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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005
AMENDMENTS TO ARTICLES OF ASSOCIATION

Annual results for the year ended 31 December 2005

Revenue	+22.5% to RMB13,584,389,000
Gross profit	+20.8% to RMB2,244,130,000
Net profit attributable to shareholders of the Company	+50.5% to RMB1,242,473,000
Basic earnings per share	+39.2% to RMB1.35
Proposed final dividend per share	+14.8% to RMB0.287

The Board of Directors (the "Board") of Weiqiao Textile Company Limited (the "Company" or "Weiqiao Textile") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 (the "Year"). During the Year, the audited revenue and net profit attributable to shareholders of the Company amounted to RMB13,584,389,000 and RMB1,242,473,000 respectively, with respective increase of 22.5% and 50.5% as compared with the year ended 31 December 2004.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2005 RMB'000	2004 RMB'000
REVENUE	4	**13,584,389**	11,088,224
Cost of sales		**(11,340,259)**	(9,231,047)
Gross profit		**2,244,130**	1,857,177
Other income and gains	4	**189,536**	159,022
Selling and distribution costs		**(344,868)**	(275,899)
Administrative expenses		**(151,059)**	(143,524)
Other operating expenses		**(81,788)**	(59,509)
Finance costs	6	**(420,167)**	(290,383)
PROFIT BEFORE TAX	5	**1,435,784**	1,246,884
Tax	7	**(187,390)**	(420,405)
PROFIT FOR THE YEAR		**1,248,394**	826,479
Attributable to:			
Equity holders of the parent		**1,242,473**	825,535
Minority interests		**5,921**	944
		1,248,394	826,479
DIVIDEND			
Proposed final	9	**323,005**	218,863
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic – for profit for the year	10	**RMB1.35**	RMB0.97

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**14,495,891**	9,499,913
Prepaid land lease payments		**130,305**	121,087
Intangible assets		**8,101**	9,301
Negative goodwill		**–**	(23,548)
Deferred tax assets		**61,422**	–
Total non-current assets		**14,695,719**	9,606,753
CURRENT ASSETS			
Inventories		**3,645,228**	2,673,468
Trade receivables		**562,272**	598,419
Amounts due from related parties		**482,596**	266,096
Prepayments, deposits and other receivables		**458,595**	377,233
Derivative financial instruments		**8,243**	–
Pledged deposits	*11*	**512,138**	296,836
Time deposits maturing over three months	*11*	**1,154,040**	325,400
Cash and cash equivalents	*11*	**3,185,935**	2,244,648
Total current assets		**10,009,047**	6,782,100
CURRENT LIABILITIES			
Trade payables		**2,244,091**	1,329,391
Bills payable		**589,300**	220,000
Amount due to a related party		**864**	864
Other payables and accruals		**841,358**	765,069
Derivative financial instruments		**6,104**	–
Interest-bearing bank loans, current portion	*12*	**5,135,412**	3,347,144
Amount due to the immediate holding company		**301,294**	238,864
Long term payable to the immediate holding company, current portion		**50,000**	50,000
Tax payable		**560,092**	498,270
Dividend payable		**38,517**	31,380
Deferred income, current portion		**3,574**	–
Total current liabilities		**9,770,606**	6,480,982
NET CURRENT ASSETS		**238,441**	301,118
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,934,160**	9,907,871

NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	*12*	**4,555,510**	3,618,786
Long term payable to the immediate holding company		**368,927**	128,927
Deferred income		**79,993**	–
Deferred tax liabilities		**8,382**	–
Total non-current liabilities		**5,012,812**	3,747,713
Net assets		**9,921,348**	6,160,158
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**1,125,453**	875,453
Reserves		**8,378,550**	4,975,534
Proposed final dividend	*9*	**323,005**	218,863
		9,827,008	6,069,850
Minority interests		**94,340**	90,308
Total equity		**9,921,348**	6,160,158

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Attributable to equity holders of the parent								
	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*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2005									
As previously reported	875,453	3,424,199	199,390	193,549	218,863	1,158,396	6,069,850	90,308	6,160,158
Opening adjustment:									
Derecognition of negative goodwill *(note 2.4(b))*	–	–	–	–	–	23,548	23,548	–	23,548
As restated	875,453	3,424,199	199,390	193,549	218,863	1,181,944	6,093,398	90,308	6,183,706
Final 2004 dividend declared	–	–	–	–	(218,863)	–	(218,863)	–	(218,863)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(1,889)	(1,889)
Issue of domestic shares	250,000	2,460,000	–	–	–	–	2,710,000	–	2,710,000
Net profit for the year	–	–	–	–	–	1,242,473	1,242,473	5,921	1,248,394
Proposed final 2005 dividend	–	–	–	–	323,005	(323,005)	–	–	–
Transfer from retained profits to capital reserve*	–	587	–	–	–	(587)	–	–	–
Transfer from retained profits	–	–	125,813	124,211	–	(250,024)	–	–	–
At 31 December 2005	1,125,453	5,884,786 **	325,203 **	317,760 **	323,005 **	1,850,801 **	9,827,008	94,340	9,921,348

* 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 capital reserve in accordance with PRC GAAP as non-distributable reserve. In accordance with HKAS 20, such government grants were treated as deferred income and recognised to 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 year was then transferred to capital reserve.

** These accounts comprised the consolidated reserves of RMB8,701,555,000 in the consolidated balance sheet as at 31 December 2005.

Year ended 31 December 2004

	Attributable to equity holders of the parent								
	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*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2004	818,006	2,789,664	115,948	110,702	45,808	718,013	4,598,141	59,245	4,657,386
Final 2003 dividend declared	–	–	–	–	(45,808)	–	(45,808)	–	(45,808)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(2,434)	(2,434)
Contribution from minority interests for investment in subsidiaries	–	–	–	–	–	–	–	32,553	32,553
Issue of H shares	57,447	649,087	–	–	–	–	706,534	–	706,534
Share issue expenses	–	(14,552)	–	–	–	–	(14,552)	–	(14,552)
Net profit for the year	–	–	–	–	–	825,535	825,535	944	826,479
Proposed final 2004 dividend	–	–	–	–	218,863	(218,863)	–	–	–
Transfer from retained profits	–	–	83,442	82,847	–	(166,289)	–	–	–
At 31 December 2004	875,453	3,424,199	199,390	193,549	218,863	1,158,396	6,069,850	90,308	6,160,158

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year end 31 December 2005 RMB'000	2004 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,435,784**	1,246,884
Adjustments for:			
Finance costs	*6*	**420,167**	290,383
Bank interest income	*4*	**(32,159)**	(24,154)
Recognition of deferred income	*4*	**(596)**	–
Losses/(gains) on disposal of items of property, plant and equipment	*5*	**(94)**	1,787
Fair value gains, net:			
Derivative financial instruments transactions not qualifying as hedges	*4*	**(2,139)**	–
Depreciation	*5*	**737,008**	498,007
Foreign exchange gains and losses, net	*4*	**(68,206)**	9,150
Amortisation of intangible assets	*5*	**1,200**	1,200
Negative goodwill recognised as income	*5*	**–**	(2,990)
Amortisation of prepaid land lease payments	*5*	**2,446**	1,266
Provision for bad and doubtful debts	*5*	**–**	2,000
Provision against inventories	*5*	**37,719**	18,800
		2,531,130	2,042,333
Operating profit before working capital changes			
Increase in inventories		**(1,009,479)**	(608,283)
Decrease/(increase) in trade receivables		**36,147**	(104,206)
Increase in prepayments, deposits and other receivables		**(67,466)**	(163,018)
(Increase)/decrease in net amounts due from related parties		**(216,500)**	1,580
Increase in trade payables		**801,299**	53,441
Increase in bills payable		**369,300**	140,403
Increase in other payables and accruals		**51,074**	543,858
Increase/(decrease) in amount due to the immediate holding company		**62,430**	(83,689)
Cash generated from operations		**2,557,935**	1,822,419
Interest paid		**(424,867)**	(316,383)
PRC corporate income tax paid		**(178,608)**	(153,425)
Net cash inflow from operating activities		**1,954,460**	1,352,611

CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	*4*	**32,159**	24,154
Purchases of items of property, plant and equipment		**(2,596,619)**	(3,614,013)
Proceeds from disposal of items of property, plant and equipment		**1,243**	4,136
Receipt of government grants		**14,400**	56,373
Increase in time deposits maturing over three months		**(828,640)**	(325,400)
(Increase)/decrease in pledged deposits		**(215,302)**	25,644
Net cash outflow from investing activities		**(3,592,759)**	(3,829,106)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**8,532,960**	8,949,374
Proceeds from issue of H shares		**–**	706,534
Share issue expenses		**–**	(14,552)
Repayment of bank loans		**(5,747,464)**	(6,457,152)
Dividends paid		**(211,726)**	(16,118)
Dividends paid to minority shareholders		**(1,889)**	(2,434)
Proceeds from capital contributions by minority shareholders		**–**	32,448
Net cash inflow from financing activities		**2,571,881**	3,198,100
NET INCREASE IN CASH AND CASH EQUIVALENTS		**933,582**	721,605
Cash and cash equivalents at beginning of year		**2,244,648**	1,532,193
Effect of foreign exchange rate changes, net		**7,705**	(9,150)
CASH AND CASH EQUIVALENTS AT END OF YEAR	*11*	**3,185,935**	2,244,648
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVACENTS			
Cash and bank balances	*11*	**3,134,935**	1,748,717
Non-pledged time deposits with original maturity of less than three months when acquired		**51,000**	495,931
	11	**3,185,935**	2,244,648

BALANCE SHEET

	Notes	31 December 2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**10,802,497**	6,735,752
Investments in subsidiaries, at cost		**1,200,891**	1,200,891
Deferred tax assets		**19,655**	–
Total non–current assets		**12,023,043**	7,936,643
CURRENT ASSETS			
Inventories		**2,945,449**	2,131,711
Trade receivables		**540,129**	577,807
Amounts due from subsidiaries		**1,660,119**	1,302,996
Amounts due from related parties		**480,727**	251,863
Prepayments, deposits and other receivables		**454,656**	364,969
Derivative financial instruments		**8,243**	–
Pledged deposits	*11*	**512,138**	222,702
Time deposits maturing over three months	*11*	**1,154,040**	325,400
Cash and cash equivalents	*11*	**2,923,886**	2,114,147
Total current assets		**10,679,387**	7,291,595
CURRENT LIABILITIES			
Trade payables		**2,099,786**	1,158,180
Bills payable		**449,300**	–
Amounts due to subsidiaries		**146,635**	428,250
Amount due to a related party		**864**	864
Other payables and accruals		**632,083**	597,819
Derivative financial instruments		**6,104**	–
Interest-bearing bank loans, current portion	*12*	**4,535,342**	2,652,789
Amount due to the immediate holding company		**271,655**	215,276
Long term payable to the immediate holding company, current portion		**50,000**	50,000
Tax payable		**500,370**	476,057
Dividend payable		**38,517**	31,380
Total current liabilities		**8,730,656**	5,610,615

NET CURRENT ASSETS		**1,948,731**	1,680,980
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,971,774**	9,617,623
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	*12*	**4,003,510**	3,534,786
Long term payable to the immediate holding company		**368,927**	128,927
Total non-current liabilities		**4,372,437**	3,663,713
Net assets		**9,599,337**	5,953,910
EQUITY			
Issued capital		**1,125,453**	875,453
Reserves		**8,150,879**	4,859,594
Proposed final dividend	9	**323,005**	218,863
Total equity		**9,599,337**	5,953,910

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 Group is principally engaged in the manufacture and sale of cotton yarns, grey fabrics and denims in the PRC and overseas.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Group are Shandong Weiqiao Chuangye Group Company ("Holding Company"), a limited liability company established in the PRC, and Zouping County Supply and Marketing Corporation Union ("ZCSU"), a collectively-owned enterprise formed in the PRC, respectively.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

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

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

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

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

(a) HKAS 17 – Leases

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

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

Derivative financial instruments - Forward currency contracts and interest rate swaps

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

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

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

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

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

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005

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

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

At 31 December 2005

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

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

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

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

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

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:

Year ended 31 December 2005

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

Year ended 31 December 2004

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

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:

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

5. PROFIT BEFORE TAX

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

	Notes	**2005** *RMB'000*	2004 *RMB'000* (Restated)
Cost of inventories sold		**11,253,204**	9,212,247
Staff costs (excluding directors' and supervisors' remuneration):			
Wages, salaries and social security costs		**1,657,581**	1,003,091
Retirement benefits scheme contributions		**30,080**	23,653
		1,687,661	1,026,744
Depreciation		**737,008**	498,007
Amortisation of prepaid land lease payments		**2,446**	1,266
Repairs and maintenance		**296,625**	264,552
Losses/(gains) on disposal of items of property, plant and equipment		**(94)**	1,787
Amortisation of intangible assets		**1,200**	1,200
Auditors' remuneration		**5,300**	3,200
Directors' and supervisors' remuneration		**4,214**	4,211
Foreign exchange differences, net		**(68,206)**	9,150
Provision for bad and doubtful debts		**–**	2,000
Provision against inventories		**37,719**	18,800
Negative goodwill recognised as income		**–**	(2,990)
Realised losses on derivative financial instruments transactions		**4,271**	–
Fair value gains, net:			
Derivative financial instruments transactions not qualifying as hedges	*4*	**(2,139)**	–
Research and development costs included in:			
Wages and salaries		**5,713**	3,016
Consumption of consumables		**4,445**	5,428
		10,158	8,444
Minimum lease payments under operating lease:			
Building and land use rights		**9,986**	9,536

6. FINANCE COSTS

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

7. TAX

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

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

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

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

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

Notes:

(a) Being Sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to a State CIT rate of 30% and a local CIT rate of 3%. With regard to State CIT, they are entitled to a full exemption for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. With regard to local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption commencing from 2002 and 2004, respectively. Since Binteng Textile was approved to have income tax exemption in 2005, no provision for CIT has been made by Binteng Textile for the current year. Luteng Textile was entitled to a 50% reduction of State CIT rate for the current year.

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

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

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

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB1,154 million (2004: RMB792 million).

9. DIVIDEND

	2005	2004
	RMB'000	*RMB'000*
Proposed final – RMB0.287 (2004: RMB0.250) per share	**323,005**	218,863

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

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

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

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

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

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

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

11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Cash and bank balances	**3,134,935**	1,748,717
Time deposits	**1,717,178**	1,118,167
	4,852,113	2,866,884
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(470,000)**	(229,836)
Pledged for bank loans *(note 12)*	**(42,138)**	–
Pledged for issuance of bills payable	**–**	(67,000)
	(512,138)	(296,836)
Non-pledged time deposits maturing over three months	**(1,154,040)**	(325,400)
Cash and cash equivalents	**3,185,935**	2,244,648

	Company	
	2005	2004
	RMB'000	*RMB'000*
Cash and bank balances	**2,872,886**	1,618,216
Time deposits	**1,717,178**	1,044,033
	4,590,064	2,662,249
Less: Pledged time deposits:		
Pledged for letter of credit facilities	**(470,000)**	(222,702)
Pledged for bank loans *(note 12)*	**(42,138)**	–
	(512,138)	(222,702)
Non-pledged time deposits maturing over three months	**(1,154,040)**	(325,400)
Cash and cash equivalents	**2,923,886**	2,114,147

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

12. INTEREST-BEARING BANK LOANS

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

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

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

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

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

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

(i) On 8 September 2004, the Company entered into a loan agreement (the " First Syndicate Loan Agreement") with a syndicate of banks for a three year term loan facility up to US$78 million (equivalent to approximately RMB629 million) and RMB183 million. On 1 August 2005, the Company entered into another syndicate loan agreement (the " Second Syndicate Loan Agreement") for a three year term loan facility up to US$125 million (equivalent to approximately RMB1,009 million). The above-mentioned syndicate loan agreements contained certain undertakings and financial covenants, including but not limited to maximum level of dividend payment, minimum level of consolidated tangible net worth, maximum level of consolidated total debt and consolidated total secured debts, maintenance of net consolidated current assets and certain financial ratios.

On 31 December 2005, the Company did not comply with certain financial covenant ratios as set out in the above-mentioned syndicate loan agreements. The Company obtained a first consent letter on 23 January 2006 and 13 January 2006 from the Agent of the First Syndicate Loan Agreement and the Second Syndicate Agreement, respectively, to amend and revise certain financial covenant ratios for the year ended 31 December 2005. The Company obtained a second consent letter on 28 March 2006 and 29 March 2006 from the Agent of the Second Syndicate Loan Agreement and the First Syndicate Loan Agreement, respectively, to amend and revise certain financial covenant ratios for the year ended 31 December 2005. The Company complied with the second revised financial covenant ratios as at 31 December 2005, but not the original respective financial covenants as set out in the above-mentioned syndicate loan agreements nor the first revised ones as set out in the first consent letter dated 13 January 2006 and 23 January 2006 for the Second Syndicate Loan Agreement and the First Syndicate Agreement, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other interest rate information:

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

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

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

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

13. COMPARATIVE AMOUNTS

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

14. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of the Company on 4 April 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Commencing from 1 January 2005, the quotas on China's export textile products were abolished and the sales of China's textile products have recorded a significant growth. Cotton textile industry maintained its growth momentum in 2005 and a substantial growth was recorded. In 2005, the production volume of yarn and cotton fabric in China were respectively 14.40 million tons and 19.658 billion meters, representing a growth of 11.5% and 24.01%, respectively as compared with 2004.

The export of textile products had vigorous performance. According to the statistics of China's Customs, the total export value of textile clothing was approximately US$115.03 billion in 2005, representing a growth of 20.9% as compared with 2004, among which the export value for textile products was approximately US$41.14 billion, a growth of 22.8% as compared with 2004 while the export value for clothing was approximately US$73.89 billion, a growth of 19.9% as compared with 2004. In 2005, China's import value of textile products and clothing was approximately US$17.14 billion, representing a growth of 1.7% as compared with 2004, among which the import value for textile products was approximately US$15.51 billion, a growth of 1.3% as compared with 2004 while the import value for clothing was approximately US$1.62 billion, a growth of 6% as compared with 2004. In view of the complicated and volatile environment in trade and policy, the export for the industry was managed to maintain a stable growth. During the year, an anxiety once prevailed over the trading environment of the region was finally resolved and it is expected that a favourable and stable import and export trading environment can be fostered in future.

Meanwhile, 9.9% growth in China's GDP has largely promoted the domestic consumption. According to National Bureau of Statistics of China, the total social retail sales in 2005 amounted to RMB6,717.7 billion. The consumers' market in China had a strong demand over the cotton textile products. During the year, the domestic sales of textile enterprises of considerable scales grew by 28.04%, exceeding the growth of export sales. This growth was in line with the "Eleventh Five Year Plan" which stated that efforts would be made to reinforce the domestic demand, and has fully demonstrated the domestic demand is one of the major drivers in promoting the economic growth of the industry.

On the premises that the quotas for textile and clothing have been abolished and the equilibrium attained in the market demand and supply of domestic cotton market and against the backdrop of gradual rise in cotton prices, the profit margin before tax rose to approximately 3.2% in 2005 from approximately 2.3% in 2004 for the cotton textile industry in China as a whole, revamping the excessive low profit margin.

The production volume of cotton in China for the year 2005 was 5.70 million tons, a 9.8% drop as compared with last year. Driven by strong domestic demand, the cotton price rose gradually in 2005 and the highest price recorded in cotton price A index (CNCotton A Index) of the country was RMB14,680/ton. The international cotton price was at the historical low level and the average price of Cotlook A index in the international market was US55.26 cents/lbs. Weiqiao Textile will continue to leverage its edges in costs and to effectively control the costs of cotton through making purchase in the Mainland and abroad.

The rise in cotton prices, coupled with the appreciation of RMB and the persistent energy shortage, had seriously impacted small-scale textile enterprises which targeted at low to medium end markets. For large scale enterprises which targeted at medium to high end market and which had stronger bargaining power, they were capable of expanding their scale of operation and reinforcing their edges. The diminishment of the weak and the rise of the strong has enabled the large enterprises to enlarge their market share and offered them the room for expansion. The enterprises that enjoyed the scale of operations and that were well-equipped would be ultimate winner of the market development.

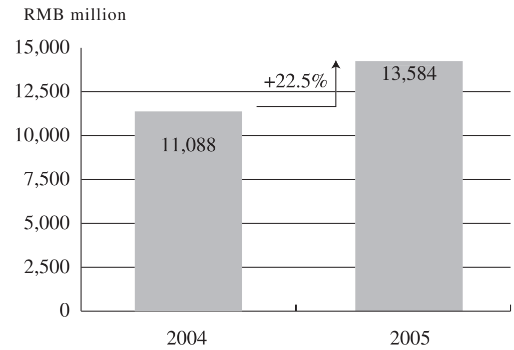
BUSINESS REVIEW

Weiqiao Textile, being the largest cotton textile manufacturer in China in terms of the scale of production and an upstream manufacturer in the production chain, is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. According to the statistics of China Chamber of Commerce for Import and Export of Textiles in 2005, Weiqiao Textile ranked number one in terms of the aggregate export value of yarn and fabric in the PRC.

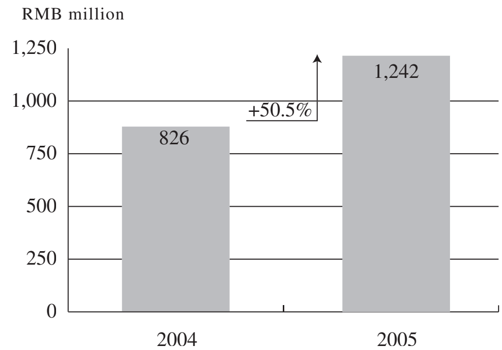
In 2005, leveraging on its leading position and scale of operations, Weiqiao Textile had acquired more market share in both the international and domestic arenas.

Revenue

Revenue



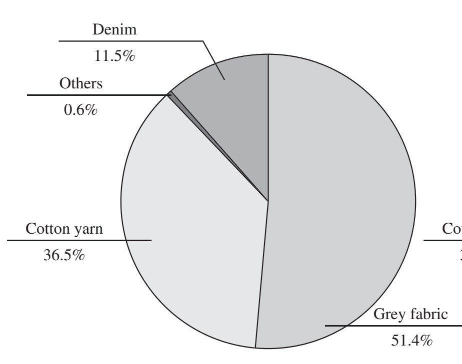
Net Profit attributable to shareholders



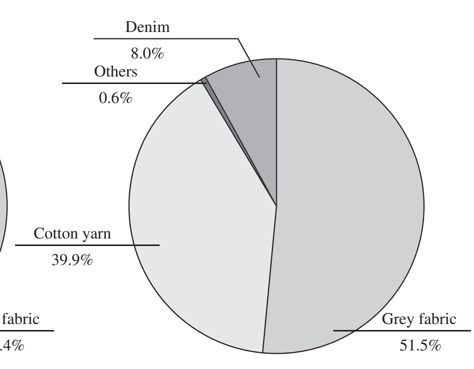
For the year ended 31 December 2005, the revenue of the Group and the net profit attributable to shareholders of the Company had a significant growth and this was mainly attributed to the expansion of production scale, the extended efforts in marketing and the production of more value-added products to satisfy the market needs by continuous improvement on the standard of production equipment and technology. The tax relief the Group obtained is also one of the primary reasons leading to the increase in net profit attributable to shareholders of the Company.

The chart below is a comparison of the Group's revenue in terms of product categories for the years ended 31 December 2004 and 2005:

A breakdown of revenue in terms of product categories:



2004



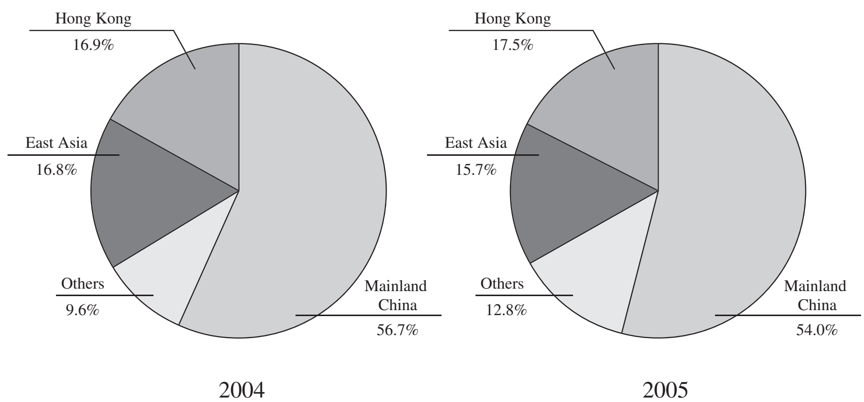
2005

Note: Others include cotton, tailings and cotton seeds.

The proportion of grey fabric remained at the same level as of 2004. The increase in the proportion of cotton yarn was due to the Company enhancing its production volume and sales of cotton yarn to meet the market demand. The decrease in the proportion of denim was attributable to the downtrend of denim sales in the low to medium end markets and therefore caused a reduction of production volume of denim by the Company.

The chart below is a comparison of the Group's revenue in terms of geographical locations for the years ended 31 December 2004 and 2005:

A breakdown of revenue in terms of geographical locations:



Note: East Asia comprises of Japan and South Korea; others comprise of Taiwan, Thailand, the US and Europe.

In respect of production, as at 31 December 2005, the Group had a total of four production bases, namely:

1. Weiqiao Production Base (The First, The Second and The Third Production Areas);

2. Binzhou Production Base (Binzhou Industrial Park, The First Production Area and The Second Production Area);

3. Weihai Production Base (Weihai Weiqiao Textile Company Limited and Weihai Weiqiao Technology Industrial Park Co., Ltd. ("Weiwei Industrial Park"); and

4. Zouping Production Base (The First Industrial Park of Zouping and The Second Industrial Park of Zouping).

All of the above production bases are located in Shandong, the PRC, with a total gross floor area of approximately 3,100,000 sq.m.

In 2005, the Group had a production volume of about 659,000 tons of cotton yarn, 1,441,000,000 meters of grey fabric and 124,000,000 meters of denim, of which, the growth in production volume of cotton yarn and grey fabric were about 21.4% and 19.6% respectively as compared with last year and this was mainly attributed to the full operation of Zouping Production Base.

The Group has actively expanded the market share and explored new market in 2005. As at 31 December 2005, the Group had a total of 5,800 domestic customers and over 600 overseas customers, representing a growth of 21% and 20% respectively.

On 13 August 2005, the Company entered into an asset transfer agreement with the Holding Company, pursuant to which the Company has agreed to acquire the thermal power assets for an aggregate consideration of RMB3,000,000,000 (equivalent to about HK$2,879,000,000). Such consideration was satisfied as to:

(a) RMB2,710,000,000 (equivalent to about HK$2,601,000,000) by way of allotment and issuance of 250,000,000 domestic shares of the Company at an issue price of RMB10.84 (equivalent to about HK$10.40) per domestic share of the Company, representing the average closing price of the H shares of the Company for the 20 trading days up to 12 August 2005; and

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

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to its major product categories for the years ended 31 December 2004 and 2005:

	Year ended 31 December 2004			**Year ended 31 December 2005**		
	Revenue *RMB'000*	Gross profit *RMB'000*	Gross profit margin %	**Revenue** ***RMB'000***	**Gross profit/ (loss)** ***RMB'000***	**Gross profit/ (loss) margin %**
Product category						
Cotton yarn	4,047,619	694,493	17.2	**5,425,822**	**1,175,434**	**21.7**
Grey fabric	5,700,843	798,863	14.0	**6,990,851**	**837,942**	**12.0**
Denim	1,273,932	341,592	26.8	**1,080,229**	**239,963**	**22.2**
Others	65,830	22,229	33.4	**87,487**	**(9,209)**	**(10.5)**
Total	11,088,224	1,857,177	16.8	**13,584,389**	**2,244,129**	**16.5**

For the year ended 31 December 2005, the Group's gross profit margin decreased to 16.5%. The decrease was mainly attributable to the downtrend of the grey fabric market due to the restrictions on Chinese textile products imposed by the EU and the US. The gross profit of denim also decreased due to the unsatisfactory denim sales at the low to medium end markets.

Selling and distribution costs

The Group's selling and distribution costs increased by 25.0% to approximately RMB345 million for the year ended 31 December 2005 from approximately RMB276,000,000 of last year. The main reason was that the revenue increased, particularly the 30.3% increase in export sales over 2004, which led to an increase in transportation cost to approximately RMB256 million (2004: approximately RMB187 million) and a proportional increase in sales commission to approximately RMB49 million (2004: approximately RMB30 million).

Administrative expenses

Administrative expenses for the year ended 31 December 2005 amounted to approximately RMB151 million, representing an increase of 4.9% as compared to RMB144 million for the last year. With the expansion in production scale of the Group, the administrative expenses increased accordingly. The number of administrative staff grew compared to last year and it caused the increase in staff cost and related expenses.

Finance costs

Finance costs rose to approximately RMB420 million, after capitalizing interests of approximately RMB18 million, for the year ended 31 December 2005, representing an increase of 44.8% as compared to approximately RMB290 million for the last year. The increase in finance costs was mainly due to the additional financing for the expansion in production scale and the operating capital for additional production capacity.

Liquidity and financial resources

The cash and cash equivalents of the Group were approximately RMB3,186 million as at 31 December 2005, increasing by 41.9% from approximately RMB2,245 million of cash and cash equivalents as at 31 December 2004. In addition, the Group was granted syndicated loans which include US$125 million on 1 August 2005.

For the year ended 31 December 2005, the Group invested approximately RMB5,597 million in capital expenditures, of which RMB3,000 million was related to the acquisition of thermal power assets from the Holding Company, satisfied by the issuance of 250,000,000 domestic shares of the Company at an issue price of RMB10.84 per domestic share, totaling RMB2,710 million, and the payment of RMB290 million by two cash installments payable in 2007. In addition to the above thermal power assets, the Group spent approximately RMB2,597 million in the purchase of additional machinery and equipment to enhance the productivity of the Group and for the production of high value-added products, which were primarily financed by the net cash inflow from operating activities of RMB1,954 million and the increase in bank borrowings of RMB2,786 million.

The cash and cash equivalents increased by approximately RMB934 million during the year ended 31 December 2005, thereby reducing the net debt-to-equity ratio (the ratio of total bank borrowings, net of cash and cash equivalents, to shareholders' equity) to 0.66 as at 31 December 2005, compared to 0.78 as at 31 December 2004.

The average turnover of the Group's accounts receivable was approximately 15 days for the year ended 31 December 2005, which decreased from 20 days for the year ended 31 December 2004. The decrease in accounts receivable turnover days was attributable to the successful tightening of the Group's credit policy.

Inventory turnover days increased from 106 days for the year ended 31 December 2004 to 117 days for the year ended 31 December 2005. Increase in inventory turnover days was mainly due to the strong demand from the cotton market in the second half of 2005 and the increase of inventory of cotton by the Company.

Net profit attributable to shareholders of the Company and earnings per share

Net profit attributable to shareholders of the Company was approximately RMB1,242 million for the year ended 31 December 2005, representing an increase of 50.5% as compared with approximately RMB826 million of last year.

For the year ended 31 December 2005, the basic earnings per share of the Company were RMB1.35.

Capital structure

The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce the costs of capital. As at 31 December 2005, the liabilities of the Group included bank borrowings and long-term payables to the Holding Company which amounted to approximately RMB10,110 million. Cash and cash equivalents of the Group was approximately RMB3,186 million and gearing ratio (Total liabilities (including bank loans and long-term payables to the Holding Company)/Total assets) was 40.9%.

As at 31 December 2005, 34.4% of the Group's bank borrowings was subject to fixed interest rates while the remaining 65.6% was subject to floating interest rates.

As at 31 December 2005, the Group's borrowings were denominated in RMB, HK dollars and US dollars, in which 35.9% and 1.2% of the Group's borrowings were denominated in US dollars and HK dollars, respectively. Its cash and cash equivalents were mainly held in RMB and US dollars in which 6.3% of the cash and cash equivalents were held in US dollars.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group had a total of approximately 140,000 employees, representing an increase of approximately 40,000 as compared with last year. The Company engaged more manpower and provided with training in order to satisfy the need of production expansion and it also employed more quality control staff, which led to the increase in the number of staff. Total staff costs amounted to approximately RMB1,692 million during the year, representing 12.5% of the Group's revenue. Employees were remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages were reviewed by its management on a regular basis. Bonuses and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance.

EXPOSURE TO FOREIGN EXCHANGE RISK

Revenue and most of the expenditure of the Group are denominated in RMB and US dollars. For the year ended 31 December 2005, 46.0% of the Group's revenue and 57.1% of the Group's cost of lint cotton procurement were denominated in US dollars. For the year ended 31 December 2005, 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.

TAXATION

Taxation of the Group reduced from approximately RMB420,000,000 for 2004 to approximately RMB187 million for 2005, representing a decrease of 55.5%. The reason for the decrease is that on 26 September 2005, the Company was awarded a tax reduction of approximately RMB273,205,000 in total by the local tax bureau at Zouping for the investment projects undertaken by the Company for the technical renovation of domestic purchased equipment. Binzhou Industrial Park, a non-wholly owned subsidiary of the Company, was also awarded a tax reduction of RMB14,484,000 in total by the branch of economic development region under the Binzhou local tax bureau on 15 October 2005 and 16 October 2005. Pursuant to the prevailing tax laws in China, the Group may apply similar tax reduction in future.

SUBSEQUENT EVENTS

The Company and Morgan Stanley entered into a placing agreement on 2 March 2006, as a result of which the Company successfully placed a total of 68,936,500 new H shares of the Company at a price of HK$12.05 per share. The net proceeds of the placing amounted to approximately HK$829,237,000. Directors intend to use the proceeds to make investment to increase the productivity of high value-added textile products.

FUTURE OUTLOOK

Weiqiao Textile, being a textile enterprise with world vision and strong market sense, is well aware of the quickening pace of globalization. We expect that the scale of cross-border raw materials purchase, fabric production and outsourcing would be extended. With the focus of world trade negotiation being placed on further market liberalization and reduction of government intervention, the globalized production chain hence emerged will further its role in promoting the interaction among the players in the textile industry.

The year 2006 is the first year for the "Eleventh Five Year Plan" and the growth of China' s economy will be driven more by consumption than by investment. This will be conducive to China's development into a major consumption country, and thereby providing the impetus of persistent growth of both domestic and foreign textile enterprises.

Under such economic environment and leveraging on its own strength, Weiqiao Textile will grasp every opportunity to continue to explore overseas market and medium to high end market with a view to becoming the top-pick supplier of international merchandisers when making procurements of cotton textile in China and in the world. In terms of domestic sales, the Group will further its effort in domestic marketing and take the initiative in building up the brand image of "Weiqiao" brand for improving the Group's sales as a whole.

With respect to cost control, the Group strived to control the energy costs and optimized the efficiency of the newly acquired thermal power assets so as to eliminate the bottle-neck in production. The Group will continue to introduce technologies with higher production efficiency and implement efficient production procedures where minimal depletion is expected for reducing the overall production costs and maintaining relatively high gross profit margin.

The Group firmly believes that the competitive edges of Weiqiao Textile will acquire higher market recognition under the trend of pursuing for higher quantity and better quality in the industry. The above strategies, coupled with Weiqiao Textile's edges in technology, scale of operation, services, costs, marketing and marketing network, will enable Weiqiao Textile to grow healthily, consolidate its existing market and seek new business opportunities while exploring new customers and satisfying customers' requirements. We will continue to work closely with other global players and try to reach a new height.

SUPPLEMENTARY INFORMATION

Substantial Shareholders

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

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

Name of shareholders	**Number of Domestic Shares** *(note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2005** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2005** *(%)*
Shandong Weiqiao Chuangye Group Company Limited 山東魏橋創業集團有限公司	660,311,100 *(note 2)*	84.57	58.67
Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) ("ZCSU")	660,311,100 *(note 3)*	84.57	58.67

Long positions in the H shares of the Company ("H Shares")

	Number of H Shares *(note 4)*	**Approximate percentage of total issued H share capital as at 31 December 2005** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2005** *(%)*
HSBC Halbis Partners (Hong Kong) Limited	36,481,643 *(note 5)*	10.58	3.24
UBS AG	23,338,456 *(note 6)*	6.77	2.07
JP Morgan Chase & Co.	20,638,507 *(note 7)*	5.99	1.83
Legg Mason Inc.	18,636,000 *(note 8)*	5.41	1.66
Templeton Investment Counsel, LLC	17,307,500 *(note 9)*	5.02	1.54

Notes:

1. Unlisted shares.

2. These 660,311,100 Domestic Shares are directly held by Holding Company.

3. These 660,311,100 Domestic Shares are deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.

4. Shares listed on the Main Board of the Stock Exchange.

5. 36,481,643 H Shares were held by HSBC Halbis Partners (Hong Kong) Limited in its capacity as investment manager.

6. 8,752,610 H Shares were directly held by UBS AG and 14,585,846 H Shares were respectively held by various companies controlled by UBS AG.

7. 732,000 H Shares were directly held by JP Morgan Chase & Co. and 19,906,507 H Shares were held by JP Morgan Chase & Co. in the capacity as custodian corporation/approved lending agent.

8. 18,636,000 H Shares were held by Legg Mason Inc. in its capacity as investment manager.

9. 17,307,500 H Shares were held by Templeton Investment Counsel, LLC in its capacity as investment manager.

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

Directors' and Supervisors' Interests in Shares

As at 31 December 2005, the interests of the Directors, Supervisors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were are follows:

Long positions in the Domestic Shares:

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

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

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

Note:

1. Unlisted shares

Save as disclosed above, as at 31 December 2005, none of the Directors, Supervisors or the chief executive of the Company had an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Dividends

The Directors recommended the payment of a final dividend of RMB0.287 per share, payable to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 5 May 2006. According to the relevant regulations in the PRC and as disclosed in the Company's prospectus, the Group's net profit after tax can only be distributed after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, statutory public welfare fund and general reserve fund, employee's bonus and welfare fund and enterprise expansion fund.

Closure of Register of Members

The Company's register of members will be closed from 6 May 2006 to 6 June 2006 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00p.m. on 5 May 2006.

Capital Commitment/Charges on assets

As at 31 December 2005, the Group had authorised and contracted capital commitment of approximately RMB15 million (2004: RMB243 million); and authorised and uncontracted capital commitment of approximately RMB275.57 million (2004: nil) respectively.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Audit Committee

The audit committee of the Company ("Audit Committee"), comprising of the three independent non-executive Directors, is responsible for reviewing and supervising the Group's financial reporting process and internal controls and providing advice and recommendations to the Board of Directors of the Company.

An audit committee meeting was held on 4 April 2006 to review the Group's annual report and results, and provide advice and recommendations to the Board of Directors of the Company.

Code for Securities Transactions by Directors

The Company has adopted a code for securities transactions by Directors 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 of the Listing Rules.

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a sound corporate governance standard. The corporate governance principles we adopted ensure the quality of the Board, the healthy internal supervision system and the transparency and accountability to the shareholders of the Company. For the year ended 31 December 2005, the Company has adopted and met the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

AMENDMENTS TO ARTICLES OF ASSOCIATION

The Directors have resolved that the articles of association of the Company would be amended to reflect the change of registered capital of the Company following completion of placing of 68,936,500 new H shares in March 2006.

Details of the amendments of the articles of association of the Company are as follows:

(a) to replace the last paragraph of article 3.6 of the articles of association of the Company with the following provision:

"As approved by the China Securities Regulatory Commission by issuing Zheng Jian Guo He Zi [2005] No. 18 decision, the Company issued 68,936,500 overseas listed foreign invested shares in March 2006 which are listed on The Stock Exchange of Hong Kong Limited. The total number of shares of the Company is increased to 1,194,389,000.

The equity structure of the Company is as follows: The Company has 1,194,389,000 ordinary shares, including 780,770,000 domestic invested shares and 413,619,000 overseas listed foreign invested shares, which represent 65.37% and 34.63% of the total shares issued by the Company, respectively"; and

(b) to replace article 3.9 of the articles of association with the following provision:

"Promptly after the issuance of overseas listed foreign invested shares under Article 3.6 of this articles of association of the Company, the registered capital of the Company would be increased to RMB 1,194,389,000."

Publication of Annual Results on Website

This results announcement is published on the website of the Stock Exchange at www.hkex.com.hk.

By Order of the Board
Zhang Bo
Chairman

Shandong, PRC, 6 April 2006

* *The Company is registered in Hong Kong as an overseas company under the English name "Weiqiao Textile Company Limited".*

As at the date of this announcement, the Board of Directors 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.

"Please also refer to the published version of this announcement in the South China Morning Post"