



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 2006**

<b>Annual results for the year ended 31 December 2006</b>	
Revenue	46.0% to RMB19,826,000,000
Gross profit	48.1% to RMB3,323,000,000
Net profit attributable to shareholders of the Company	35.7% to RMB1,685,000,000
Basic earnings per share	5.9% to RMB1.43
Proposed final dividend per share	53.3% to RMB0.44

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 (collectively, the “**Group**”) for the year ended 31 December 2006 (the “**Year**”). During the Year, the audited revenue and net profit attributable to shareholders of the Company amounted to RMB19,826,000,000 and RMB1,685,000,000 respectively, with respective increase of 46.0% and 35.7% as compared with the year ended 31 December 2005.

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	4	19,826,154	13,584,389
Cost of sales		<u>(16,503,064)</u>	<u>(11,340,259)</u>
Gross profit		3,323,090	2,244,130
Other income and gains	4	350,250	189,536
Selling and distribution costs		(358,816)	(344,868)
Administrative expenses		(177,341)	(151,059)
Other expenses		(109,609)	(81,788)
Finance costs	6	<u>(720,003)</u>	<u>(420,167)</u>
PROFIT BEFORE TAX	5	2,307,571	1,435,784
Tax	7	<u>(616,745)</u>	<u>(187,390)</u>
PROFIT FOR THE YEAR		<u>1,690,826</u>	<u>1,248,394</u>
Attributable to:			
Equity holders of the parent		1,685,405	1,242,473
Minority interests		<u>5,421</u>	<u>5,921</u>
		<u>1,690,826</u>	<u>1,248,394</u>
DIVIDEND			
Proposed final	9	<u>525,531</u>	<u>323,005</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic - for profit for the year	10	<u>RMB1.43</u>	<u>RMB1.35</u>

## CONSOLIDATED BALANCE SHEET

		<b>31 December</b>	
	<i>Notes</i>	<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		15,947,476	14,495,891
Prepaid land lease payments		129,041	130,305
Other intangible assets		6,901	8,101
Deferred tax assets		<u>121,044</u>	<u>61,422</u>
<b>Total non-current assets</b>		<u>16,204,462</u>	<u>14,695,719</u>
<b>CURRENT ASSETS</b>			
Inventories		3,577,564	3,645,228
Trade receivables	11	693,838	562,272
Amounts due from related parties		5,044	482,596
Prepayments, deposits and other receivables		56,046	458,595
Derivative financial instruments		5,524	8,243
Pledged deposits	12	106,526	512,138
Non-pledged time deposits maturing over three months	12	1,281,914	1,154,040
Cash and cash equivalents	12	<u>4,209,714</u>	<u>3,185,935</u>
<b>Total current assets</b>		<u>9,936,170</u>	<u>10,009,047</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	13	788,543	2,244,091
Bills payables		660,000	589,300
Amounts due to related parties		9,260	864
Other payables and accruals		1,390,308	841,358
Derivative financial instruments		9,742	6,104
Interest-bearing bank loans, current portion		3,940,242	5,135,412
Amount due to the immediate holding company		162,798	301,294
Long term payable to the immediate holding company, current portion		137,103	50,000
Tax payable		954,170	560,092
Dividend payable		67,708	38,517
Deferred income, current portion		<u>5,151</u>	<u>3,574</u>
<b>Total current liabilities</b>		<u>8,125,025</u>	<u>9,770,606</u>
<b>NET CURRENT ASSETS</b>		<u>1,811,145</u>	<u>238,441</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>18,015,607</u>	<u>14,934,160</u>

	<i>Notes</i>	<b>31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, long term portion		5,789,384	4,555,510
Long term payable to the immediate holding company		—	368,927
Deferred income		96,340	79,993
Deferred tax liabilities		<u>8,082</u>	<u>8,382</u>
<b>Total non-current liabilities</b>		<u><b>5,893,806</b></u>	<u><b>5,012,812</b></u>
<b>Net assets</b>		<u><b>12,121,801</b></u>	<u><b>9,921,348</b></u>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital		1,194,389	1,125,453
Reserves		10,307,819	8,378,550
Proposed final dividend	9	<u>525,531</u>	<u>323,005</u>
		<u>12,027,739</u>	<u>9,827,008</u>
<b>Minority interests</b>		<u>94,062</u>	<u>94,340</u>
<b>Total equity</b>		<u><b>12,121,801</b></u>	<u><b>9,921,348</b></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December 2006									
	Attributable to equity holders of the parent									
	Issued capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Proposed final dividend	Total	Minority interests	Total equity	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
At 1 January 2006	1,125,453	5,884,786	325,203	317,760	1,850,801	323,005	9,827,008	94,340	9,921,348	
Dividend relating to additional issuance of shares (a)	—	—	—	—	(19,785)	19,785	—	—	—	
Final 2005 dividend declared	—	—	—	—	—	(342,790)	(342,790)	—	(342,790)	
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(5,699)	(5,699)	
Transfer of the statutory public welfare fund to the statutory surplus reserve (b)	—	—	317,760	(317,760)	—	—	—	—	—	
Issue of additional H shares	68,936	791,174	—	—	—	—	860,110	—	860,110	
Share issue expenses	—	(1,994)	—	—	—	—	(1,994)	—	(1,994)	
Profit for the year	—	—	—	—	1,685,405	—	1,685,405	5,421	1,690,826	
Proposed final 2006 dividend	—	—	—	—	(525,531)	525,531	—	—	—	
Transfer from retained profits to capital reserve (c)	—	4,086	—	—	(4,086)	—	—	—	—	
Transfer from retained profits	—	—	176,474	—	(176,474)	—	—	—	—	
<b>At 31 December 2006</b>	<u>1,194,389</u>	<u>6,678,052<sup>(d)</sup></u>	<u>819,437<sup>(d)</sup></u>	<u>—<sup>(d)</sup></u>	<u>2,810,330<sup>(d)</sup></u>	<u>525,531<sup>(d)</sup></u>	<u>12,027,739</u>	<u>94,062</u>	<u>12,121,801</u>	

- (a) On 4 April 2006, the board of directors resolved to propose a final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,125,452,500 amounting to RMB323 million. During the annual general meeting held on 6 June 2006, the shareholders approved the final dividend of RMB0.287 per share based on the number of ordinary shares in issue of 1,194,389,000 as shown on the Register of Members on 4 May 2006, including additional issuance of 68,936,500 H shares issued on 10 March 2006 with the additional dividend amounting to RMB19.8 million. The final 2005 dividend was then declared and amounted to RMB343 million.
- (b) Pursuant to the revised The People's Republic of China Company Law ("PRC Company Law") which was approved on 27 October 2005 and the Notice of Caiqi [2006]67 dated 15 March 2006 issued by the Ministry of Finance, appropriation to the statutory public welfare fund is no longer needed with effect from 1 January 2006, and the balance of the statutory public welfare fund is required to be transferred to the statutory surplus reserve.
- (c) One of the subsidiaries, Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"), has received government grants of approximately RMB106 million which were credited to the capital reserve in accordance with the accounting principles generally accepted in the People's Republic of China ("PRC GAAP") as a non-distributable reserve. In accordance with HKAS 20, such government grants were treated as deferred income and recognised in the consolidated income statement over the expected useful lives of the relevant items of property, plant and equipment to which the grants were related by equal annual instalments. The Group's share of deferred income recognised in the consolidated income statement during the year was then transferred to the capital reserve.
- (d) These reserve accounts comprise the consolidated reserves of RMB10,833,350,000 in the consolidated balance sheet as at 31 December 2006.

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

## CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
		2006	2005
	Notes	RMB'000	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		2,307,571	1,435,784
Adjustments for:			
Finance costs	6	720,003	420,167
Bank interest income	4	(51,177)	(32,159)
Recognition of deferred income	4	(4,148)	(596)
Losses/(gains) on disposal of items of property, plant and equipment	5	1,967	(94)
Fair value losses/(gains), net:			
Derivative financial instruments - transactions not qualifying as hedges	5	6,357	(2,139)
Depreciation	5	995,255	737,008
Foreign exchange differences, net	5	(109,394)	(68,206)
Amortisation of intangible assets	5	1,200	1,200
Recognition of prepaid land lease payments	5	2,796	2,446
Provision against inventories	5	99,859	37,719
		<u>3,970,289</u>	<u>2,531,130</u>
Increase in inventories		(32,195)	(1,009,479)
(Increase)/decrease in trade receivables		(131,566)	36,147
Decrease/(increase) in prepayments, deposits and other receivables		439,969	(67,466)
Decrease/(increase) in net amounts due from related parties		485,948	(216,500)
(Decrease)/increase in trade payables		(1,324,537)	801,299
Increase in bills payable		70,700	369,300
Increase in other payables and accruals		531,664	51,074
(Decrease)/increase in amount due to the immediate holding company		<u>(138,496)</u>	<u>62,430</u>
Cash generated from operations		3,871,776	2,557,935
Interest paid		(616,511)	(424,867)
PRC corporate income tax paid		<u>(282,589)</u>	<u>(178,608)</u>
Net cash inflow from operating activities		<u>2,972,676</u>	<u>1,954,460</u>

		<b>Year ended 31 December</b>	
		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	4	51,177	32,159
Purchases of items of property, plant and equipment		(2,985,525)	(2,596,619)
Proceeds from disposal of items of property, plant and equipment		291	1,243
Purchase of land use right		(1,566)	—
Receipt of government grants		22,072	14,400
Increase in non-pledged time deposits maturing over three months		(127,874)	(828,640)
Decrease/(increase) in pledged deposits		<u>405,612</u>	<u>(215,302)</u>
Net cash outflow from investing activities		<u>(2,635,813)</u>	<u>(3,592,759)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of H shares		860,110	—
Share issue expenses		(1,994)	—
New bank loans		7,705,539	8,532,960
Repayment of bank loans		(7,550,380)	(5,747,464)
Dividends paid		(313,599)	(211,726)
Dividends paid to minority shareholders		<u>(5,699)</u>	<u>(1,889)</u>
Net cash inflow from financing activities		<u>693,977</u>	<u>2,571,881</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		1,030,840	933,582
Cash and cash equivalents at beginning of year		3,185,935	2,244,648
Effect of foreign exchange rate changes, net		<u>(7,061)</u>	<u>7,705</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>12</b>	<u><u>4,209,714</u></u>	<u><u>3,185,935</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	12	3,953,465	3,134,935
Non-pledged time deposits with original maturity of less than three months when acquired		<u>256,249</u>	<u>51,000</u>
	<b>12</b>	<u><u>4,209,714</u></u>	<u><u>3,185,935</u></u>

## BALANCE SHEET

		<b>31 December</b>	
	<i>Notes</i>	<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		12,160,472	10,802,497
Investments in subsidiaries		1,200,891	1,200,891
Deferred tax assets		<u>71,916</u>	<u>19,655</u>
<b>Total non-current assets</b>		<u><b>13,433,279</b></u>	<u><b>12,023,043</b></u>
<b>CURRENT ASSETS</b>			
Inventories		2,749,067	2,945,449
Trade receivables	11	659,765	540,129
Amounts due from subsidiaries		1,245,392	1,660,119
Amounts due from related parties		136	480,727
Prepayments, deposits and other receivables		45,569	454,656
Derivative financial instruments		5,524	8,243
Pledged deposits	12	94,727	512,138
Non-pledged time deposits maturing over three months	12	1,281,914	1,154,040
Cash and cash equivalents	12	<u>3,959,693</u>	<u>2,923,886</u>
<b>Total current assets</b>		<u><b>10,041,787</b></u>	<u><b>10,679,387</b></u>
<b>CURRENT LIABILITIES</b>			
Trade payables	13	710,197	2,099,786
Bills payable		500,000	449,300
Amounts due to subsidiaries		130,125	146,635
Amounts due to related parties		10,536	864
Other payables and accruals		1,021,114	632,083
Derivative financial instruments		9,742	6,104
Interest-bearing bank loans, current portion		2,984,426	4,535,342
Amount due to the immediate holding company		100,644	271,655
Long term payable to the immediate holding company, current portion		137,103	50,000
Tax payable		871,258	500,370
Dividend payable		<u>67,708</u>	<u>38,517</u>
<b>Total current liabilities</b>		<u><b>6,542,853</b></u>	<u><b>8,730,656</b></u>
<b>NET CURRENT ASSETS</b>		<u><b>3,498,934</b></u>	<u><b>1,948,731</b></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>16,932,213</b></u>	<u><b>13,971,774</b></u>



	<i>Notes</i>	<b>31 December</b>	
		<b>2006</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, long term portion		5,211,384	4,003,510
Long term payable to the immediate holding company		<u>—</u>	<u>368,927</u>
Total non-current liabilities		<u>5,211,384</u>	<u>4,372,437</u>
Net assets		<u>11,720,829</u>	<u>9,599,337</u>
<b>EQUITY</b>			
Issued capital		1,194,389	1,125,453
Reserves		10,000,909	8,150,879
Proposed final dividend	9	<u>525,531</u>	<u>323,005</u>
Total equity		<u>11,720,829</u>	<u>9,599,337</u>

## 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 Company and its subsidiaries (collectively, the “Group”) are principally engaged in the manufacture and sale of cotton yarns, grey fabrics and denims in the PRC and overseas.

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

### 2.1 BASIS OF PREPARATION

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

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

### 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting</i> in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing HKAS 14 "Segment Reporting". HKFRS requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. HKFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. SEGMENT INFORMATION

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

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

#### Year ended 31 December 2006

	<b>Sales to external customers</b> <i>RMB'000</i>	<b>Cost of sales</b> <i>RMB'000</i>	<b>Gross profit</b> <i>RMB'000</i>
Mainland China	13,001,266	10,675,055	2,326,211
Hong Kong	2,987,167	2,570,974	416,193
East Asia	1,893,886	1,620,638	273,248
Others	<u>1,943,835</u>	<u>1,636,397</u>	<u>307,438</u>
	<u>19,826,154</u>	<u>16,503,064</u>	<u>3,323,090</u>

#### Year ended 31 December 2005

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

#### 4. REVENUE, OTHER INCOME AND GAINS

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

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

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>		
Sale of textile goods	<u>19,826,154</u>	<u>13,584,389</u>
<b>Other income</b>		
Bank interest income	51,177	32,159
Compensation from suppliers on supply of sub-standard goods	70,037	59,208
Penalty income from employees	6,808	6,312
Recognition of deferred income	4,148	596
Revenue on plant and equipment leasing	1,000	250
Others	<u>2,228</u>	<u>2,817</u>
	<u>135,398</u>	<u>101,342</u>
<b>Gains</b>		
Sale of electricity and steam	224,490	44,125
Less: cost thereon	<u>(146,810)</u>	<u>(29,491)</u>
Gains on sale of electricity and steam	77,680	14,634
Gains on sale of waste and spare parts	21,905	3,215
Foreign exchange differences, net	109,394	68,206
Realised gains on derivative financial instrument transactions	5,873	—
Fair value gains, net:		
Derivative financial instrument - transactions not qualifying as hedges	<u>—</u>	<u>2,139</u>
	<u>214,852</u>	<u>88,194</u>
	<u>350,250</u>	<u>189,536</u>

## 5. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Cost of goods sold		16,373,711	11,253,204
Staff costs (excluding directors' and supervisors' remuneration):			
Wages, salaries and social security costs		2,367,452	1,657,581
Retirement benefits scheme contributions		<u>34,707</u>	<u>30,080</u>
		<u>2,402,159</u>	<u>1,687,661</u>
Depreciation		995,255	737,008
Recognition of prepaid land lease payments		2,796	2,446
Repairs and maintenance		341,405	296,625
Losses/(gains) on disposal of items of property, plant and equipment		1,967	(94)
Amortisation of intangible assets		1,200	1,200
Auditors' remuneration		6,549	5,377
Directors' and supervisors' remuneration		4,932	4,214
Foreign exchange differences, net		(109,394)	(68,206)
Provision against inventories		99,859	37,719
Realised (gains)/losses on derivative financial instruments transactions	4	(5,873)	4,271
Fair value losses/(gains), net:			
Derivative financial instruments - transactions not qualifying as hedges	4	6,357	(2,139)
Research and development costs included in:			
Wages and salaries		6,695	5,713
Consumption of consumables		<u>13,184</u>	<u>4,445</u>
		<u>19,879</u>	<u>10,158</u>
Minimum lease payments under operating leases:			
Land and buildings		16,902	9,986

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	676,474	437,867
Less: Interest capitalised	<u>(13,300)</u>	<u>(17,700)</u>
	663,174	420,167
Other finance costs:		
Increase in discounted amounts of long term payable to the immediate holding company	<u>56,829</u>	<u>—</u>
	<u><u>720,003</u></u>	<u><u>420,167</u></u>

## 7. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2005: Nil). Tax on profits assessable elsewhere have been calculated at the rate of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current - Mainland China	676,667	240,430
Deferred	<u>(59,922)</u>	<u>(53,040)</u>
Total tax charge for the year	<u><u>616,745</u></u>	<u><u>187,390</u></u>

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

	<b>Group</b>			
	<b>2006</b>		<b>2005</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>2,307,571</u>		<u>1,435,784</u>	
Tax at PRC statutory tax rate	761,498	33.0	473,809	33.0
Expenses not deductible for tax	15,638	0.7	17,992	1.2
Tax loss not recognised	1,997	0.1	6,852	0.5
Tax exemption (note (a))	(3,313)	(0.1)	(7,558)	(0.5)
Tax relief in respect of purchase of PRC manufactured machinery and equipment (note (b))	(163,378)	(7.1)	(287,689)	(20.0)
Others	<u>4,303</u>	<u>0.2</u>	<u>(16,016)</u>	<u>(1.1)</u>
Tax charge at the Group's effective rate	<u><u>616,745</u></u>	<u><u>26.8</u></u>	<u><u>187,390</u></u>	<u><u>13.1</u></u>

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

*Note:*

- (a) Being Sino-foreign joint venture enterprises, Luteng Textile and Binteng Textile are subject to a State CIT rate of 30% and a local CIT rate of 3%. With regard to State CIT, they are entitled to a full exemption for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. With regard to local CIT, the local tax authority has granted Luteng Textile and Binteng Textile a full exemption commencing from 2002 and 2004, respectively. Luteng Textile and Binteng Textile were entitled to a 50% reduction in State CIT for the current year.
- (b) The amount represents a tax concession, approved by the local tax bureau, in respect of purchases of PRC manufactured machinery and equipment. The tax concession is calculated at 40% of the purchase cost of PRC manufactured machinery and equipment for 2003, 2004 and 2005, and is limited to the amount of increase in income tax for the current year compared with the tax amount of the preceding year.

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

## 8. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB1,606 million (2005: RMB1,154 million) which has been dealt with in the financial statements of the Company.

## 9. DIVIDEND

	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final — RMB0.440 (2005: RMB0.287) per share	<u>525,531</u>	<u>323,005</u>

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 GAAP; and (ii) the net profit determined in accordance with the accounting standards of the overseas place where the Company’s shares are listed (i.e. Hong Kong Financial Reporting Standards).

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



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

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

	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>1,685,405</u>	<u>1,242,473</u>
	<b>Number of shares</b>	
	<b>2006</b>	<b>2005</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>1,181,546,036</u>	<u>920,657,979</u>

The weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations for 2006 has been adjusted to reflect the issue of 68,936,500 H shares by way of placing on 10 March 2006 whereas the one for 2005 has been adjusted to reflect the issuance of 250,000,000 domestic shares as the purchase consideration for the acquisition of the thermal power assets.

Diluted earnings per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as no diluting events existed during these years.

## 11. TRADE RECEIVABLES

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

	<b>Group</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Within 3 months	686,039	546,539
3 to 6 months	2,745	7,610
6 months to 1 year	674	3,765
1 to 2 years	<u>4,380</u>	<u>4,358</u>
	<u>693,838</u>	<u>562,272</u>
	<b>Company</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Within 3 months	651,966	524,442
3 to 6 months	2,745	7,564
6 months to 1 year	674	3,765
1 to 2 years	<u>4,380</u>	<u>4,358</u>
	<u>659,765</u>	<u>540,129</u>

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers with a long term relationship. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risks. Trade receivables are non-interest-bearing.

As at 31 December 2006, there was no trade receivables secured for the Group's bank loans.

Certain of the Group's trade receivables of approximately RMB111 million at 31 December 2005 were pledged to secure general bank loans granted to the Group.

## 12. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS MATURING OVER THREE MONTHS

	<b>Group</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Cash and bank balances	3,953,465	3,134,935
Time deposits	<u>1,644,689</u>	<u>1,717,178</u>
	5,598,154	4,852,113
Less: Pledged time deposits:		
Pledged for letter of credit facilities	(106,526)	(470,000)
Pledged for bank loans	<u>—</u>	<u>(42,138)</u>
	(106,526)	(512,138)
Non-pledged time deposits maturing over three months	<u>(1,281,914)</u>	<u>(1,154,040)</u>
Cash and cash equivalents	<u>4,209,714</u>	<u>3,185,935</u>
	<b>Company</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Cash and bank balances	3,703,444	2,872,886
Time deposits	<u>1,632,890</u>	<u>1,717,178</u>
	5,336,334	4,590,064
Less: Pledged time deposits:		
Pledged for letter of credit facilities	(94,727)	(470,000)
Pledged for bank loans	<u>—</u>	<u>(42,138)</u>
	(94,727)	(512,138)
Non-pledged time deposits maturing over three months	<u>(1,281,914)</u>	<u>(1,154,040)</u>
Cash and cash equivalents	<u>3,959,693</u>	<u>2,923,886</u>

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

### 13. TRADE PAYABLES

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

	<b>Group</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Within 3 months	627,038	1,944,107
3 to 5 months	50,139	99,186
5 months to 1 year	78,536	200,798
Over 1 year	<u>32,830</u>	<u>—</u>
	<u>788,543</u>	<u>2,244,091</u>

	<b>Company</b>	
	<b>2006</b> <i>RMB'000</i>	<b>2005</b> <i>RMB'000</i>
Within 3 months	553,676	1,802,599
3 to 5 months	46,553	98,068
5 months to 1 year	78,336	199,119
Over 1 year	<u>31,632</u>	<u>—</u>
	<u>710,197</u>	<u>2,099,786</u>

Trade payables are non-interest-bearing.

### 14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the audit committee and approved and authorised for issue by the board of directors of the Company on 30 March 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

In 2006, China's economy maintained relative healthy development trend while exports continued to increase. Of these, exports of textile and clothing reached US\$147.085 billion, representing a growth of 25.14% as compared with the previous year. During the year, the trade tension between China and US & Europe was gradually eased after these regions implemented the agreed safeguards which had limited the growth rate of China's exports of clothing and textiles to US and Europe. Such changes created relatively stable operating environment to the textile industry in the PRC, at the same time provided good opportunities in the continued exploration and industrial upgrading of the textile industry.

On the other hand, the continued expansion in the domestic demands of China has become the key accelerator in driving the rapid growth of the textile industry. According to the statistics of China Cotton Textile Association, total revenue for the country's cotton textile industry in 2006 was about RMB574.693 billion, representing an increase of 23.24% as

compared with 2005. Profit before tax was RMB19.548 billion, representing an increase of 31.59% as compared with 2005. Domestic sales accounted for 86.82% of the revenue of the cotton textile industry, representing an increase of 1.79 percentage points as compared with the previous year.

Recently, global supply and demand for cotton are basically balanced. According to the forecast of United States Department of Agriculture (USDA), the world's cotton production in the Year 2006/2007 is anticipated to reach 24.9 million tons, only an increase of 190,000 tons over the previous year. In respect of the PRC, due to the substantial increase in cotton production, gap between cotton supply and demands in China is diminishing. In 2006, the average cotton A Index in China was approximately RMB14,261.98 per ton, representing an increase of approximately 5.11% compared with 2005. Relatively stable cotton price has enabled a better control on the core cost in the industry.

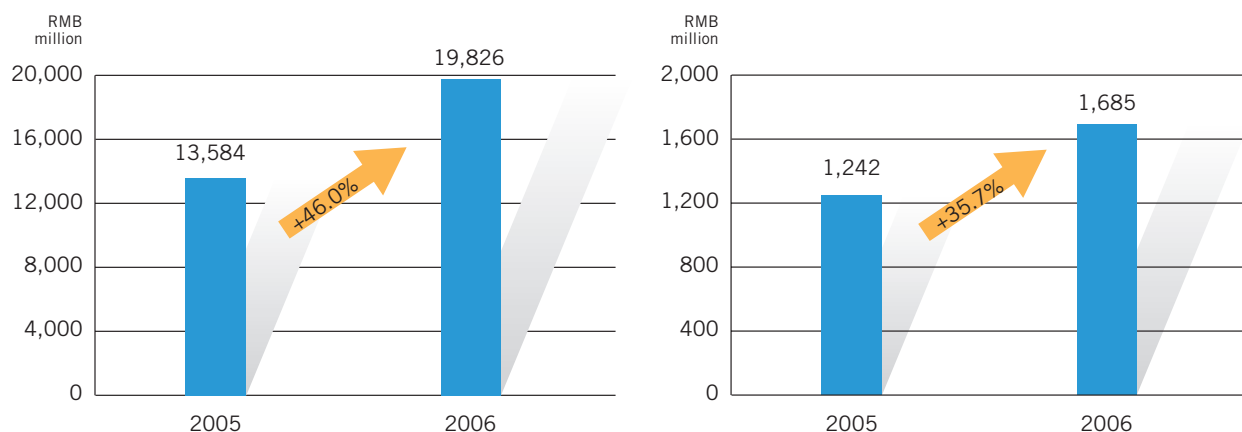
## **BUSINESS REVIEW**

Weiqiao Textile, being the largest cotton textile manufacturer in China in terms of the scale of production and an upstream manufacturer in the production chain, is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim.

In 2006, leveraging on its leading position and scale of operations, Weiqiao Textile had acquired more market share in both international and domestic markets, and at the same time continued to maintain its high gross profit margin level through industrial enhancement. According to the statistics of China Chamber of Commerce for Imports & Exports of Textiles, Weiqiao Textile ranked number 1 in terms of the aggregate export values of yarn and fabric in the PRC.

For the year ended 31 December 2006, Weiqiao Textile obtained remarkable growth in both revenue and net profit attributable to shareholders of the Company as compared with the corresponding period of 2005.

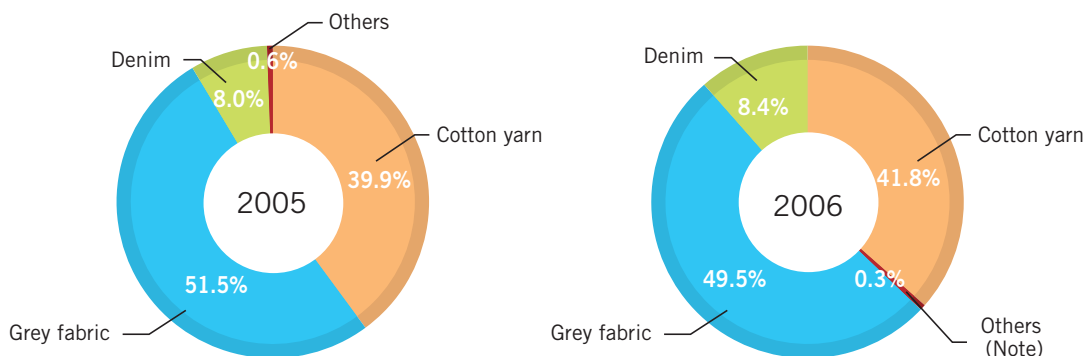
## Revenue



For the twelve months ended 31 December 2006, the revenue of Weiqiao Textile and the net profit attributable to shareholders of the Company had a significant growth compared with 2005. This was mainly attributable to the Group's enhancement in market sales, further enhancement of utilization rate of production, and more high value-added products to satisfy market demands by continuous improvement on the standard of production equipment and technology.

The chart below is a comparison of the proportion of revenue by products for the years ended 31 December 2005 and 2006:

### Proportion of revenue by products

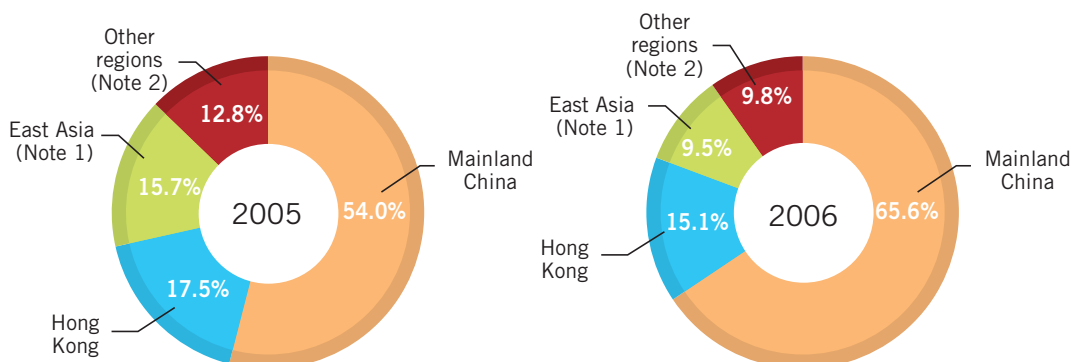


Note: Others include cotton tailings and cotton seeds

Proportion of revenue of the Company's three categories of products to the total revenue remained at the similar level to that in 2005.

The chart below is a comparison of the Group's revenue in terms of geographical locations for the years ended 31 December 2005 and 2006:

Proportion of revenue by geographical locations



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

Note 2: Others mainly comprise of Taiwan, Thailand, the US and Europe.

For the year ended 31 December 2006, the Group's domestic sales increased substantially. This was mainly due to the strong growth in domestic demands of the PRC during the year. The Group changed its sales strategy, strengthened exploration of domestic market, and expanded its market share in the domestic textile market.

In respect of production, as at 31 December 2006, 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 ("Weihai Weiqiao") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weiwei Industrial Park")); and
4. Zouping Production Base (The First Industrial Park of Zouping, the Second Industrial Park of Zouping and the Third Industrial Park of Zouping).

All of the above production bases are located in Shandong, the PRC, with a total gross floor area of approximately 3,900,000 sq.m.

In 2006, the Group's production volume of cotton yarn, grey fabric and denim were 882,000 tons, 1,634,000,000 meters and 175,000,000 meters respectively, of which, the growth were about 33.8%, 13.4% and 41.1% respectively as compared with last year. This was mainly attributable to the additional capacities of the First and Second Industrial Parks in the Zouping Production Base, and the Third Industrial Park of Zouping was in operation during the year.

During the year under review, the Group continued to actively expand its market share and explored new market. As at 31 December 2006, the Group had a total of around 7,500 domestic customers and over 720 overseas customers, representing a growth of approximately 29.3% and 20.0% respectively as compared with last year.

## ADDITIONAL ISSUE OF H SHARES

Weiqiao Textile has completed the placing of 68,936,500 new H Shares at a placing price of HK\$12.05 per H Share in March 2006, raising net proceeds of approximately HK\$829 million. As at 31 December 2006, the use of proceeds as set out in the announcement dated 2 March 2006 was as follows:

	<b>HK\$ million</b>	
	<b>Planned use</b>	<b>Actual use</b>
Capital investments, thereby expanded the capacity of the existing high value-added products	784	784
General working capital	<u>45</u>	<u>45</u>
Total	<u>829</u>	<u>829</u>

The project was in full operation during the year.

## FINANCIAL REVIEW

### Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin attributable to its major product categories for the years ended 31 December 2005 and 2006:

Product	For the year ended 31 December 2005			For the year ended 31 December 2006		
	Turnover	Gross profit	Gross profit margin	Turnover	Gross profit	Gross profit margin
Cotton yarn	5,425,822	1,175,434	21.7	8,291,334	1,126,550	13.6
Grey fabric	6,990,851	837,942	12.0	9,811,971	1,872,157	19.1
Denim	1,080,229	239,963	22.2	1,668,749	311,541	18.7
Others	<u>87,487</u>	<u>(9,209)</u>	<u>(10.5)</u>	<u>54,100</u>	<u>12,842</u>	<u>23.7</u>
Total	<u>13,584,389</u>	<u>2,244,130</u>	<u>16.5</u>	<u>19,826,154</u>	<u>3,323,090</u>	<u>16.8</u>

For the twelve months ended 31 December 2006, the Group's gross profit margin increased to 16.8%. The increase was mainly attributable to the Company's implementation of flexible and effective sales strategies, controls over production costs, market-driven sales mix adjustment, increased sales in high-end grey fabrics while reduced sales of high-end cotton yarn. As a result, the gross profit margin of cotton yarn was reduced, while gross profit margin of grey fabric was increased. On the other hand, due to unfavorable market environment and low utilization rate of new production capacity, the gross profit margin of denim reduced.

### **Selling and distribution expenses**

The Group's selling and distribution expenses increased by 4.1% to approximately RMB359,000,000 for the year ended 31 December 2006 from approximately RMB345,000,000 of previous year. In 2006, with an increase of 46.0% in the Group's revenue, the selling and distribution expenses only increased by 4.1%. Following the continuous increase in the Group's transportation volume, the Group conducted tendering on the sea-freight and inland freight charges respectively, thereby significantly reducing the unit prices in transportation. The transportation expenses increased by only 7.4% from approximately RMB256,000,000 in 2005 to approximately RMB275,000,000 in 2006. At the same time, due to the Group's efforts in market development, commission-bearing sales through intermediaries reduced, and ultimately the sales commission paid to intermediaries was decreased by 26.5% from approximately RMB49,000,000 in 2005 to approximately RMB36,000,000.

### **Administrative expenses**

Administrative expenses for the year ended 31 December 2006 amounted to approximately RMB177,000,000, representing an increase of 17.2% as compared with the amount of approximately RMB151,000,000 of previous year. The increase in administrative expenses was mainly due to the increase in the number of administrative staff following the expansion in the Group's production scale, causing the increase in the staff cost and other related expenses. Increase in property taxes derived from the increase in plant area was also another major reason caused the increase in administrative expenses.

### **Finance costs**

Finance costs were to approximately RMB720,000,000. After adding back capitalised interests of approximately RMB13,000,000 and deducting the increase in discounted amount of long-term payables to the immediate holding company of approximately RMB57,000,000, the actual interest expenses for the year ended 31 December 2006 were approximately RMB676,000,000, representing an increase of 54.3% as compared with actual interest expenses of approximately RMB438,000,000 in the corresponding period of previous year. The increase in finance costs was that on the one hand, the Company gradually optimized its capital structure by increasing long-term borrowing and reducing short-term borrowings, causing the effective interest rate to increase. On the other hand, the continued increase in interest rates during the year also gave rise to increase in the finance costs.

### **Liquidity and financial resources**

The cash and cash equivalents of the Group were approximately RMB4,210,000,000 as at 31 December 2006, increased by 32.1% from approximately RMB3,186,000,000 as at 31 December 2005.

For the year ended 31 December 2006, the Group spent approximately RMB2,986,000,000 capital expenditures for constructing the Third Production Area of the First Zouping Industrial Park, the Third Production Area of the Second Zouping Industrial Park, the Third Zouping Industrial Park and the Second Production Area of Weihai Industrial Park and



purchasing additional machinery and equipment to enhance the productivity of the Group and to produce high value-added products. The aforementioned capital expenditures were financed by net proceeds of HK\$829 million from issuance of H shares at issue price of HK12.05 per share, and net cash inflow from operating activities of RMB2,973,000,000.

The average turnover of the Group's accounts receivable was approximately 13 days for the year ended 31 December 2006, which decreased from 15 days for the year ended 31 December 2005. The decrease in accounts receivable turnover days was attributable to the successful tightening of the Group's credit policy.

Inventory turnover days decreased from 117 days for the year ended 31 December 2005 to 79 days for the year ended 31 December 2006. Decrease in inventory turnover days was mainly due to the Company's enhancement in sales effort resulting in increase in revenue.

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

Net profit attributable to shareholders of the Company was approximately RMB1,685,000,000 for the year ended 31 December 2006, representing an increase of 35.7% as compared with approximately RMB1,242,000,000 of last year.

For the year ended 31 December 2006, the basic earnings per share of the Company were RMB1.43.

### **Capital structure**

The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure. As at 31 December 2006, the debts of the Group included interest-bearing bank borrowings and long-term payables to the immediate holding company totalling approximately RMB9,867,000,000. Cash and cash equivalents was approximately RMB4,210,000,000 and debt-to-equity ratio was 46.7% (the ratio of total interest-bearing bank borrowings and long-term payables to the immediate holding company, net of cash and cash equivalents to total equity) (2005: 69.8%).

As at 31 December 2006, 31.8% of the Group's bank borrowings was subject to fixed interest rates while the remaining 68.2% was subject to floating interest rates.

As at 31 December 2006, the Group's borrowings were denominated in RMB and US dollars, in which 38.9% of the Group's borrowings were denominated in US dollars. Cash and cash equivalents were mainly held in RMB and US dollars in which 2.8% of the cash and cash equivalents was held in US dollars.

## **Employee and remuneration policy**

As at 31 December 2006, the Group had a total of approximately 152,000 employees, representing an increase of approximately 12,000 employees as compared with last year. Increase in the employee was mainly due to the training and recruitment of employees for the need of production capacity expansions and the increase in management for product development. During the year, total staff cost was approximately RMB2,407,000,000, representing 12.1% of the revenue. Employees were remunerated based on their performances, experience and prevailing industry practice. The Group's remuneration policies and packages were reviewed by its management on a regular basis. Bonuses and rewards may also be awarded to employees based on performance evaluation, with an aim to encourage and reward staff to achieve better performance.

## **Exposure to foreign exchange risk**

Revenue and most of the expenditure of the Group are denominated in RMB and US dollars. As the Group's revenue and bank deposits which are denominated in US dollars are maintained basically at the same level with the transaction amounts of imported raw materials and foreign currency bank borrowings which are denominated in US dollars. For the year ended 31 December 2006, the Group recognised net foreign exchange gain of RMB109,000,000. The Group has not experienced any significant difficulties or impact on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

## **CONTINGENT LIABILITIES**

As at 31 December 2006, the Group's contingent liabilities not provided for in the financial statements were letter of credit issued amounting of RMB128 million.

## **TAXATION**

Taxation of the Group increased from approximately RMB187,000,000 for 2005 to approximately RMB617,000,000 for 2006, representing a increase of 229.9%. The reason for the increase was the increase in profit before tax of 60.7% from approximately RMB1,436,000,000 in 2005 to approximately RMB2,308,000,000 in 2006. In addition, in 2005, the Group obtained tax relief of approximately RMB287,000,000 in respect of purchases of domestically produced machinery and equipment required for technological renovations and investment projects. The Group obtained tax relief of approximately RMB163,000,000 in 2006. Pursuant to the prevailing national Tax Laws of the PRC, the Group is entitled to apply for further similar tax relief in future.

## **POST BALANCE SHEET EVENTS**

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification

of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group and the Company cannot be reasonably estimated at this stage.

## **FUTURE OUTLOOK**

China's economy in 2007 is still optimistic. As the economic developments are on the rising stage of economic cycle, China's economy will be developing rapidly and steadily. The State has indicated that expansion of domestic demands will be a significant duty of macro control in 2007, and making efforts to expand consumption of residents is the long term policy of the Government going forward. Stable macro control policy and domestic consumption market will definitely increase the consumption level of textiles products, which are favorable environments for the development of the textile industry. Prospects of the growth of the global economy is promising, and economic growth of developed countries will directly promote the growth of consumption and trading, bringing more opportunities for textile exports in the PRC.

Weiqiao Textile will fully capitalize on these favorable development opportunities to further create new approaches of marketing, improve marketing effort, gain more new customers so as to further enhance comprehensive competitiveness in both domestic and overseas markets, strengthen brand awareness, and continue to enhance the awareness and reputation of the Company's products in the market. The Company will focus more on sales of high-end products, and make efforts to enhance market coverage of high-end products further emphasize on the upgrading of technological equipment and innovations of production technology, further optimize technological equipment structure, continue to track the world's cutting-edge technological level, further enhance the management level of the company, maintain and develop the core competitiveness of the company so as to maintain a stable profit margin.

The year of 2007 is an important conversion period of the cotton textile industry in the PRC, and practical conversion of the way of economic growth emphasizing on the conversion from a quantitative drive to a qualitative drive, expediting technological advancements to promote industrial upgrading and self-innovations will still be the main theme of the industrial development. As a textile enterprise with international perceptions and flexible market senses, the Company will on the basis of scale advantage, speed up in self-innovations and industrial upgrading, stressing on new technology, new process and the use of new raw materials, so as to provide high quality services to more customers, consolidate its position in the market and industry, establish a harmoniously developing situation in the employee, enterprise, industry and society, and continue to create more values to shareholders.

## SUPPLEMENTARY INFORMATION

### Substantial Shareholders

As at 31 December 2006, so far as known to any Directors, Supervisors or chief executive of the Company the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“**SFO**”) or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

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

<b>Name of shareholders</b>	<b>Number of Domestic Shares</b> <i>(note 1)</i>	<b>Approximate percentage of total issued domestic share capital as at 31 December 2006</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital as at 31 December 2006</b> <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited 山東魏橋創業集團有限公司	697,781,600 <i>(note 2)</i>	89.37	58.42
Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) (“ZCSU”)	697,781,600 <i>(note 3)</i>	89.37	58.42

Long positions in the H shares of the Company (“H Shares”)

<b>Name of shareholders</b>	<b>Number of H Shares</b> <i>(note 4)</i>	<b>Approximate percentage of total issued H share capital as at 31 December 2006</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital as at 31 December 2006</b> <i>(%)</i>
Brandes Investment Partners, L.P.	70,680,500 <i>(note 5)</i>	17.08	5.92
UBS AG	32,327,626 <i>(note 6)</i>	7.82	2.71

*Notes:*

1. Unlisted shares.
2. These 697,781,600 Domestic Shares are directly held by Holding Company.
3. These 697,781,600 Domestic Shares are deemed corporate interests under the SFO indirectly held through Holding Company, in which ZCSU had a controlling interest.
4. Shares listed on the Main Board of the Stock Exchange.
5. 70,680,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
6. 11,796,040 H Shares were directly held by UBS AG, while 20,531,586 H Shares were directly held by certain corporations controlled by UBS AG.

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

**Directors', Supervisors' and Chief Executive's Interests in Shares**

As at 31 December 2006, the interests of the Directors, Supervisors or chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or (b) entered in the register required to be kept by

the Company pursuant to Section 352 of the SFO, or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules, were as follows:

Long positions in the Domestic Shares:

		<b>Number of Domestic shares (note 1)</b>	<b>Approximate percentage of total issued Domestic share capital as at 31 December 2006 (%)</b>	<b>Approximate percentage of total issued share capital as at 31 December 2006 (%)</b>
	<b>Type of interest</b>			
Zhang Hongxia (Executive Director)	Personal	17,700,400	2.27	1.48
Qi Xingli (Executive Director)	Personal	8,052,500	1.03	0.67
Zhang Shiping (Non-Executive Director)	Personal	5,200,000	0.67	0.44

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

	<b>Name of associated corporation</b>	<b>Type of interest</b>	<b>Approximate percentage of total issued share capital as at 31 December 2006 (%)</b>
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

*Note:*

1. Unlisted shares

Save as disclosed above, as at 31 December 2006, none of the Directors, Supervisors or the chief executive of the Company had an interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **Dividends**

The Directors recommended the payment of a final dividend of RMB0.44 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 4 May 2007. According to the relevant regulations in the PRC and as disclosed in the Company's prospectus, the Group's net profit after tax can only be distributed after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, 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 5 May 2007 to 5 June 2007 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00p.m. on 4 May 2007.

## **Capital Commitment/Charges on assets**

As at 31 December 2006, the Group had authorised and contracted capital commitment of approximately RMB574,000,000 (2005: RMB65,000,000); and authorised but not contracted for capital commitment of approximately RMB90,000,000 (2005: RMB271,000,000) respectively.

## **Purchase, Redemption or Sale of Listed Securities of the Company**

The Company redeemed any of the Company's listed securities during the year ended 31 December 2006.

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 December 2006.

## **Audit Committee**

In response to the recommended best practices, the Company established an audit committee, which comprises three independent non-executive Directors, to review and supervise the Group's financial reporting process and internal control.

An audit committee meeting was held on 30 March 2007 to review the Group's annual report and results, and provide advice and recommendations to the Board of the Company.

## **Code for Securities Transactions by Directors**

The Company has adopted a code for securities transactions by Directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors for the year of 2006.

### **Code on Corporate Governance Practices**

For the year ended 31 December 2006, the Company has adopted and met the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

### **Publication of Annual Results and Annual Report on Website**

This results announcement is published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). The annual report for the Year will be despatched to shareholders on or about 20 April 2007 and will be available on the Company's website and the website of the Stock Exchange at the same time.

By Order of the Board  
**Weiqiao Textile Company Limited**  
**Zhang Hongxia**  
*Executive Director and Chairman*

Shandong, the People's Republic of China  
30 March 2007

*As at the date of this announcement, the board of Directors of the Company comprises 9 Directors Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen and Ms. Zhang Yanhong 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.*

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

Please also refer to the contents of the announcements published on South China Morning Post and Hong Kong Economic Times.