,090,370	686,039
3 to 6 months	2,485	2,745
6 months to 1 year	2,502	674
1 to 2 years	170	4,380
	<u>1,095,527</u>	<u>693,838</u>

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

30 June 2007

11. TRADE RECEIVABLES (Continued)

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. The trade receivables are non-interest-bearing.

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

The amount due to the immediate holding company is unsecured, interest-free and has no fixed repayment terms. The balances with related parties are unsecured, interest-free and have specific repayment terms.

13. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date of transferring the significant risks and rewards of ownership of raw materials and items of property, plant and equipment to the Group, is as follows:

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Within 3 months	1,255,596	627,038
3 to 5 months	400,267	50,139
5 months to 1 year	240,277	78,536
Over 1 year	35,897	32,830
	<u>1,932,037</u>	<u>788,543</u>

The trade payables are non-interest-bearing.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

14. BILLS PAYABLE

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Within 3 months	556,400	290,000
3 to 6 months	96,600	370,000
	<u>653,000</u>	<u>660,000</u>

Certain of the Group's bills payable amounting to RMB476 million as at 30 June 2007 were drawn by the Company in favour of Binzhou Industrial Park, Luteng Textile and Weihai Industrial Park and were discounted with banks by Binzhou Industrial Park, Luteng Textile and Weihai Industrial Park prior to 30 June 2007.

Certain of the Group's bills payable amounting to RMB177 million as at 30 June 2007 were drawn by Weihai Industrial Park and Weihai Weiqiao in favour of the Company and were discounted with banks by the Company prior to 30 June 2007.

Certain of the Group's bills payable amounting to RMB430 million as at 31 December 2006 were drawn by the Company in favour of Binzhou Industrial Park and were discounted with banks by Binzhou Industrial Park prior to 31 December 2006.

Certain of the Group's bills payable amounting to RMB160 million as at 31 December 2006 were drawn by Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2006.

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

30 June 2007

15. OTHER PAYABLES AND ACCRUALS

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Payroll payable	197,434	206,288
Welfare payable	494,832	549,046
Other taxes payable	133,163	183,022
Accruals	89,688	77,145
Other payables	468,325	374,807
	<u>1,383,442</u>	<u>1,390,308</u>

The other payables are non-interest-bearing.

16. BORROWINGS

Set out below is information relating to the security interest and banking guarantees of the Group's bank loans as at 30 June 2007:

- (i) Other than certain of the bank loans in the aggregate amount of US\$538 million (equivalent to RMB4,100 million) as at 30 June 2007 (31 December 2006: US\$485 million, equivalent to RMB3,787 million), all of the Group's bank loans are denominated in RMB.
- (ii) Certain of the Group's bank loans amounting to approximately RMB5,273 million (31 December 2006: RMB5,229 million) were secured by certain of the Group's buildings, machinery and equipment, and land use rights (prepaid land lease payments) of an aggregate value of approximately RMB8,416 million as at 30 June 2007 (31 December 2006: RMB8,312 million).
- (iii) Weihai Civil Aviation Industrial Company Limited, the minority shareholder of Weihai Weiqiao, guaranteed bank loans for Weihai Weiqiao of up to approximately RMB9 million (31 December 2006: RMB10 million) as at 30 June 2007.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

16. BORROWINGS (Continued)

- (iv) Liu Guangmin, the minority shareholder of Weiqiao Industrial Park, guaranteed bank loans for Weiqiao Industrial Park of up to approximately RMB1 million (31 December 2006: RMB1 million) as at 30 June 2007.
- (v) The Company has guaranteed bank loans for certain of its subsidiaries up to approximately RMB335 million (31 December 2006: RMB344 million) as at 30 June 2007.
- (vi) Certain of the Group's bank loans amounting to RMB85 million were secured by a subsidiary's trade receivable from the Company amounted to RMB108 million (31 December 2006: nil).

17. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Amounts repayable:		
Within one year	—	137,103
In the second year	—	—
	—	137,103
Portion classified as current liabilities	—	(137,103)
	—	—
Non-current portion	—	—

The Company repaid the amount due to the immediate holding company prior to the payment due date, the last business day of December 2007.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

18. DEFERRED TAX

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

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Deferred tax assets		
At 1 January	121,044	61,422
(Charged)/credited to the consolidated income statement during the period	<u>(7,655)</u>	<u>7,210</u>
At 30 June	<u><u>113,389</u></u>	<u><u>68,632</u></u>
Deferred tax liabilities		
At 1 January	8,082	8,382
Charged/(credited) to the consolidated income statement during the period	<u>(2,158)</u>	<u>594</u>
At 30 June	<u><u>5,924</u></u>	<u><u>8,976</u></u>
(Charged)/credited to the consolidated income statement, net (note 7)	<u><u>(5,497)</u></u>	<u><u>6,616</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

18. DEFERRED TAX (Continued)

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

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Deferred tax assets		
Provision against inventories	62,954	60,413
Impairment of trade receivables	7,626	7,626
Net fair value (gains)/losses on derivative financial instruments	(1,779)	1,392
Government grants recognised as deferred income	24,729	33,492
Difference in depreciation for tax purposes	10,353	12,480
Fair value adjustment to the long term payable to the immediate holding company	—	(2,606)
Others	9,506	8,247
	113,389	121,044
Deferred tax liabilities		
Difference in depreciation for tax purposes	5,924	8,082
	5,924	8,082

There was no material unprovided deferred tax during the period.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will become effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

18. DEFERRED TAX (Continued)

According to HKAS 12, deferred tax assets and deferred tax 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. As a result, the change in the corporate income tax rate has had the following impact on the financial position of the Group at 30 June 2007:

	30 June 2007 (unaudited) RMB'000
Decrease: deferred tax assets	12,269
Decrease: deferred tax liabilities	(1,896)
	<hr/>
Increase: income tax expense of the current period	10,373
	<hr/> <hr/>

At the date of approval of these interim financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial position of future periods as more detailed requirements are issued.

19. SHARE CAPITAL

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Shares		
Registered, issued and fully paid:		
780,770,000 (31 December 2006: 780,770,000) domestic shares of RMB1.00 each	780,770	780,770
413,619,000 (31 December 2006: 413,619,000) H shares of RMB1.00 each	413,619	413,619
	<hr/>	<hr/>
	1,194,389	1,194,389
	<hr/> <hr/>	<hr/> <hr/>

The Company does not have any share option scheme.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

20. DISTRIBUTABLE RESERVES

As at 30 June 2007, in accordance with the PRC Company Law, an amount of approximately RMB6,778 million standing to the credit of the Company's capital reserve account and an amount of approximately RMB772 million standing to the credit of the Company's statutory surplus reserve, as determined under PRC GAAP, were available for distribution by way of the future capitalisation issue. In addition, the Company's retained profits of approximately RMB3,410 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 2007.

21. 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 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 detailed elsewhere in these unaudited condensed consolidated interim financial statements during the period, the Group had the following material transactions with related parties:

(a) Transactions with related parties

<u>Name of related parties</u>	<u>Relationship with the Company</u>	<u>Nature of transactions</u>	<u>Six-month period ended</u>	<u>Six-month period ended</u>
			<u>30 June 2007</u>	<u>30 June 2006</u>
			(unaudited)	(unaudited)
			RMB'000	RMB'000
The Holding Company	The immediate holding company	Expenses on provision of electricity and steam	39,844	32,952
		Expenses on property leasing	10,659	7,285
		Revenue on supply of electricity	81,075	130,608
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	40,749	145,545
		Purchase of equipments	443	—
		Revenue on plant and equipment leasing	500	500

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

30 June 2007

21. RELATED PARTY TRANSACTIONS (Continued)

(a) **Transactions with related parties** (Continued)

<u>Name of related parties</u>	<u>Relationship with the Company</u>	<u>Nature of transactions</u>	<u>Six-month period ended 30 June 2007</u> (unaudited) RMB'000	<u>Six-month period ended 30 June 2006</u> (unaudited) RMB'000
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	181,875	116,314
Shandong Weiqiao Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	31,990	20,416
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of the Holding Company	Sale of cotton yarns	14,432	7,172
Shandong Weiqiao Hongyuan Home Textile Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	3,048	3,425
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	175,793	27,029
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of denims	11	523
		Sale of grey fabrics	19	—
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	477	174

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

30 June 2007

21. RELATED PARTY TRANSACTIONS (Continued)

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

	Due from related parties		Due to related parties	
	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
The Holding Company	—	—	15,582	299,901
Fellow subsidiaries	23	5,044	8,397	7,980
An associate of the Holding Company	252	—	—	1,280

(c) Compensation of key management personnel of the Group

	Six-month period ended 30 June 2007 (unaudited) RMB'000	Six-month period ended 30 June 2006 (unaudited) RMB'000
Short term employee benefits	1,889	2,165
Post-employment benefits	18	19
Share-based payments	—	—
Total compensation paid to key management personnel	1,907	2,184

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

22. 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 investments:

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Contracted, but not provided for	576,561	573,534
Authorised, but not contracted for	—	89,914
	<u>576,561</u>	<u>663,448</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:

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Within one year	23,401	19,237
In the second to fifth years, inclusive	92,159	75,800
After five years	290,326	238,048
	<u>405,886</u>	<u>333,085</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED) (Continued)

30 June 2007

23. CONTINGENT LIABILITIES

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

	30 June 2007 (unaudited) RMB'000	31 December 2006 (audited) RMB'000
Letters of credit issued	<u>257,064</u>	<u>128,342</u>

24. SUBSEQUENT EVENTS

Save as disclosed to elsewhere in these unaudited condensed consolidated interim financial statements, no other significant event has taken place subsequent to 30 June 2007.

25. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 31 August 2007.