



魏橋紡織股份有限公司  
**WEIQIAO TEXTILE COMPANY LIMITED\***

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 2698)

**INTERIM RESULTS ANNOUNCEMENT 2006**

**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 plants by Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”), power costs have been saved, and pressure on shortage of power supplies eased.
- The Company maintained a leading position in the industry, and optimized operation efficiency

The board of directors (the “Board”) of Weiqiao Textile Company Limited (the “Company” or “Weiqiao Textile”, together with its subsidiaries and joint ventures, the “Group”) is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2006 (the “Period”).

**FINANCIAL RESULTS**

The unaudited condensed consolidated income statement for the six months ended 30 June 2006 together with comparative figures for the corresponding period of 2005 are set out below.

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

For the six-month period ended 30 June 2006

		<b>Six-month period ended 30 June 2006</b>	<b>Six-month period ended 30 June 2005</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	9,263,875	6,915,725
Cost of sales		<u>(7,828,524)</u>	<u>(5,716,667)</u>
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	<u>(328,746)</u>	<u>(191,570)</u>
Profit before tax	5	927,314	737,509
Tax	7	<u>(327,083)</u>	<u>(262,458)</u>
Profit for the period		<u>600,231</u>	<u>475,051</u>
Attributable to:			
Equity holders of the parent		600,544	471,594
Minority interests		<u>(313)</u>	<u>3,457</u>
		<u>600,231</u>	<u>475,051</u>
Dividend	9	<u>Nil</u>	<u>Nil</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic (RMB)	8	<u>0.51</u>	<u>0.54</u>

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

As at 30 June 2006

		<b>30 June 2006</b>	<b>31 December 2005</b>
		<i>(unaudited)</i>	<i>(audited)</i>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<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	<u>68,632</u>	<u>61,422</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>16,107,558</u>	<u>14,695,719</u>
<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		<u>3,928,596</u>	<u>3,185,935</u>
<b>TOTAL CURRENT ASSETS</b>		<u>9,624,299</u>	<u>10,009,047</u>
<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		<u>3,574</u>	<u>3,574</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>9,291,981</u>	<u>9,770,606</u>
<b>NET CURRENT ASSETS</b>		<u>332,318</u>	<u>238,441</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>16,439,876</u>	<u>14,934,160</u>

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

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

For the six-month period ended 30 June 2006

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Minority interests RMB'000	Total 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.

For the six-month period ended 30 June 2005

	Issued share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total <i>RMB'000</i>
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

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

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**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 together with its subsidiaries and joint ventures (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:

<b>Company name</b>	<b>Place and date of incorporation / registration and operations</b>	<b>Legal status</b>	<b>Paid-up capital/ registered capital</b>	<b>Percentage of equity interests directly attributable to the Company</b>	<b>Principal activities</b>
<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
<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

## 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.



### 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> <i>(unaudited)</i> <i>RMB'000</i>	<b>Cost of sales</b> <i>(unaudited)</i> <i>RMB'000</i>	<b>Gross profit</b> <i>(unaudited)</i> <i>RMB'000</i>
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	<u>804,393</u>	<u>668,649</u>	<u>135,744</u>
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> <i>(unaudited)</i> <i>RMB'000</i>	<b>Cost of sales</b> <i>(unaudited)</i> <i>RMB'000</i>	<b>Gross profit</b> <i>(unaudited)</i> <i>RMB'000</i>
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	<u>1,010,499</u>	<u>951,682</u>	<u>58,817</u>
Total	<u>6,915,725</u>	<u>5,716,667</u>	<u>1,199,058</u>

#### 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>	<b>Six-month period ended 30 June 2005 (unaudited) RMB'000</b>
<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>

## 5. PROFIT BEFORE TAX

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

	<b>Six-month period ended 30 June 2006</b> <i>(unaudited)</i> <i>RMB'000</i>	<b>Six-month period ended 30 June 2005</b> <i>(unaudited)</i> <i>RMB'000</i>
Cost of goods sold	7,767,198	5,697,267
Staff costs (excluding directors' and supervisors' remuneration):		
Wages, salaries and social security costs	1,063,606	818,982
Retirement benefits scheme contributions	<u>23,849</u>	<u>11,088</u>
	<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	<u>7,312</u>	<u>4,738</u>

## 6. FINANCE COSTS

	<b>Six-month period ended 30 June 2006</b> <i>(unaudited)</i> <i>RMB'000</i>	<b>Six-month period ended 30 June 2005</b> <i>(unaudited)</i> <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	338,746	196,070
Less: Interest capitalised	<u>(10,000)</u>	<u>(4,500)</u>
	<u>328,746</u>	<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>	<b>Six-month period ended 30 June 2005 (unaudited) RMB'000</b>
Current - Hong Kong	—	—
- Mainland China	333,699	262,458
Deferred	<u>(6,616)</u>	<u>—</u>
Total tax charge for the period	<u>327,083</u>	<u>262,458</u>

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

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

## 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).

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

## 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> <i>(unaudited)</i> <i>RMB'000</i>	<b>31 December 2005</b> <i>(audited)</i> <i>RMB'000</i>
Within 3 months	2,060,818	1,944,107
3 to 5 months	113,757	99,186
5 months to 1 year	190,301	200,798
Over 1 year	<u>24,625</u>	<u>—</u>
	<u>2,389,501</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> <i>(unaudited)</i> <i>RMB'000</i>	<b>31 December 2005</b> <i>(audited)</i> <i>RMB'000</i>
Within 3 months	270,135	499,300
3 to 6 months	<u>80,000</u>	<u>90,000</u>
	<u><u>350,135</u></u>	<u><u>589,300</u></u>

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

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

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



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

	<b>30 June 2006</b>	<b>31 December 2005</b>
	<i>(unaudited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<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	<u>5,286</u>	<u>6,883</u>
	<u>68,632</u>	<u>61,422</u>
<b>Deferred tax liabilities</b>		
Difference in depreciation for tax purposes	<u>8,976</u>	<u>8,382</u>

## 18. SHARE CAPITAL

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

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.

## 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	period ended
			30 June 2006	30 June 2005
			(unaudited)	(unaudited)
			RMB'000	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.

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

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

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

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

**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:

	30 June 2006 <i>(unaudited)</i> RMB'000	31 December 2005 <i>(audited)</i> RMB'000
Contracted, but not provided for	240,917	65,451
Authorised, but not contracted for	<u>350,000</u>	<u>270,570</u>
	<u>590,917</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> <i>(unaudited)</i> <i>RMB'000</i>	<b>31 December 2005</b> <i>(audited)</i> <i>RMB'000</i>
Within one year	19,176	12,235
In the second to fifth years, inclusive	75,860	48,395
After five years	<u>246,757</u>	<u>149,332</u>
	<u>341,793</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> <i>(unaudited)</i> <i>RMB'000</i>	<b>31 December 2005</b> <i>(audited)</i> <i>RMB'000</i>
Letters of credit issued	<u>242,302</u>	<u>497,740</u>

**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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

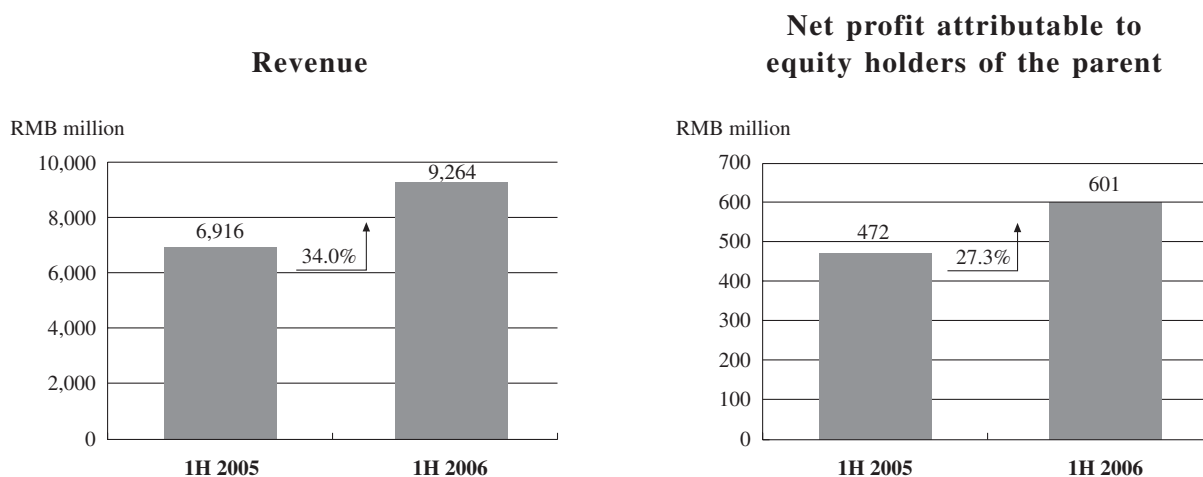
The sales of cotton textiles in the PRC continued to maintain steady growth for the first half of 2006. Sales value of scalable enterprises of the cotton textile industry in the PRC reached RMB290.6 billion, which represented an increase of 26.13% over the same period last year. Exports of cotton textile 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, prospects 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.

### Business Review

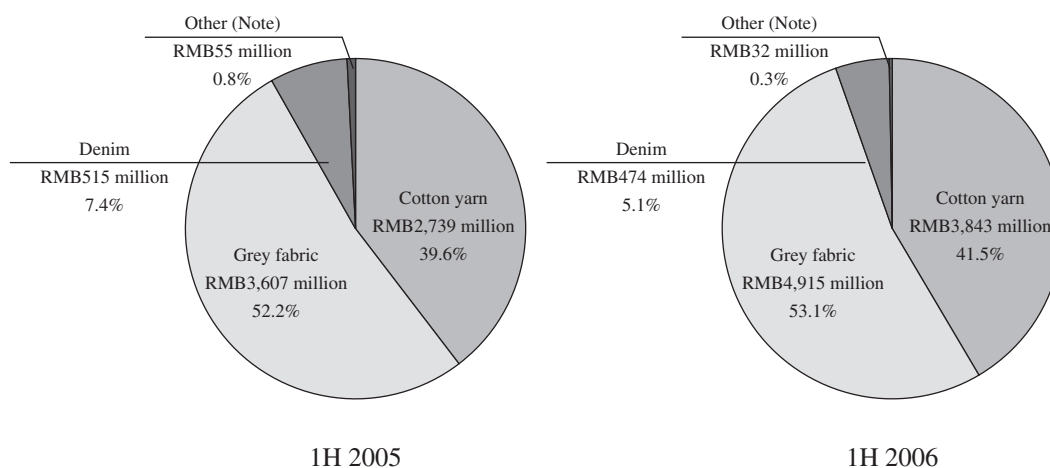
For the six months ended 30 June 2006, Weiqiao Textile continued to maintain steady growth in its revenue and net profit attributable to equity holders of the parent:



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.

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**

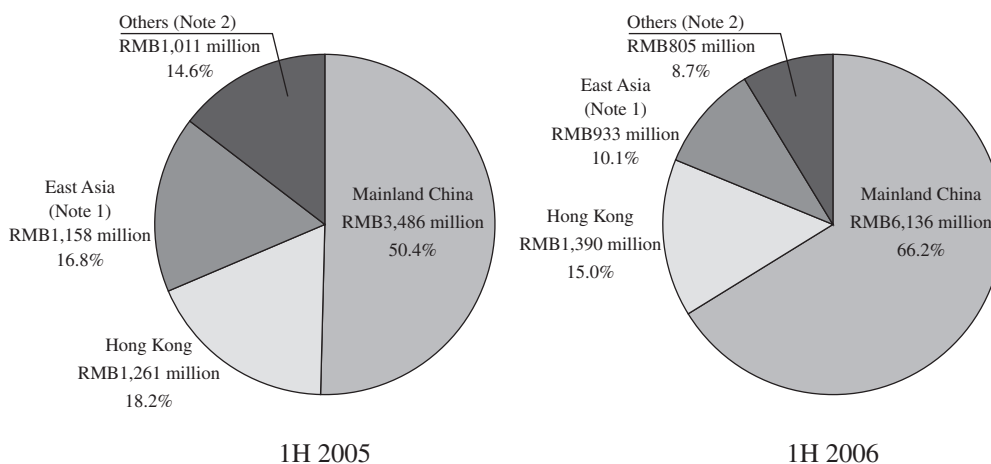


*Note:* Others include cotton seeds, tailings, clothes and other by-products.

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 denim market was at low season in the first half of 2006, thereby affecting the denim sales.

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.

## 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	Gross profit	2005	Gross profit
	Gross profit	margin	Gross profit	margin
	RMB'000	%	RMB'000	%
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	<u>3,623</u>	11.2	<u>10,962</u>	20.0
Total	<u>1,435,351</u>	15.5	<u>1,199,058</u>	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.

### 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 and Earnings Per Share**

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

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, while 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

Weiqiao 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:

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

## 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.

## **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 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 (Note 1)</b>	<b>Approximate percentage of total issued Domestic share capital (%)</b>	<b>Approximate percentage of total issued share capital (%)</b>
Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”)	679,058,600 (long position) (Note 2)	86.97	56.85
Zouping County Supply and Marketing Cooperation Union (“CCU”)	679,058,600 (long position) (Note 3)	86.97	56.85

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)	12.61	4.37
UBS AG	38,876,516 (long position)	9.40	3.25
	1,077,000 (short position)	0.26	0.09
J.P. Morgan Case & Co.	33,039,329 (long position)	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)	5.02	1.74
	(note 8)		

*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.

### **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:

	<b>Type of interest</b>	<b>Number of Domestic Shares (Note 1)</b>	<b>Approximate percentage of total issued Domestic share capital (%)</b>	<b>Approximate percentage of total issued share capital (%)</b>
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

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.

### **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 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.

### **Compliance with the Code**

To the best knowledge of the directors of the Company, the Company has complied with the code provisions of the Code, 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.

## **Code for 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.

## **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>). An interim report for the six months ended 30 June 2006 containing all the applicable information required by Appendix 16 to the Listing Rules will be despatched to shareholders and published on the website of the Stock Exchange in due course.

By order of the Board  
**Wei qiao Textile Company Limited**  
**Zhang Bo**  
*Chairman*

8 September 2006  
Shandong  
The People’s Republic of China

\* *The Company is registered in Hong Kong as an overseas company under the English name “Wei qiao Textile Company Limited”*

### *Notes*

1. As at the date of this announcement, the Board of the Company is comprised of Mr. Zhang Bo, Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen as executive Directors, Mr. Zhang Shiping and Mr. Wang Zhaoting as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.
2. For the purpose of this announcement, the exchange rates of US\$1.00 = HK\$7.8 and HK\$1.00 = RMB1.029 have been used.