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 2004

Proposed amendments to Articles of Association

Annual results for the year ended 31 December 2004

Turnover	+69.0%	to RMB11,088 million
Gross profit	+53.5%	to RMB1,857 million
Net profit attributable to shareholders	+52.4%	to RMB826 million
Basic earnings per share	+9.0%	to RMB0.97
Proposed final dividend per share	+346.4%	to RMB0.25

Highlights

— Significant growth in turnover and net profit attributable to shareholders due to significant increase in market demand and production volume

— Maintained a leading position in the cotton textile industry and continued to improve operation efficiency

— Expansion of production capacity in order to capture the opportunity of industry consolidation and quota elimination in 2005

— Newly established Zouping Production Base to enlarge production capacity of mid to high-end products

— Placement of 57,447,000 H Shares completed in June 2004 to raise HK$653 million to invest in and development of high value-added products and finance the general working capital

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 2004 (the "Year"). During the Year, the audited turnover and net profit attributable to shareholders amounted to RMB11,088,224,000 and RMB825,535,000 respectively, with respective increase of 69.0% and 52.4% as compared with the year ended 31 December 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 December	
	Notes	**2004**	**2003**
		RMB'000	*RMB'000*
TURNOVER	5	11,088,224	6,560,470
Cost of sales		(9,231,047)	(5,350,157)
Gross profit		1,857,177	1,210,313
Other revenue	5	159,022	74,120
Selling and distribution costs		(275,899)	(148,375)
Administrative expenses		(143,524)	(89,703)
Other operating expenses		(59,509)	(35,116)
PROFIT FROM OPERATING ACTIVITIES	6	1,537,267	1,011,239
Finance costs	10	(290,383)	(157,797)
PROFIT BEFORE TAX		1,246,884	853,442
Tax	11	(420,405)	(305,674)
PROFIT BEFORE MINORITY INTERESTS		826,479	547,768
Minority interests		(944)	(6,096)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	825,535	541,672
Proposed final dividend	13(2)	218,863	45,808
EARNINGS PER SHARE — Basic (RMB)	14	0.97	0.89

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	15	9,623,446	6,327,830
Intangible assets	16	9,301	10,501
Negative goodwill	17	(23,548)	(26,538)
		9,609,199	6,311,793
CURRENT ASSETS			
Inventories	19	2,673,468	2,083,985
Trade receivables	20	598,419	496,213
Prepayments, deposits and other receivables	21	374,787	325,676
Amounts due from related parties	22	266,096	267,585
Pledged deposits	23	296,836	322,480
Time deposits over three months	23	325,400	—
Cash and cash equivalents	23	2,244,648	1,532,193
		6,779,654	5,028,132
CURRENT LIABILITIES			
Trade payables	24	1,329,391	1,248,617
Bills payable	25	220,000	79,597
Tax payable		498,270	231,289
Other payables and accruals	26	765,069	145,385
Interest-bearing bank loans, current portion	27	3,347,144	1,991,369
Amounts due to related parties	22	864	773
Amount due to the immediate holding company	22	238,864	322,553
Long term payable to the immediate holding company, current portion	28	50,000	—
Dividend payable		31,380	1,690
		6,480,982	4,021,273
NET CURRENT ASSETS		298,672	1,006,859
TOTAL ASSETS LESS CURRENT LIABILITIES		9,907,871	7,318,652
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	27	3,618,786	2,482,339
Long term payable to the immediate holding company	28	128,927	178,927
		3,747,713	2,661,266
MINORITY INTERESTS		90,308	59,245
		6,069,850	4,598,141
CAPITAL AND RESERVES			
Issued capital	29	875,453	818,006
Reserves		4,975,534	3,734,327
Proposed final dividend	13(2)	218,863	45,808
		6,069,850	4,598,141

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 December 2004						
	Notes	**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*
31 December 2002 and 1 January 2003		530,770	565,728	54,138	53,059	—	341,602	1,545,297
Net profit for the year		—	—	—	—	—	541,672	541,672
Transfer from/(to) reserves	13(1)	—	—	61,810	57,643	—	(119,453)	—
Issue of H shares	29(a)	287,236	2,317,563	—	—	—	—	2,604,799
Share issue expenses	29(a)	—	(93,627)	—	—	—	—	(93,627)
Proposed final 2003 dividend		—	—	—	—	45,808	(45,808)	—
31 December 2003 and 1 January 2004		818,006	2,789,664	115,948	110,702	45,808	718,013	4,598,141
Net profit for the year		—	—	—	—	—	825,535	825,535
Transfer from/(to) reserves	13(1)	—	—	83,442	82,847	—	(166,289)	—
Issue of H Shares	29(b)	57,447	649,087	—	—	—	—	706,534
Share issue expenses	29(b)	—	(14,552)	—	—	—	—	(14,552)
Final 2003 dividend declared		—	—	—	—	(45,808)	—	(45,808)
Proposed final 2004 dividend		—	—	—	—	218,863	(218,863)	—
31 December 2004		875,453	3,424,199	199,390	193,549	218,863	1,158,396	6,069,850

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December **2004** *RMB'000*	**2003** *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,246,884	853,442
Adjustments for:			
Loss on disposal of fixed assets		1,787	—
Finance costs	10	290,383	157,797
Exchange losses, net		9,150	7,429
Negative goodwill recognised as income	17	(2,990)	(2,990)
Interest income	5	(24,154)	(12,048)
Depreciation	15	499,273	287,495
Amortisation of intangible assets	16	1,200	1,200
Provision for bad and doubtful debts	6	2,000	7,031
Provision against inventories	6	18,800	11,832
Operating profit before working capital changes		2,042,333	1,311,188
Increase in inventories		(608,283)	(1,346,079)
Increase in trade receivables		(104,206)	(248,530)
Increase in prepayments, deposits and other receivables		(163,018)	(201,461)
Increase in trade payables		53,441	449,956
Increase/(decrease) in bills payable		140,403	(347,943)
Increase/(decrease) in other payables and accruals		600,231	(44,341)
Increase/(decrease) in a net amount due to the immediate holding company		(83,689)	69,945
Decrease/(increase) in net amounts due from related parties		1,580	(136,081)
Cash generated from/(used in) operations		1,878,792	(493,346)
Decrease in other long term assets		—	96,250
Interest paid	10	(316,383)	(162,597)
PRC corporate income tax paid		(153,425)	(171,160)
Net cash inflow/(outflow) from operating activities		1,408,984	(730,853)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	24,154	12,048
Purchases of fixed assets		(3,614,013)	(2,787,680)
Proceeds from disposal of fixed assets		4,136	996
Increase in time deposits over three months		(325,400)	—
Decrease in pledged deposits		25,644	246,833
Net cash outflow from investing activities		(3,885,479)	(2,527,803)

	Notes	Year ended 31 December 2004 RMB'000	2003 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		8,949,374	4,678,563
Proceeds from issue of shares	29	706,534	2,604,799
Share issue expenses	29	(14,552)	(93,627)
Repayment of bank loans		(6,457,152)	(2,559,492)
Dividends paid		(16,118)	—
Dividends paid to a minority shareholder		(2,434)	—
Proceeds from capital contributions by minority shareholders		32,448	400
Net cash inflow from financing activities		3,198,100	4,630,643
NET INCREASE IN CASH AND CASH EQUIVALENTS		721,605	1,371,987
Cash and cash equivalents at beginning of year		1,532,193	167,635
Effect of foreign exchange rate changes, net		(9,150)	(7,429)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	2,244,648	1,532,193
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	1,748,717	1,278,193
Non-pledged time deposits with original maturity of less than three months when acquired		495,931	254,000
	23	2,244,648	1,532,193

BALANCE SHEET

	Notes	31 December 2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	15	6,735,752	4,850,953
Interests in subsidiaries	18	2,075,637	888,483
		8,811,389	5,739,436
CURRENT ASSETS			
Inventories	19	2,131,711	1,760,443
Trade receivables	20	577,807	432,383
Prepayments, deposits and other receivables	21	364,969	316,644
Amounts due from related parties	22	251,863	259,870
Pledged deposits	23	222,702	274,427
Time deposits over three months	23	325,400	—
Cash and cash equivalents	23	2,114,147	1,429,692
		5,988,599	4,473,459
CURRENT LIABILITIES			
Trade payables	24	1,158,180	1,188,603
Tax payable		476,057	210,813
Other payables and accruals	26	597,819	113,225
Interest-bearing bank loans, current portion	27	2,652,789	1,403,588
Amounts due to related parties	22	864	8,980
Amount due to the immediate holding company	22	215,276	308,553
Long term payable to the immediate holding company, current portion	28	50,000	—
Dividend payable		31,380	1,690
		5,182,365	3,235,452
NET CURRENT ASSETS		806,234	1,238,007
TOTAL ASSETS LESS CURRENT LIABILITIES		9,617,623	6,977,443

	Notes	31 December 2004 RMB'000	31 December 2003 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	27	3,534,786	2,282,339
Long term payable to the immediate holding company	28	128,927	178,927
		3,663,713	2,461,266
		5,953,910	4,516,177
CAPITAL AND RESERVES			
Issued capital	29	875,453	818,006
Reserves	30	4,859,594	3,652,363
Proposed final dividend	13(2)	218,863	45,808
		5,953,910	4,516,177

NOTES TO FINANCIAL STATEMENTS

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 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.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life (10 years) of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives of fixed assets and their principal annual rates used for this purpose, after taking into consideration the estimated residual value of not more than 5% of cost, are as follows:

	Estimated useful life	**Annual depreciation rate**
Land and buildings	20-50 years	2.0-4.8%
Machinery and equipment	6-14years	6.8-15.8%
Motor vehicles	6-10years	9.5-15.8%

The gain or loss on disposal or retirement of a fixed asset recognised in profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and properties under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

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

Intangible assets

Technology rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

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

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

Revenue recognition

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

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

- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Government grants

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

Retirement benefits scheme

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

Borrowing costs

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grants the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

The companies now comprising the Group are domiciled in the PRC and maintain their books and records in RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

4. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarns, grey fabrics and denims. The Group conducts the majority of its business activities in four geographical areas, namely Mainland China, Hong Kong, East Asia (principally comprising Japan and South Korea) and others. All of the Group's assets are located in Mainland China.

An analysis by geographical segment, as determined by location of the Group's operations, is as follows:

	Sales to external customers	**Cost of sales**	**Gross profit**
	2004	**2004**	**2004**
	RMB'000	*RMB'000*	*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
Total	11,088,224	9,231,047	1,857,177

	Sales to external customers	**Cost of sales**	**Gross profit**
	2003	**2003**	**2003**
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	2,913,976	2,124,217	789,759
Hong Kong	1,759,219	1,487,376	271,843
East Asia	1,446,200	1,342,623	103,577
Others	441,075	395,941	45,134
Total	6,560,470	5,350,157	1,210,313

5. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of turnover and other revenue is as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Turnover		
Sale of goods	11,088,224	6,560,470
Other revenue		
Interest income	24,154	12,048
Gain on sale of raw materials	61,101	27,783
Compensation from suppliers on supply of sub-standard goods	61,664	24,610
Penalty income from employees	8,036	3,853
Negative goodwill recognised	2,990	2,990
Subsidy income	—	2,119
Other	1,077	717
	159,022	74,120

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	**2004**	**2003**
		RMB'000	*RMB'000*
Cost of inventories sold		9,212,247	5,338,325
Staff costs (excluding directors' and supervisors' emoluments (note (8))):			
Wages, salaries and social security costs		1,003,091	607,421
Retirement benefit contributions		23,653	15,756
Loss on disposal of fixed assets		1,787	—
Amortisation of intangible assets	16	1,200	1,200
Auditors' remuneration		3,200	2,470
Depreciation	15	499,273	287,495
Directors' and supervisors' emoluments	8	4,211	1,600
Exchange losses, net		9,150	7,429
Operating lease expenses		9,536	4,889
Provision for bad and doubtful debts		2,000	7,031
Provision against inventories		18,800	11,832
Negative goodwill recognised as income during the year	17	(2,990)	(2,990)
Repairs and maintenance		264,552	160,151
Research and development costs included in:			
Wages and salaries		3,016	903
Consumption of consumables		5,428	3,644
		8,444	4,547

7. RETIREMENT BENEFITS

The aggregate contribution of the Group to retirement benefit scheme were approximately RMB23.7 million for the year ended 31 December 2004 (2003: RMB15.9 million). As at 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Fees	3,996	1,269
Other emoluments:		
Salaries, allowances and benefits in kind	179	227
Retirement benefit contributions	36	104
	4,211	1,600

Fees include approximately RMB806,000 (2003: RMB385,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The remuneration of each of the directors and supervisors during the year and 2003 fell within the band of nil to HK$1,000,000 (equivalent to approximately RMB1,061,000).

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group included five directors (2003: five), details of whose remuneration are included in the analysis set out in note 8 above.

The emoluments and designated band of the five highest paid individuals (including directors, supervisors and employees) during the year are as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Fees	2,980	831
Other emoluments:		
Salaries, allowances and benefits in kind	179	224
Retirement benefit contributions	36	100
	3,195	1,155

The remuneration of each of the five highest paid employees during 2004 and 2003 fell within the band of nil to HK$1,000,000 (equivalent to approximately RMB1,061,000).

10. FINANCE COSTS

	Group 2004 RMB'000	Group 2003 RMB'000
Interest on bank loans wholly repayable within five years	316,383	162,597
Less: Interest capitalised*	(26,000)	(4,800)
	290,383	157,797

* The capitalisation rate adopted for capitalising interests incurred during the year ranged from 3.336% to 7.254% per annum. (2003: 4.325% to 6.732%)

11. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil).

	Group 2004 RMB'000	Group 2003 RMB'000
Current — Hong Kong	—	—
— Mainland China	420,405	305,674
Total tax charge for the year	420,405	305,674

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

	Group 2004 RMB'000	%	2003 RMB'000	%
Profit before tax	1,246,884		853,442	
At PRC statutory tax rate	411,472	33.0	281,636	33.0
Expenses not deductible for tax	10,333	0.8	21,689	2.6
Tax loss not recognised	5,002	0.4	—	—
Income not subject to tax	—	—	(699)	(0.1)
Tax exemption	(1,913)	(0.1)	(4,150)	(0.5)
Others	(4,489)	(0.4)	7,198	0.8
Tax charge at the Group's effective rate	420,405	33.7	305,674	35.8

Under 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 PRC Accounting Regulations.

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 Luteng Textile and Binteng Textile were both approved to have income tax exemptions in 2004, no provision for CIT has been made by the two companies for the current year.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint ventures, as the Group has no liability to additional tax should such amounts be remitted.

The Group did not have any significant unprovided deferred tax in 2004 and 2003.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB792 million (2003: RMB472 million).

13. PROFIT APPROPRIATIONS

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

(i) *Statutory surplus reserve*

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

(ii) *Statutory public welfare fund*

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

The directors of respective companies resolved to appropriate 10% of the profit attributable to shareholders, determined in accordance with PRC Accounting Regulations, to each of the statutory surplus reserve and the statutory public welfare fund for the years ended 31 December 2004 and 2003, except for 5% appropriation to statutory welfare fund for the year ended 31 December 2003 in Binzhou Industrial Park.

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

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

(2) **Dividend**

	2004	**2003**
	RMB'000	*RMB'000*
Proposed final RMB0.25 per share (2003: RMB0.056 per share)	218,863	45,808

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 PRC Accounting Regulations; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company's shares are listed.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on:

	2004	**2003**
	RMB'000	*RMB'000*
Earnings		
Net profit from ordinary activities attributable to shareholders used in the basic earnings per share calculation	825,535	541,672

	Number of shares	
	2004	**2003**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	851,123,852	608,061,840

The weighted average numbers of ordinary shares in issue during the year used in the basic earnings per share calculations for both 2004 and 2003 have been adjusted to reflect the H shares issued by way of placing in 2004 and initial public offering in 2003.

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed as no diluting events existed during the year.

15. FIXED ASSETS

The Group

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At beginning of year	1,113,632	4,385,593	20,405	1,307,700	6,827,330
Additions	27,188	115,433	11,697	3,646,494	3,800,812
Transfers from/(to) fixed assets	1,001,298	3,156,582	—	(4,157,880)	—
Disposals	—	(7,609)	—	—	(7,609)
At 31 December 2004	2,142,118	7,649,999	32,102	796,314	10,620,533
Accumulated depreciation:					
At beginning of year	34,271	462,809	2,420	—	499,500
Provided during the year	43,011	452,957	3,305	—	499,273
Disposals	—	(1,686)	—	—	(1,686)
At 31 December 2004	77,282	914,080	5,725	—	997,087
Net book value:					
At 31 December 2004	2,064,836	6,735,919	26,377	796,314	9,623,446
At 31 December 2003	1,079,361	3,922,784	17,985	1,307,700	6,327,830

Prior to its transfer to land and buildings, and machinery and equipment, the carrying amount of construction in progress included capitalised interest of approximately RMB26 million (2003: RMB4.8 million).

The Company

	Land and buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:					
At beginning of year	785,602	3,192,123	13,175	1,248,358	5,239,258
Additions	17,353	182,029	9,771	2,273,076	2,482,229
Transfers	611,257	2,738,664	—	(3,349,921)	—
Contribution to subsidiaries*	(3,584)	(112,217)	—	(72,622)	(188,423)
Disposals	—	(38,479)	—	—	(38,479)
At 31 December 2004	1,410,628	5,962,120	22,946	98,891	7,494,585
Accumulated depreciation:					
At beginning of year	30,556	356,315	1,434	—	388,305
Provided during the year	28,489	340,998	2,204	—	371,691
Contribution to subsidiaries*	—	(116)	—	—	(116)
Disposals	—	(1,047)	—	—	(1,047)
At 31 December 2004	59,045	696,150	3,638	—	758,833
Net book value:					
At 31 December 2004	1,351,583	5,265,970	19,308	98,891	6,735,752
At 31 December 2003	755,046	2,835,808	11,741	1,248,358	4,850,953

* The Company contributed fixed assets with aggregate amount of approximately RMB188 million (approximate to the then carrying amount of such fixed assets) to its subsidiaries in 2004 (2003: RMB208 million).

16. INTANGIBLE ASSETS

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

	2004	**2003**
	RMB'000	*RMB'000*
Cost:		
At beginning and end of year	12,001	12,001
Accumulated amortisation:		
At beginning of year	1,500	300
Provided during the year	1,200	1,200
At closing of year	2,700	1,500
Net book value	9,301	10,501

17. NEGATIVE GOODWILL

Negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park") in 2002, is as follows:

	2004	**2003**
	RMB'000	*RMB'000*
Cost:		
At beginning and end of year	(29,902)	(29,902)
Recognition as income:		
At beginning of year	3,364	374
Recognised as income during the year	2,990	2,990
At closing of year	6,354	3,364
Net book value	(23,548)	(26,538)

18. INTERESTS IN SUBSIDIARIES

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

	2004	**2003**
	RMB'000	*RMB'000*
Unlisted investments, at cost	1,200,891	462,235
Amounts due from subsidiaries	1,302,996	727,337
Amounts due to subsidiaries	(428,250)	(301,089)
	2,075,637	888,483

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Particulars of the subsidiaries and joint ventures of the Company as at 31 December 2004 are as follows:

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interests directly attributable to the Company	Principal activities
Subsidiaries					
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, the PRC 25 July 2001	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarns and fabrics
Binzhou Industrial Park (a)	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 (b)	Weihai, the PRC 30 January 2004	Limited liability company	RMB260,000,000	99.8	Production and sale of cotton yarns and fabrics
Joint ventures					
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
Binteng Textile (c)	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

(a) During the year, the Company made further capital contribution to Binzhou Industrial Park by capitalising an amount due to the Company by Binzhou Industrial Park. According to the capital verification report issued on 15 January 2004 by Shandong Huanghe Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC, an amount due to the Company by Binzhou Industrial Park of RMB381,107,369 was capitalised into the registered capital and the capital reserve of Binzhou Industrial Park in the respective amount of RMB300,000,000 and RMB81,107,369. Consequently, the equity interests held by the Company in Binzhou Industrial Park increased from 97% on 31 December 2003 to 98.5% on 31 December 2004.

(b) In January 2004, the Company established Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") with Mr. Liu Guangmin, an independent third party, in Weihai City with registered capital of RMB260,000,000. The Company contributed cash and fixed assets of RMB160,000,000 and RMB99,480,000, respectively, totalling RMB259,480,000 in capital, accounting for 99.8% of the registered capital of Weihai Industrial Park, whilst Mr. Liu Guangmin contributed cash of RMB520,000, accounting for 0.2% of the registered capital of Weihai Industrial Park.

(c) In March 2004, the Company and Itochu Corporation ("Itochu") entered into a Sino-foreign equity joint venture contract to jointly establish Binteng Textile with registered capital of US$15,430,000. According to the joint venture contract, the Company contributed US$11,570,000 in the form of plant and machinery, accounting for 75% of the registered capital of Binteng Textile, whilst Itochu contributed cash of US$3,860,000 into Binteng Textile, representing 25% of the registered capital of Binteng Textile.

19. INVENTORIES

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Raw materials	606,548	934,946
Work in progress	396,632	252,462
Semi-finished goods	608,871	123,980
Finished goods	807,572	226,904
Consigned materials for processing	—	316
Consumables	57,322	34,064
Raw materials in transit	196,523	511,313
Total	2,673,468	2,083,985

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Raw materials	429,411	745,244
Work in progress	286,185	214,192
Semi-finished goods	504,896	81,026
Finished goods	650,920	183,089
Consigned materials for processing	11,716	316
Consumables	52,060	25,263
Raw materials in transit	196,523	511,313
Total	2,131,711	1,760,443

The carrying amounts of inventories of the Group and the Company carried at net realisable value included in the above balances were approximately RMB41 million (2003: RMB36 million) and RMB27 million (2003: RMB35 million), respectively, as at 31 December 2004.

Certain of the Group's and the Company's raw materials in transit of approximately RMB135 million as at 31 December 2004 were utilised to secure bank loans up to approximately RMB135 million (2003: RMB301 million).

20. TRADE RECEIVABLES

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

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 3 months	590,558	484,610
3 months to 6 months	3,106	5,449
6 months to 1 year	2,900	3,453
1 year to 2 years	1,855	2,701
	598,419	496,213

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 3 months	569,977	420,902
3 months to 6 months	3,075	5,449
6 months to 1 year	2,900	3,331
1 year to 2 years	1,855	2,701
	577,807	432,383

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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Prepayments to suppliers	363,431	125,529
Export value-added tax refundable	—	75,436
Other receivables and prepayments	11,356	124,711
Total	374,787	325,676

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Prepayments to suppliers	362,699	125,192
Export value-added tax refundable	—	75,436
Other receivables and prepayments	2,270	116,016
Total	364,969	316,644

22. 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.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Cash and bank balances	1,748,717	1,278,193
Time deposits	1,118,167	576,480
	2,866,884	1,854,673
Less: Pledged time deposits:		
Pledged for letter of credit facilities	(229,836)	(292,571)
Pledged for issuance of bills payable (note 25)	(67,000)	(29,909)
	(296,836)	(322,480)
Time deposits over three months	(325,400)	—
Cash and cash equivalents	2,244,648	1,532,193

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Cash and bank balances	1,618,216	1,175,692
Time deposits	1,044,033	528,427
	2,662,249	1,704,119
Less: Pledged time deposits for letter of credit facilities	(222,702)	(274,427)
Time deposits over three months	(325,400)	—
Cash and cash equivalents	2,114,147	1,429,692

24. 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 fixed assets having been transferred to the Group, is as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 90 days	1,292,330	1,189,081
90 days to 3 years	37,061	59,536
	1,329,391	1,248,617

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 90 days	1,134,213	1,129,841
90 days to 3 years	23,967	58,762
	1,158,180	1,188,603

25. BILLS PAYABLE

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within 90 days	60,000	19,597
90 to 180 days	160,000	60,000
	220,000	79,597

The bills payable as at 31 December 2004 were entirely drawn by Weihai Weiqiao in favour of the Company which were discounted with banks by the Company prior to 31 December 2004.

The Group's bills payable were secured by the pledge of certain of the Group's time deposits, details of which are described in note 23 above.

26. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2004 and 31 December 2003 are government grants totalling RMB70 million and RMB13 million, respectively, mainly provided by the Finance Bureau of the Binzhou City to Binzhou Industrial Park for the purpose of providing support for the development of Binzhou Industrial Park and product development.

27. INTEREST-BEARING BANK LOANS

(1) Interest-bearing bank loans, current portion

	Group 2004	Group 2003
	RMB'000	*RMB'000*
Current portion of bank loans	3,347,144	1,991,369

	Company 2004	Company 2003
	RMB'000	*RMB'000*
Current portion of bank loans	2,652,789	1,403,588

(2) Interest-bearing bank loans, long term portion

	Group 2004	Group 2003
	RMB'000	*RMB'000*
Bank loans:		
Secured	5,470,823	3,793,227
Unsecured	1,495,107	680,481
	6,965,930	4,473,708
Bank loans repayable:		
Within one year or on demand	3,347,144	1,991,369
In the second year	1,226,904	946,470
In the third to fifth years, inclusive	2,391,882	1,535,869
	6,965,930	4,473,708
Portion classified as current liabilities	(3,347,144)	(1,991,369)
Long term portion	3,618,786	2,482,339

	Company 2004	Company 2003
	RMB'000	*RMB'000*
Bank loans:		
Secured	4,692,468	3,603,157
Unsecured	1,495,107	82,769
	6,187,575	3,685,926
Bank loans repayable:		
Within one year or on demand	2,652,789	1,403,588
In the second year	1,142,904	830,470
In the third to fifth years, inclusive	2,391,882	1,451,869
	6,187,575	3,685,927
Portion classified as current liabilities	(2,652,789)	(1,403,588)
Long term portion	3,534,786	2,282,339

(i) On 8 September 2004, the Company entered into a master agreement relating to a dual currency term loan facility (the "Agreement") with a syndicate of banks. The facility provides that the Company may borrow up to US$78 million and RMB183 million, which were fully utilised as at 31 December 2004. The Agreement 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 debts and consolidated total secured debts, maintenance of net consolidated current assets and certain financial ratios.

(ii) Other than part of the Group's and the Company's bank loans in the aggregate amount of US$297 million (equivalent to RMB2,462 million) as at 31 December 2004 (2003: US$149 million or equivalent to RMB1,231 million), all of the Group's and the Company's bank loans are denominated in RMB. All of the Group's and the Company's bank loans bear yearly interest rates ranging from 3.2% to 7.254% as at 31 December 2004 (2003: 2.16% to 7.254%).

(iii) Certain of the Group's bank loans amounting to approximately RMB4,879 million were secured by certain of the Group's land and buildings, machinery and equipment, which had an aggregate net book value of approximately RMB7,202 million as at 31 December 2004 (2003: RMB 5,130 million).

(iv) Certain of the Group's bank loans of RMB135 million were secured by certain of the Group's export value-added tax refundable of RMB72 million (2003: RMB10 million) and accounts receivable of RMB144 million (2003: RMB15 million). The export value-added tax refundable and accounts receivable were received by the Group and included in the Group's cash and cash equivalents prior to 31 December 2004.

(v) Certain of the Group's bank loans up to approximately RMB135 million (2003: RMB301 million) were secured by certain of the Group's raw materials in transit of approximately RMB135 million (2003: RMB301 million) as at 31 December 2004.

(vi) Weihai Civil Aviation Industrial Company Limited, a minority shareholder of Weihai Weiqiao, has guaranteed bank loans of Weihai Weiqiao up to about RMB41 million as at 31 December 2004 (2003: RMB32 million).

(vii) The Company has guaranteed bank loans of certain of its subsidiaries up to approximately RMB281 million as at 31 December 2004 (2003: RMB555 million).

28. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

The long term payable to the immediate holding company as at 31 December 2004 and 31 December 2003 are unsecured, interest-free and are repayable over three years commencing 2005 by three instalments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively.

The Group and the Company

	2004 *RMB'000*	**2003** *RMB'000*
Amount repayable:		
Within one year	50,000	—
In the second year	50,000	50,000
In the third to fifth years, inclusive	78,927	128,927
	178,927	178,927
Portion classification as current liabilities	(50,000)	(—)
Long term portion	128,927	178,927

29. SHARE CAPITAL

	2004 *RMB'000*	**2003** *RMB'000*
Shares		
Registered, issued and fully paid:		
530,770,000 (2003: 530,770,000) domestic shares of RMB1.00 each	530,770	530,770
344,682,500 (2003: 287,235,500) H shares of RMB1.00 each (b)	344,683	287,236
	875,453	818,006

The Company does not have any share option scheme.

During the year and 2003, the movements in share capital were as follows:

(a) 249,770,000 H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 24 September 2003 and 37,465,500 additional H shares, issued upon exercise of an over-allotment option, were listed on the Main Board of the HKSE on 30 September 2003. These H shares with a par value of RMB1.00 each were issued to the public by way of placing and public offer at a price of HK$8.5 (equivalent to approximately RMB9.07) per share.

(b) On 4 June 2004, 57,447,000 H shares of the Company with a par value of RMB1.00 each were issued to the public by way of placing at a price of HK$11.6 (equivalent to approximately RMB12.3) per H Share. These H Shares were listed on the HKSE in June 2004.

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

	Number of shares in issue	Issued share capital *RMB'000*	Capital reserve account *RMB'000*	Total *RMB'000*
At 1 January 2003	530,770,000	530,770	565,728	1,096,498
Issue of H shares (a)	287,235,500	287,236	2,317,563	2,604,799
	818,005,500	818,006	2,883,291	3,701,297
Shares issue expenses	—	—	(93,627)	(93,627)
At 1 January 2004	818,005,500	818,006	2,789,664	3,607,670
Issue of H shares (b)	57,447,000	57,447	649,087	706,534
	875,452,500	875,453	3,438,751	4,314,204
Shares issue expenses	—	—	(14,552)	(14,552)
At 31 December 2004	875,452,500	875,453	3,424,199	4,299,652

30. RESERVES

The Group

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

The Company

	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Proposed final dividend *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2003	565,728	50,079	50,079	—	336,134	1,002,020
Issue of H shares (note 29)	2,317,563		—	—	—	2,317,563
Share issue expenses (note 29)	(93,627)	—	—	—	—	(93,627)
Net profit for the year	—	—		—	472,215	472,215
Transfer from/(to) reserves (note 13 (1))	—	54,254	54,254	—	(108,508)	—
Proposed final 2003 dividend	—	—	—	45,808	(45,808)	—
As at 31 December 2003 and 1 January 2004	2,789,664	104,333	104,333	45,808	654,033	3,698,171
Issue of H shares (note 29)	649,087	—	—	—	—	649,087
Share issue expenses (note 29)	(14,552)	—	—	—	—	(14,552)
Net profit for the year	—	—	—	—	791,559	791,559
Transfer from/(to) reserves (note 13(1))	—	79,749	79,749	—	(159,498)	—
Final 2003 dividend declared	—	—	—	(45,808)	—	(45,808)
Proposed final 2004 dividend	—	—	—	218,863	(218,863)	—
As at 31 December 2004	3,424,199	184,082	184,082	218,863	1,067,231	5,078,457

31. CONTINGENT LIABILITIES

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

	Group	
	2004 *RMB'000*	2003 *RMB'000*
Letters of credit issued	172,015	191,266

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Letters of credit issued	172,015	191,266
Bills discounted with recourse	220,000	—
Guarantee given to banks in connection with facilities granted to a subsidiary	281,000	555,471
	673,015	746,737

32. COMMITMENTS

(1) Capital commitments

At the balance sheet date, the Group and the Company had the following capital commitments, principally for the construction and acquisition of fixed assets:

	The Group and the Company	
	2004	**2003**
	RMB'000	*RMB'000*
Contracted, but not provided for	242,901	109,197

(2) Operating lease commitments

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

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Within one year	9,536	9,530
In the second to fifth years, inclusive	38,196	36,560
After five years	118,228	127,190
	165,960	173,280

	Company	
	2004	**2003**
	RMB'000	*RMB'000*
Within one year	9,476	9,470
In the second to fifth years, inclusive	37,953	36,320
After five years	117,457	126,360
	164,886	172,150

33. 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 disclosed in note 22, note 27 and note 28 to these financial statements during the year, the Group had the following material transactions with the following related parties:

Name of related parties	Relationship with the Company	Nature of transactions	2004	2003
			RMB'000	*RMB'000*
Holding Company	the immediate holding company	Purchases of lint cotton and tailings	—	164,600
		Expenses on provision of electricity and steam power	554,140	229,194
		Sale of cotton yarns, grey fabrics and denims	—	8,829
		Sale of ancillary materials and spare parts	—	598
		Sale of fixed assets	379	—
		Purchases of cotton yarns, grey fabrics and denims	—	60,131
		Purchases of fixed assets	—	46,582
		Purchases of ancillary materials and spare parts	—	6,575
		Expenses on equipment and property leasing	9,536	4,889
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	a fellow subsidiary	Sale of cotton yarns	120,213	107,325
		Purchase of corduroy	—	34,227
		Expenses on provision of processing services	—	2,997
Shandong Weilian Printing and Dyeing Co., Ltd.	a fellow subsidiary	Sale of grey fabrics	116,085	96,012
		Expenses on provision of processing services	—	8,242
		Purchases of coloured fabrics	—	15,172
Shandong Weiqiao Bleaching-Dyeing Co.,Ltd.	an associate of Holding Company	Sale of cotton yarns	7,478	6,105
Binzhou Weiqiao Zhiye Co., Ltd.	a fellow subsidiary	Purchases of fixed assets	—	16,799
Hengfu Knitting Co., Ltd.	a fellow subsidiary	Sale of cotton yarns	7,880	—

Name of related parties	Relationship with the Company	Nature of transactions	2004	2003
			RMB'000	*RMB'000*
No. 1 Oil and Cotton Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	374
No. 2 Oil and Cotton Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	2,251
No. 6 Oil and Cotton Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	12,307
Zouping Fuhai Oil Industrial Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	299
Pozhuang Cotton Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	5,147
Zouping Cotton and Hemp Fibre Co., Ltd.	a fellow subsidiary of Holding Company	Purchase of lint cotton	—	627

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

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

In preparation for listing of the Company, the Company and Holding Company entered into a supply of electricity and steam agreement on 25 August 2003. Pursuant to the agreement, the Holding Company agreed to supply electricity and steam to the Group at a rate of the lower of the market price and RMB0.35/kWh for electricity, and at a rate of the lower of the market price and RMB60/ton for steam.

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

In addition, the Group has entered into nine property lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of such agreements are summarised as follows:

(i) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental expense of RMB454,900 for the land relating to the First Production Area.

(ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental expense of RMB868,000 for the land relating to the First Production Area.

(iii) Land use rights lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, at an annual rental expense of RMB888,700 for the land relating to the Second Production Area.

(iv) Land use rights lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, at an annual rental expense of RMB1,503,000 for the land relating to the Third Production Area.

(v) Land use rights lease agreement dated 13 September 2002 with the commencement date and expiry date on 13 September 2002 and 13 September 2022, respectively, at an annual rental expense of RMB60,700 for the land relating to the Second Production Area.

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

(vii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,167,000 for the land relating to the Zouping Industrial Park Area, a new production area established during the year.

(viii) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB994,100 for the land relating to the Zouping Industrial Park Area.

(ix) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,000,000 for the land relating to the Zouping Industrial Park Area.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 28 February 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

China has become the largest cotton production and consumption country in the world. According to the forecast of International Cotton Advisory Committee, cotton production and consumption in the PRC accounted for approximately 24% and 35% respectively of the world's total market share in the 2003/2004 cotton year. Meanwhile, the growth in the cotton textile industry in the PRC was sustained in year 2004. The output of yarn and cotton fabric increased by 18.5% and 21.2% respectively, when compared with those in 2003. In respect of export sales, the PRC remained as one of the major garment exporting countries in the world. In 2004, export of textile and clothing amounted to approximately US$33.48 billion and US$61.62 billion, respectively, an increase of 24.3% and 18.7% respectively when compared with 2003.

Market demand for cotton textile products was strong which was driven by the increase in both domestic and export sales of downstream products in 2004. Domestic apparel sales and export apparel sales grew 21% and 19% respectively in 2004. It is expected that the global demand for cotton textile products will continue to grow in future which will bring about favourable opportunities to cotton textile enterprises in the PRC.

Cotton prices fluctuated significantly in 2004. In 2003/2004 cotton year, output of cotton in the PRC decreased due to poor harvest, resulting in shortage of cotton supply at the beginning of the Year. CNCotton A Index in domestic market remained at high level in the first half of 2004, with a record of RMB17,845 per ton. Cotlook A Index in the international market also reached its highest of approximately US77.0 cents per pound. In anticipation of a good harvest of domestic cotton and the impact of macro economic austerity measures on cotton demand, cotton prices dropped from the highest in May to approximately RMB11,181 at the end of the year, while the cotton prices in the international market were approximately US48.3 cents per pound.

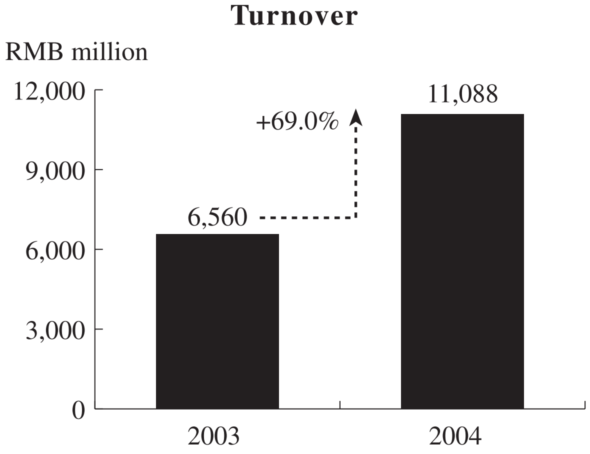
As a result of the fluctuation of cotton prices, the macro economic austerity measures implemented by the government of the PRC and shortage of electricity, production cost of small scale manufacturers increased significantly due to their failure in obtaining stable supply of cotton, increase in electricity charges and more stringent credit policies adopted by banks. These small scale manufacturers suspended operations or shifted their production bases, thus accelerating the consolidation of the cotton textile industry. Cotton textile enterprises with a large production scale and better cost structure were benefited from the consolidation.

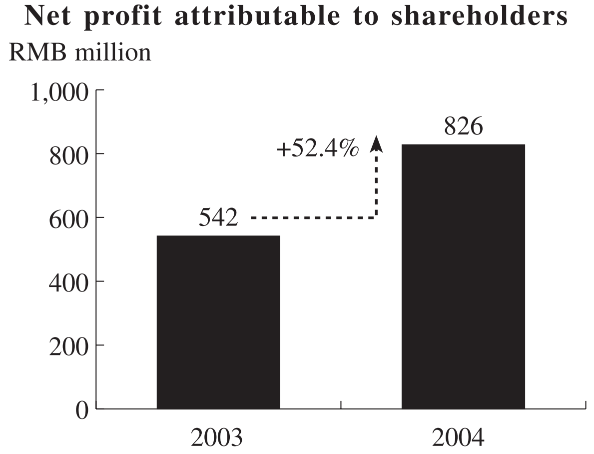
BUSINESS REVIEW

Weiqiao Textile is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim. It is currently the largest cotton textile manufacturer in the PRC. According to the statistics of China Chamber of Commerce for Import and Export of Textiles in 2003, it ranked number one in terms of the aggregate export value of cotton yarn and grey fabric in the PRC.

Amidst the steady growth of the domestic cotton textile industry, Weiqiao Textile continued to develop rapidly in 2004. In addition to the construction of the Production Base which has further enhanced the production capacity, the Group continued to maintain its leading position in the cotton textile market in the PRC and successfully enlarged its market share.

For the year ended 31 December 2004, Weiqiao Textile recorded a significant increase in turnover and net profit attributable to shareholders:

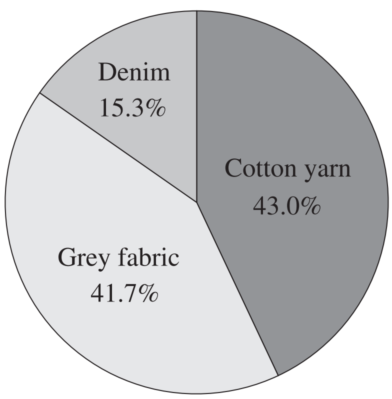




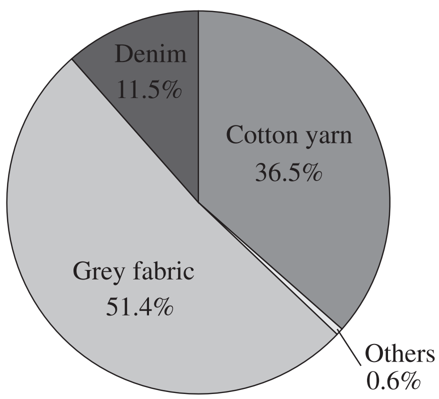
The increase in turnover and net profit attributable to shareholders was mainly due to the full operation of The First Production Area of Binzhou Weiqiao Technology Industrial Park Co., Ltd. (濱州魏橋工業園有限公司) ("Binzhou Industrial Park") and the full operation of The First Industrial Park of Zouping and partial operation of The Second Industrial Park of Zouping in Zouping Production Base in 2004. The operation of Binzhou Industrial Park and Zouping Production Base further enhanced the Group's economies of scale, reduced unit fixed production cost and procurement costs of raw materials.

The charts below are a comparison of the Group's turnover in terms of product categories for the year ended 31 December 2004 and the proportion of the product categories:

A breakdown of turnover in terms of product categories and the proportion



2003

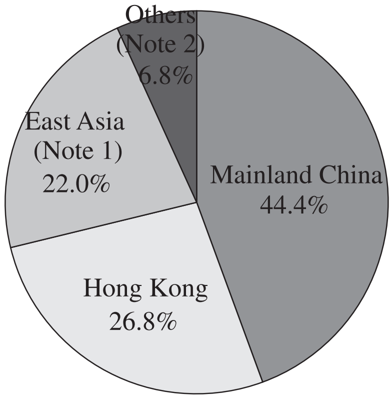


2004

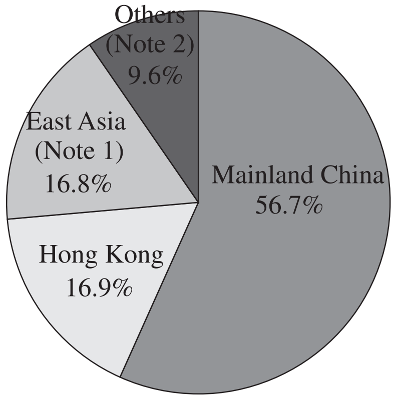
The increase in the proportion of grey fabric was due to the Group's increase in its own usage of cotton yarn for the production and sales of high-end grey fabric, so as to enhance the overall value of its product mix. Others refers to the sales of cotton seeds and by-products by Shandong Weiqiao Mianye Company Limited, the subsidiary of the Company.

The charts below represent the Group's turnover in terms of geographical locations for the year ended 31 December 2004 and the proportion of the geographical locations:

A breakdown of turnover in terms of the geographical locations and their proportion



2003



2004

Notes:

1. Principally comprise of Japan and South Korea.

2. Principally comprise of Taiwan, Thailand, the US and certain European countries.

As a result of increased domestic demand for cotton textile products and the setting up of production facilities in the PRC by several customers from Asia Pacific, a portion of the Group's export sales has become domestic sales, resulting in an increase in the proportion of domestic sales. In order to capture the opportunities brought by the elimination of quota restrictions on textile products in European Union ("EU") and United States ("US") commencing from 2005, the Company devoted more efforts to expand the markets in EU and US accordingly, which in turn prepared for tapping into the abovementioned markets at an earlier stage. Consequently, the turnover attributable to other regions increased.

The Group has continuously maintained an extensive customer base. Its customers concentrated in the PRC and South Asia, while the EU and the US markets accounted for 9.6% of turnover in 2004. As at 31 December 2004, the Group had approximately 4,800 customers in over 30 provinces and municipalities directly under the Central Government in the PRC and approximately 500 overseas customers in over 20 countries and regions. The Group's domestic and overseas customers increased by 20% and 25% respectively when compared with 2003. The Group's customers included market leaders, namely Fountain Set (Holdings) Limited (福田實業(集團)有限公司), Texwinca Holdings Limited (德永佳集團有限公司) and well-known traders, namely Itochu Corporation ("Itochu"), Nichimen Corporation and Marubeni Corporation. In addition to the increasing number of customers, Weiqiao Textile has developed a closer relationship with its customers. On 9 March 2004, the Company entered into a joint venture agreement with Itochu to establish its second sino-foreign equity joint venture company, namely, Shandong Binteng Textile Co., Ltd. (山東濱藤紡織有限公司) ("Shandong Binteng") in order to engage in the production and sale of compact yarns and various types of yarns. Itochu is the holder of 10.2% interests in Shandong Luteng Textile Co., Ltd. (山東魯藤紡織有限公司), a 75% owned subsidiary of the

Company. The registered capital of Shandong Binteng is US$15.43 million, (equivalent to approximately HK$120.35 million). 75% of the registered capital of Shandong Binteng (i.e. US$11.57 million, equivalent to approximately HK$90.25 million) has been contributed by the Company in the form of plant and equipment. The remaining 25% of the registered capital of Shandong Binteng (i.e. US$3.86 million, equivalent to approximately HK$30.1 million) has been contributed by Itochu by way of cash. The Directors believe that such joint venture would further enhance the co-operation between the Group and Itochu, strengthen the Group's production technologies and accelerate its response to market demand.

In terms of production, as at 31 December 2004, 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")),

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

All of the above production bases are located in Shandong, the PRC with a total gross floor area of approximately 2,974,000 sq.m.. Zouping Production Base was newly established in 2004. It is located in Zouping Economic Development Zone in Shandong, the PRC with a total gross floor area of approximately 1,755,000 sq.m. It is equipped with a full range of textile facilities and has commenced operations since January 2004.

In 2004, the Group had an aggregate production volume of about 543,000 tons of cotton yarn, 1,205,000,000 meters of grey fabric and 131,000,000 meters of denim. Due to the full operation of Binzhou Industrial Park The First Production Area, the partial operations of The Second Production Area, the full operation of The First Industrial Park of Zouping and partial operation of The Second Industrial Park of Zouping during the Year, the aggregate production volume of cotton yarn and grey fabric significantly increased by 68% and 106%, respectively, compared to 2003. The production volume of denim also grew by 25%.

Being a market leader in the cotton textile industry in the PRC, Weiqiao Textile possesses not only scalable production and economies of scale, but also a stable supply of raw materials and electricity. It has successfully capitalised on industry consolidation to increase its market share in the textile industry. During the Year, many domestic cotton textile manufacturers were affected by the fluctuation of cotton prices. Weiqiao Textile adopted a flexible cotton purchasing strategy. The Group had sufficient quotas of imported cotton for production and reasonably purchased domestic cotton. In addition, it was entitled to favourable prices from suppliers due to bulk procurement. It shifted certain impact of increase in cotton prices to its customers to minimise the impact on the Group. For the year ended 31 December 2004, the proportion of the amount of the Group's imported and purchased lint cotton within the PRC was 65.3% (2003: 57.2%) and 34.7% (2003: 42.8%) respectively. Although the overall manufacturing industries were affected by the shortage of electricity supply throughout the PRC, Weiqiao Textile was able to secure steady electricity supply from Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司), at a price lower than the market price. As a result, the Group was affected by the shortage in electricity to a lesser extent.

FINANCIAL REVIEW

Gross profit and gross profit margin

The table below is an analysis of the Group's gross profit and gross profit margins attributable to its major product categories for the years ended 31 December 2004 and 31 December 2003:

	For the year ended 31 December			
	2004		2003	
Product category	**Gross profit** *RMB'000*	**Gross profit margin** *%*	**Gross profit** *RMB'000*	**Gross profit margin** *%*
Cotton yarn	694,493	17.2	605,789	21.5
Grey fabric	798,863	14.0	386,362	14.1
Denim	341,592	26.8	218,162	21.7
Others	22,229	33.8	—	—
Total	1,857,177	16.8	1,210,313	18.5

The gross profit margin of the Group decreased to 16.8% in 2004. The decrease in gross profit margins of cotton yarn and grey fabric was attributable to the decrease in cotton prices that commenced in the second half of the Year. Product pricings in turn became unstable, and margins were squeezed. The gross profit margin of denim increased due to better denim market and higher selling prices.

Selling and distribution costs

The Group's selling and distribution costs increased by 86.5% to RMB276 million for the year ended 31 December 2004 from RMB148 million for the year ended 31 December 2003. As a result of the increase in sales in 2004, particularly export sales increased by 31.6% compared to 2003, transportation costs increased to RMB187 million (2003: RMB104 million), sales commission increased to RMB30 million (2003: RMB19 million), staff costs increased to RMB42 million (2003: RMB18 million), and other expenses increased to RMB16 million (2003: RMB7 million).

Administrative expenses

Administrative expenses for the year ended 31 December 2004 amounted to RMB144 million, representing an increase of 60.0%, as compared to RMB90 million for the year ended 31 December 2003. Such increase was mainly due to the increase in the number of administrative staff as a result of the expansion in the production scale, the newly establishment of Zouping Production Base, Binzhou Industrial Park The Second Production Area, Weiwei Industrial Park and the establishment of a joint venture with Itochu in 2004. Staff costs and other related expenses increased as a result.

Finance costs

Finance costs rose to RMB290 million for the year ended 31 December 2004, representing an increase of 83.5% as compared to RMB158 million for the year ended 31 December 2003. The increase in bank loans for the year ended 31 December 2004 as compared with the year ended 31 December 2003 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 RMB2,245 million as at 31 December 2004, increasing by 46.5% from RMB1,532 million of cash and cash equivalents as at 31 December 2003. In June 2004, the Group completed the placement of 57,447,000 new H Shares at a price of HK$11.6 per H Share to raise a total of approximately HK$653 million. In addition, the Group was granted a dual currency syndicated loan of US$78 million and RMB183 million on 28 September 2004.

For the year ended 31 December 2004, the Group invested RMB3,614 million in capital expenditures, which was mainly invested in the new Zouping Production Base and increase in the production of high value-added products. Zouping Production Base has gradually commenced operations since January 2004, whereas new high value-added products have been launched in 2004. The above capital expenditures resulted in a net cash inflow of RMB1,409 million from operating activities and incurred an exchange loss of RMB9 million. These cash outflows were largely offset by:

1. the proceeds from bank loans of RMB2,492 million,

2. net proceeds from the placing of H Shares of approximately RMB692 million,

3. a decrease of RMB26 million in secured deposits,

4. an increase of time deposit over 3 months of RMB325 million,

5. interest income of RMB24 million.

Based on the above reasons, the net debt-to-equity ratio (the ratio of total bank borrowings to shareholders' equity net of cash and cash equivalents) increased to 0.78 as at 31 December 2004 from 0.64 as at 31 December 2003.

As at 31 December 2004, the Group's total borrowings (including bank loans and long-term liabilities payable to the group of companies) amounted to RMB7,145 million, of which there was a dual currency syndicated loan of US$78 million and RMB183 million entered into with 7 banks in September 2004, while the Group's total borrowings amounted to RMB4,653 million as at 31 December 2003, which will become mature within five years. RMB3,397 million is repayable within one year or on demand, RMB1,277 million is repayable within two years while RMB2,471 million is repayable within three to five years (both inclusive). It is expected that the Group's daily cash requirement and capital expenditures can be financed by its operating cash. The Group also has considerable short-term credit from its major banks without limitation to the use of credit.

The average turnover of the Group's accounts receivable was approximately 20 days for the year ended 31 December 2004, which decreased from 28 days for the year ended 31 December 2003. The decrease in accounts receivable turnover days was attributable to the successful tightening of the Group's credit control policy.

Inventory turnover days decreased from 142 days for the year ended 31 December 2003 to 106 days for the year ended 31 December 2004. Decrease in inventory turnover days was mainly due to the strong demand from the market and sufficient supply of cotton, resulting from the stable decrease in cotton prices in the second half of 2004; and the Company lowering the inventory of lint cotton.

For the year ended 31 December 2004, the Group did not use any financial instrument for hedging purposes, and the Group did not have any hedging instrument outstanding as at 31 December 2004.

Net profit attributable to shareholders and earnings per share

Net profit attributable to shareholders of the Group was approximately RMB826 million for the year ended 31 December 2004, representing an increase of 52.4% as compared with RMB542 million in 2003.

For the year ended 31 December 2004, basic earnings per share of the Company was RMB0.97.

Capital structure

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. As at 31 December 2004, the liabilities of the Group included bank borrowings and long-term payables to its group of companies which amounted to RMB7,145 million. Cash and cash equivalents of the Group was approximately RMB2,245 million and gearing ratio (Total liabilities (including bank loans and long-term payables to the group of companies)/Total assets) was 43.6%.

Details of the bank borrowings outstanding as at 31 December 2004 were described in Note 27 to the financial statements. As at 31 December 2004, 88.5% of the Group's bank borrowings was subject to fixed interest rates while 11.5% was subject to floating interest rates. There are no seasonal adjustments with respect to the Group's borrowings.

As at 31 December 2004, the Group's borrowings were primarily denominated in RMB and US dollars, in which 35.3% of the Group's borrowings were denominated in US dollars. Its cash and cash equivalents were mainly held in RMB and US dollars in which 17.8% of the cash and cash equivalents were held in US dollars.

Use of proceeds from the inital public offering (the "IPO")

H Shares of Weiqiao Textile were listed on the Main Board of the Stock Exchange on 24 September 2003 and net proceeds of about RMB2,511 million (equivalent to about HK$2,371 million) were raised from the IPO. As at 31 December 2004, the Company applied the proceeds from the IPO for the purposes as set out in the Company's prospectus dated 15 September 2003 as follows:

	Planned	**Actual allocation**
	HK$ (in million)	
Expansion of product portfolio to include more high value-added cotton textile products	406	359
Upgrading the existing production technology	94	94
Establishment of a technology development center	47	—
Upgrade of information systems	34	3
Repayment of bank loans	566	566
Acquisition relating to the Group's cotton textile manufacturing business	100	—
General working capital	1,124	1,124
Total	2,371	2,146

Placement of H Shares

Weiqiao Textile completed the placement of 57,447,000 new H Shares in June 2004 at a price of HK$11.6 per H Share. The net proceeds of the placement was approximately HK$653 million. As at 31 December 2004, the Company applied the proceeds from the placement for the purposes as set out in the Company's announcement dated 28 May 2004 as follows:

	Planned	**Actual allocation**
	HK$ (in million)	
Development and production of high value-added new fabric products	239	239
Increase of production capacity of existing high value-added cotton textile products	192	192
Upgrade of the existing production technology	43	43
General working capital	179	179
Total	653	653

Details of the Group's pledged asset

Details are set out in Note 27 to the financial statements.

Exposure to foreign exchange risk

Revenue and most of the expenditures of the Group are denominated in RMB and US dollars. For the year ended 31 December 2004, 43.3% of the Group's revenue and 65.3% of the Group's cost of lint cotton procurement were denominated in US dollars. The Group has not experienced any significant difficulties or impact on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2004. 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 31 to the financial statements.

TAXATION

Taxation of the Group grew from RMB306 million for 2003 to RMB420 million for 2004, representing an increase of 37.3%. This increase was primarily due to the increase in profit before tax by 46.1% to RMB1,247 million for 2004 from RMB853 million for 2003. Details of the reconciliation of the Group's effective tax rate to the applicable rate are set out in Note 11 to the financial statements.

FUTURE OUTLOOK

As in 2005, quota policies in relation to textile products have been abolished pursuant to the textile product and clothing import and export agreement of the World Trade Organisation. Other members of the World Trade Organisation may impose a 7.5% limit in the increase in import and export of Chinese textile products and clothing until 31 December 2008, western countries may also impose non-quota trade barriers whereas the PRC may take the initiative in imposing import tariffs in order to adjust unnecessary export growth and to control unnecessary capacity expansion in textile industry. In the long term, gradual liberalisation of textile trade will provide more opportunities to the domestic textile industry as well as Weiqiao Textile.

According to China National Textile Industry Council, export of textile products and clothing from the PRC accounted for approximately 30% of the total export of the whole industry, while the remaining 70% was sold domestically. It demonstrates that the development of the PRC textile industry has greatly relied on domestic demand. Given the continuous development of the PRC economy, income per capita will continue to increase, which will further stimulate domestic demand. It is expected that domestic demand will grow at a faster pace, which in turn will provide a more favourable operating environment for Weiqiao Textile.

Even though the abolishment of quota on textile products would not result in direct impact on the Group, it would affect the reorganisation and consolidation of downstream enterprises, which would otherwise benefit the stable development of upstream enterprises, in undertaking more value-added production processes. The management expects that the Group will further benefit from the abolishment of quota on textile products.

In view of the strong demand from the domestic and international markets, the Group will further acquire more advanced equipment to expand its capacity of cotton yarn and grey fabric. In addition, Weiqiao Textile will further improve its technologies and develop more value-added products to enter into the high-end product market and to upgrade the quality of products for its existing customers.

It is anticipated that cotton prices will remain at a relatively high level during the second half of 2005 as a result of the intended reduction in the cultivating area of cotton in 2004/2005 in the PRC. Weiqiao Textile will continue to take advantage of its strength over cost control and use its cotton quota in a more flexible and effective way. It will also control the cotton cost more effectively through a diversified procurement strategy in the overseas and domestic markets.

Given the strength on its leading position in the global cotton textile industry, production scale, comprehensive product portfolio, renowned brand name, strong customer base and professional management, Weiqiao Textile will fully leverage on the opportunities from industry consolidation, and proactively pursue for acquisitions as appropriate. Weiqiao Textile will keep striving for the best with an aim at becoming the largest cotton textile manufacturer in the world.

CORPORATE GOVERNANCE

Weiqiao Textile understands that investors become more concerned with corporate governance of listed companies. It uses its best endeavours to enhance its corporate governance and place emphasis on a professional and sound business model with integrity. In addition, the Group also devotes to perfecting its internal regulations and strictly complying with the laws so as to further enhance the confidence of investors and the public in the Group.

During the year ended 31 December 2004, the Directors of the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Board of Directors

As at 31 December 2004, the Board comprises nine Directors, including three independent non-executive Directors who are independent from the Directors, supervisors, chief executive, substantial shareholders (as defined in the Listing Rules) of the Company or its subsidiaries or any of their respective associates (the “Independent Third Parties”). Members of the Board clearly understand their responsibilities and obligations. Eight Board meetings were convened during the Year to review the Group’s management accounts, supervise the accounting procedures and internal control system, where the independent non-executive Directors were all present at such meetings.

Supervisory committee

The Company's supervisory committee comprises three supervisors, including two independent supervisors who are the Independent Third Parties. The Company's supervisory committee supervises the operation of the Company with an aim at protecting the Company and its shareholders.

Transparency

In order to further improve the transparency of the Group, the Group discloses its latest information to the media, investors, shareholders and the public on time through various ways, including public announcements, annual reports, interim reports and press releases. In addition, Weiqiao Textile has established an investor relation department to enhance its communication with the investors. The Group closely keeps in touch with the investors through meeting analysts, meeting the investors, inviting the investors to visit the production bases, participating in investment conferences and overseas roadshows, etc.

HUMAN RESOURCES

As at 31 December 2004, the Group had a total of approximately 101,300 employees, representing an increase of 32,300 as compared with that as at 31 December 2003. Total staff costs amounted to RMB1,027 million during the Year, representing 9.3% of the Group's turnover. 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.

PUBLIC SHAREHOLDING

As at the date hereof, based on the information that was publicly available to the Company and within the best knowledge of the Directors, 344,682,500 H Shares were held by the public, representing 39.37% of the entire share capital, which complied with the minimum requirement of public shareholding under Rule 8.08 of the Listing Rules.

SUPPLEMENTARY INFORMATION

Substantial Shareholders

As at 31 December 2004, so far as is known to the Directors, supervisors and the chief executive of the Company, the interests and short positions of every person, other than a Director, supervisor or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

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

	Number of Domestic Shares *(note 1)*	**Approximate percentage of total issued Domestic Share capital** *(%)*	**Approximate percentage of total issued share capital** *(%)*
Holding Company	410,311,100 *(note 2)*	77.31	46.87
Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) ("ZCSU")	410,311,100 *(note 3)*	77.31	46.87

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** *(%)*	**Approximate percentage of total issued share capital** *(%)*
J.P. Morgan Chase & Co.	27,452,001 *(note 5)*	7.96	3.13
Invesco Asia Limited	17,609,000 *(note 6)*	5.10	2.01
State Street Corporation	17,591,208 *(note 7)*	5.10	2.01
Lloyd George Investment Management (Bermuda) Ltd	17,521,000 *(note 8)*	5.08	2.00

Notes:

1. Unlisted shares.

2. These 410,311,100 domestic shares are directly held by Holding Company.

3. These 410,311,100 domestic shares are deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU has a controlling interest.

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

5. 295,500 H Shares were directly held by J.P. Morgan Chase & Co. 15,859,000 H Shares were held by J.P. Morgan Chase & Co. in its capacity as investment manager and 11,297,501 H Shares in its capacity as custodian corporation/approved lending agent.

6. 17,609,000 H Shares were held by Invesco Asia Limited in its capacity as investment manager.

7. 17,591,208 H Shares were held by State Street Corporation in its capacity as custodian/approved lending agent.

8. 17,521,000 H Shares were held by Lloyd George Investment Management (Bermuda) Ltd as investment manager.

Directors' and Supervisors' Interests in Shares

As at 31 December 2004, the interests of the Directors 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 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** *(%)*	**Approximate percentage of total issued share capital** *(%)*
Zhang Hongxia (Executive Director)	Personal	17,700,400	3.34	2.02
Zhang Bo (Executive Director)	Personal	12,932,000	2.44	1.48
Qi Xingli (Executive Director)	Personal	8,052,500	1.52	0.92
Zhang Shiping (Non-Executive Director)	Personal	5,200,000	0.98	0.59

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** *(%)*
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note:

1. Unlisted shares

Save as disclosed above, as at 31 December 2004, none of the directors, supervisors or the chief executives 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.

Dividends

The Directors recommended the payment of a final dividend of RMB0.25 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 30 March 2005. According to the relevant regulations in the PRC and as disclosed in the Company's prospectus, the Group's net profit 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 25 March 2005 to 24 April 2005 (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 registrars, Hong Kong Registrar Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00p.m. on 24 March 2005.

Capital Commitment/Charges on assets

As at 31 December 2004, the Group had authorised and contract for a capital commitment of RMB243 million (2003: RMB109 million).

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 2004.

Audit Committee

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

The Company has established an audit committee ("Audit Committee") in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An audit committee meeting was held on 28 February 2005 to review the Group's annual report, and provide advice and recommendations to the Board of Directors of the Company.

Code for Securities Transactions by Directors

The Company has not 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.

Publication of Annual Results on Website

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

Proposed Amendments to Articles of Association

It is proposed that the articles of association of the Company be amended to reflect the relevant provisions of the new Appendix 14 of the Listing Rules which came into effect on 1 January 2005 (subject to certain transitional arrangements). A summary of the major amendments is set out below:

(1) The Company should appoint independent non-executive Directors representing at least one-third of the Board.

(2) Non-executive Directors should be appointed for a specific term, subject to re-election.

(3) All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

(4) The functions of non-executive Directors are defined.

(5) The Board should meet regularly and Board meetings should be held at least four times each year. A regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.

(6) Notice of at least 14 days should be given of a regular board meeting to give all Directors an opportunity to attend.

(7) Minutes of, Board meeting and meetings of Board committees should be kept by a duly appointed secretary of the meeting.

The above proposed amendments are subject to the approval of the shareholders of the Company in the Annual General Meeting by way of special resolution.

By Order of the Board
Zhang Bo
Chairman

Shandong, PRC, 28 February, 2005

* *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 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.

Notice of 2004 Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Weiqiao Textile Company Limited (**the "Company"**) for the year ended 31 December 2004 will be held at 9 a.m. on 25 April 2005 at the conference hall on the First Floor, Company Office Building, No. 1 Wei Fang Lu, Jing Ji Kai Fa Qu, Zouping County, Shandong Province, the People's Republic of China ("PRC") to consider, approve and authorise the following businesses:

ORDINARY RESOLUTIONS

1. to consider and approve the Consolidated Audited Financial Statements of the Company, the Report of the Board of Directors of the Company, the Report of the Supervisory Committee of the Company and the report of the international auditors, for the year ended 31 December 2004;

2. to consider and approve the profit distribution proposal of the Company and the relevant declaration and payment of a final dividend for the year ended 31 December 2004;

3. to consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2005;

4. to consider and approve, the reappointment of Ernst & Young Hua Ming as the Company's domestic auditors and Ernst & Young as the Company's international auditors for the year ending 31 December 2005 and the granting of the authorisation to the Board of Directors of the Company to determine their remuneration; and

5. to consider and approve other matters, if any.

And as special business, to consider and, if thought fit, to pass the following, as special resolutions:

SPECIAL RESOLUTIONS

6. **"THAT:**

   (1) there be granted to the Board of Directors of the Company, an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares. Such unconditional general mandate can be exercised once or more than once during the Relevant Period, subject to the following conditions:

      (a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of shares, whether Domestic Shares or H Shares, allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Board of Directors of the Company pursuant to such mandate, shall not exceed:

(i) in the case of Domestic Shares, 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and

(ii) in the case of H Shares, 20 per cent of the aggregate nominal amount of H Shares of the Company in issue,

in each case as of the date of this Resolution; and

(c) the Board of Directors of the Company shall only exercise its power under such mandate in accordance with the Company Law of the PRC and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC governmental authorities are obtained; and

(2) contingent on the Board of Directors of the Company resolving to issue shares pursuant to sub-paragraph (1) of this Resolution, the Board of Directors of the Company be authorised to:

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including (without limitation):

(i) determine the class and number of shares to be issued;

(ii) determine the issue price of the new shares;

(iii) determine the opening and closing dates of the new issue;

(iv) determine the use of proceeds of the new issue;

(v) determine the class and number of new shares (if any) to be issued to the existing shareholders;

(vi) make or grant such offers, agreements and options as may be necessary in the exercise of such powers; and

(vii) in the case of an offer or allotment of shares to the shareholders of the Company, exclude shareholders who are resident outside the PRC or the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") on account of prohibitions or requirements under overseas laws or regulations or for some other reason(s) which the Board of Directors of the Company considers necessary or expedient;

(b) increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, register the increased capital with the relevant authorities in the PRC and make such amendments to the Articles of Association of the Company as it thinks fit so as to reflect the increase in the registered capital of the Company; and

(c) make all necessary filings and registrations with the relevant PRC, Hong Kong and/or other authorities.

For the purposes of this Resolution:

"Domestic Shares" means domestic invested shares in the share capital of the Company, with a par value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC investors;

"H Shares" means the overseas listed foreign invested shares in the share capital of the Company, with a par value of RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars; and

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(b) the expiration of the 12-month period following the passing of this Resolution; or

(c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting."

7. **"THAT** amendments shall be made to the Articles of Association of the Company in order to reflect the relevant provisions of the new Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which came into effect on 1 January 2005 (subject to certain transitional arrangements). The details of the amendments are as follows:

(a) By inserting the following sentence at the end of Article 10.1:

"The Company should appoint independent non-executive directors representing at least one-third of the Board of Directors."

(b) The first paragraph of Article 10.2 shall be deleted in its entirety and replaced by the following:

"Directors are elected by the shareholders at general meeting. Directors shall serve a term of three (3) years commencing from the date on which he or she is elected.

A Director should retire upon the expiration of his or her term, but may serve consecutive terms if re-elected by the shareholders at general meeting. Non-executive directors should be appointed for a specific term. All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. ”

(c) Regarding Article 10.3,

by inserting a new Article 10.3(15) as follows:

“(15) to conduct a review of the effectiveness of the internal control system of the Company and its subsidiaries at least once per year; and”

by re-numbering Article 10.3(15) as Article 10.3(16).

(d) Regarding Article 10.5,

by deleting Article 10.5(1) in its entirety and replacing it with the following:

“(1) to preside at shareholders’ general meetings, to convene and preside at meetings of the Board of Directors, and to ensure that all directors are properly briefed on issues arising at board meetings;”; and

by replacing “.” with “; and” in Article 10.5(4)

by inserting a new Article 10.5(5) as follows:

“(5) to ensure that each director receives adequate information.”

(e) A new Article 10.5A shall be inserted after Article 10.5 as follows:

“Article 10.5A The functions of non-executive directors should include the following:

(1) participating in board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(2) taking the lead where potential conflicts of interests arise;

(3) serving on the audit, remuneration, nomination and other governance committees, if invited; and

(4) scrutinizing the Company’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance; and

(5) other functions and powers conferred by the Board of Directors.”

(f) Article 10.6 shall be deleted in its entirety and replaced by the following:

"Meetings of the Board of Directors shall be held regularly and at least four times each year. Such meetings shall be convened by the chairman of the Board of Directors by giving notice to all the Directors at least fourteen (14) days before the meeting date. An agenda of a regular board meeting should be sent at least three (3) days before the intended date of the board meeting. Where there is an emergency, an extraordinary meeting of the Board of Directors may be convened at the suggestion of 1/3 or more of the Directors or at the suggestion of the Company's general manager."

(g) The first sentence of Article 10.11 of shall be deleted in its entirety and replaced by the following:

"The Board of Directors may adopt a written resolution instead of convening a meeting of the Board of Directors, save that any regular meeting as referred to in Article 10.6 should not include the practice of obtaining board consent through the circulation of written resolutions."

(h) By replacing "." with "; and" in Article 11.2(3)

(i) By inserting a new Article 11.2(4) as follows:

"(4) to keep minutes, of board meetings and meetings of board committees.""

By Order of the Board
Zhao Suwen
Company Secretary

Shandong, PRC, 28 February 2005

As at the date of this notice, 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.

Notes:

(A) The H Share register of the Company will be closed from Friday, 25 March 2005, to Sunday, 24 April 2005 (both days inclusive), during which no transfer of H Shares will be effected. Any holders of H Shares of the Company, whose names appear on the Company's Register of Members at the close of business on Thursday, 24 March 2005, are entitled to attend and vote at the Annual General Meeting after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the Annual General Meeting, share transfer documents should be lodged with the Company's H Shares share registrar not later than 4:00 p.m. on Thursday, 24 March 2005.

The address of the share registrar for the Company's H Shares is as follows:

Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor

Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares and Domestic Shares, who intend to attend the Annual General Meeting, must complete the reply slips for attending the Annual General Meeting and return them to the Office of the Secretary to the Board of Directors of the Company not later than 20 days before the date of the Annual General Meeting, i.e. no later than Monday, 4 April 2005.

Details of the Office of the Secretary to the Board of Directors of the Company are as follows:

First Floor
Company Office Building
No. 1 Wei Fang Lu
Jing Ji Kai Fa Qu
Zouping County
Shandong Province
People's Republic of China

Tel: (86) 543 4162222
Fax: (86) 543 4162000

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2004.

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.

(E) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Hong Kong Registrars Limited, on the 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time for holding the Annual General Meeting or any adjournment thereof in order for such documents to be valid.

(F) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the Annual General Meeting. Notes (C) to (D) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the Office of the Secretary to the Board of Directors, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the Annual General Meeting or any adjournment, thereof in order for such documents to be valid.

(G) If a proxy attends the Annual General Meeting on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the Annual General Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of the company other than its legal representative to attend the Annual General Meeting, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.

(H) The Annual General Meeting is expected to last for half a day. Shareholders attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.

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