



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)

Annual Results Announcement for the year ended 31 December 2003

Proposed amendments to Articles of Association

Annual results for the year ended 31 December 2003

Turnover	+49.8%	to	RMB6,560 million
Gross profit	+85.7%	to	RMB1,210 million
Net Profit attributable to shareholders	+87.9%	to	RMB542 million
Proposed final dividend of RMB0.056 per share			

Highlights

- Recorded high turnover and profit growth due to significant increase in production volume and improvement in product mix
- Improved gross profit margin due to economies of scale and improved product mix
- Achieved continuous improvement of operation efficiency
- Maintained the leading position in the cotton textile industry in the PRC
- Financial position significantly enhanced after the IPO

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 2003 (the “Year”).

FINANCIAL RESULTS

The audited consolidated profit and loss account for the year ended 31 December 2003 together with comparative figures for 2002 is set out below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Year ended 31 December	
		2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
TURNOVER	5	6,560,470	4,380,923
Cost of sales		<u>(5,350,157)</u>	<u>(3,729,267)</u>
Gross profit		1,210,313	651,656
Other revenue	5	74,120	49,303
Selling and distribution costs		(148,375)	(78,565)
Administrative expenses		(89,703)	(40,189)
Other operating expenses		<u>(35,116)</u>	<u>(19,641)</u>
PROFIT FROM OPERATING ACTIVITIES	6	1,011,239	562,564
Finance costs	10	<u>(157,797)</u>	<u>(101,506)</u>
PROFIT BEFORE TAX		853,442	461,058
Tax	11	<u>(305,674)</u>	<u>(169,627)</u>
PROFIT BEFORE MINORITY INTERESTS		547,768	291,431
Minority interests	12	<u>(6,096)</u>	<u>(3,191)</u>
NET PROFIT FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS		<u>541,672</u>	<u>288,240</u>
Proposed final dividend	14(2)	<u>45,808</u>	<u>—</u>
EARNINGS PER SHARE — Basic (RMB)	15	<u>0.89</u>	<u>1.01</u>

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	31 December	
		2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Fixed assets	16	6,327,830	3,462,496
Intangible assets	17	10,501	11,701
Negative goodwill	18	(26,538)	(29,528)
Other long term assets	20	<u>—</u>	<u>96,250</u>
		<u>6,311,793</u>	<u>3,540,919</u>
CURRENT ASSETS			
Inventories	21	2,083,985	749,738
Trade receivables	22	496,213	254,714
Prepayments, deposits and other receivables	23	325,676	125,922
Amounts due from related parties	24	267,585	130,731
Pledged deposits	25	322,480	569,313
Cash and cash equivalents	25	<u>1,532,193</u>	<u>167,635</u>
		<u>5,028,132</u>	<u>1,998,053</u>
CURRENT LIABILITIES			
Trade payables	26	1,248,617	437,316
Bills payable	27	79,597	427,540
Tax payable		231,289	96,775
Other payables and accruals	28	145,385	189,726
Interest-bearing bank loans, current portion	29	1,991,369	496,824
Amounts due to related parties	24	773	—
Amount due to the immediate holding company	24	322,553	252,608
Dividend payable		<u>1,690</u>	<u>1,690</u>
		<u>4,021,273</u>	<u>1,902,479</u>
NET CURRENT ASSETS		<u>1,006,859</u>	<u>95,574</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,318,652</u>	<u>3,636,493</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	29	2,482,339	1,857,813
Long term payable to the immediate holding company	30	<u>178,927</u>	<u>178,927</u>
		<u>2,661,266</u>	<u>2,036,740</u>
MINORITY INTERESTS			
		<u>59,245</u>	<u>54,456</u>
		<u>4,598,141</u>	<u>1,545,297</u>
CAPITAL AND RESERVES			
Issued capital	31	818,006	530,770
Reserves		3,734,327	1,014,527
Proposed final dividend	14(2)	<u>45,808</u>	<u>—</u>
		<u>4,598,141</u>	<u>1,545,297</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Notes</i>	Year ended 31 December 2003						Total RMB'000
		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	
31 December 2001 and 1 January 2002		202,040	108,791	24,443	24,104	131,326	112,012	602,716
Final 2001 dividend declared		—	—	—	—	(131,136)	—	(131,326)
Capital contribution	31(a)	328,730	456,937	—	—	—	—	785,667
Net profit for the year		—	—	—	—	—	288,240	288,240
Transfer from/(to) reserves	14 (1)	—	—	29,695	28,955	—	(58,650)	—
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	14 (1)	—	—	61,810	57,643	—	(119,453)	—
Issue of H shares	31(b)	287,236	2,317,563	—	—	—	—	2,604,799
Share issue expenses	31(b)	—	(93,627)	—	—	—	—	(93,627)
Proposed final 2003 dividend	14 (2)	—	—	—	—	45,808	(45,808)	—
31 December 2003		<u>818,006</u>	<u>2,789,664</u>	<u>115,948</u>	<u>110,702</u>	<u>45,808</u>	<u>718,013</u>	<u>4,598,141</u>

CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	Year ended 31 December	
		2003 RMB'000	2002 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		853,442	461,058
Adjustments for:			
Finance costs	10	157,797	101,506
Exchange losses, net		7,429	3,585
Negative goodwill recognised as income	18	(2,990)	(374)
Interest income	5	(12,048)	(9,340)
Depreciation	16	287,495	121,195
Amortisation of intangible assets	17	1,200	300
Provision for bad and doubtful debts	6	7,031	4,182
Provision against inventories	6	<u>11,832</u>	<u>14,851</u>
Operating profit before working capital changes		1,311,188	696,963
Increase in inventories		(1,346,079)	(333,357)
Increase in trade receivables		(248,530)	(4,680)
Decrease/(increase) in prepayments, deposits and other receivables		(201,461)	26,870
Increase in trade payables		449,956	176,412
Increase/(decrease) in bills payable		(347,943)	24,540

	Notes	Year ended 31 December	
		2003 RMB'000	2002 RMB'000
Increase/(decrease) in other payables and accruals		(44,341)	113,746
Increase in net amount due to the immediate holding company		69,945	84,602
Increase in net amounts due from related parties		<u>(136,081)</u>	<u>(226,190)</u>
Cash generated from/(used in) operations		(493,346)	558,906
Decrease/(increase) in other long term assets		96,250	(16,047)
Interest paid	10	(162,597)	(101,506)
PRC corporate income tax paid		<u>(171,160)</u>	<u>(122,679)</u>
Net cash inflow/(outflow) from operating activities		<u>(730,853)</u>	<u>318,674</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	12,048	9,340
Purchases of fixed assets		(2,787,680)	(354,263)
Proceeds from disposal of fixed assets		996	—
Net cash inflow from the acquisition of a subsidiary	33(a)	—	13,997
Decrease/(increase) in pledged time deposits		<u>246,833</u>	<u>(362,159)</u>
Net cash outflow from investing activities		<u>(2,527,803)</u>	<u>(693,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		4,678,563	2,265,143
Proceeds from issue of share capital	31(b)	2,604,799	—
Share issue expenses	31(b)	(93,627)	—
Repayment of bank loans		(2,559,492)	(1,807,574)
Dividends paid		—	(129,636)
Dividends paid to a minority shareholder		—	(3,397)
Proceeds from capital contributions by minority shareholders		<u>400</u>	<u>8,277</u>
Net cash inflow from financing activities		<u>4,630,643</u>	<u>332,813</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		167,635	212,818
Effect of foreign exchange rate changes, net		<u>(7,429)</u>	<u>(3,585)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	<u><u>1,532,193</u></u>	<u><u>167,635</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	<u><u>1,278,193</u></u>	<u><u>167,635</u></u>
Non-pledged time deposits with original maturity of three months when acquired	25	<u>254,000</u>	—
	25	<u><u>1,532,193</u></u>	<u><u>167,635</u></u>

BALANCE SHEET

		31 December	
	<i>Notes</i>	2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Fixed assets	16	4,850,953	2,552,420
Interests in subsidiaries	19	888,483	538,205
Other long term assets	20	<u>—</u>	<u>96,250</u>
		<u>5,739,436</u>	<u>3,186,875</u>
CURRENT ASSETS			
Inventories	21	1,760,443	673,437
Trade receivables	22	432,383	239,532
Prepayments, deposits and other receivables	23	316,644	125,336
Amounts due from related parties	24	259,870	116,329
Pledged deposits	25	274,427	560,913
Cash and cash equivalents	25	<u>1,429,692</u>	<u>143,464</u>
		<u>4,473,459</u>	<u>1,859,011</u>
CURRENT LIABILITIES			
Trade payables	26	1,188,603	406,715
Bills payable	27	—	399,540
Tax payable		210,813	95,751
Other payables and accruals	28	113,225	148,649
Interest-bearing bank loans, current portion	29	1,403,588	442,824
Amounts due to related parties	24	8,980	7,081
Amount due to the immediate holding company	24	308,553	131,106
Dividend payable		<u>1,690</u>	<u>1,690</u>
		<u>3,235,452</u>	<u>1,633,356</u>
NET CURRENT ASSETS		<u>1,238,007</u>	<u>225,655</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,977,443</u>	<u>3,412,530</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, long term portion	29	2,282,339	1,700,813
Long term payable to the immediate holding company	30	<u>178,927</u>	<u>178,927</u>
		<u>2,461,266</u>	<u>1,879,740</u>
		<u>4,516,177</u>	<u>1,532,790</u>
CAPITAL AND RESERVES			
Issued capital	31	818,006	530,770
Reserves	32	3,652,363	1,002,020
Proposed final dividend	14(2)	<u>45,808</u>	<u>—</u>
		<u>4,516,177</u>	<u>1,532,790</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Weiqiao Textile Company Limited (the “Company”) was incorporated as a joint stock company with limited liability in Zouping County, Shandong Province, the People’s Republic of China (the “PRC”) on 6 December 1999 under the original name of Shandong Weiqiao Textile Company Limited. Upon completion of the reorganisation (the “Reorganisation”) undertaken in preparation for the listing of the Company’s H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKSE”), the Company became the holding company of the Group. A summary of the transactions undertaken by the Company relating to the Reorganisation is set out below:

- (1) In May 2001, the Company acquired from its immediate holding company, Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”, formerly known as Shandong Weiqiao Textile Group Company Limited), the operating assets and related liabilities of the four fabric weaving factories located in the First Production Area for a total sum of approximately Renminbi (“RMB”) 267 million, satisfied by assumption of short term bank loans of approximately RMB237 million and cash settlement of approximately RMB30 million.
- (2) In July 2001, the Company established Weihai Weiqiao Textile Company Limited (“Weihai Weiqiao”) with Weihai Civil Aviation Industrial Company Limited (“WCAI”). The registered capital of Weihai Weiqiao is RMB148,000,000 and is owned as to about 87.2% and about 12.8% by the Company and WCAI, respectively.
- (3) Pursuant to a shareholders’ resolution dated 15 July 2002, the registered capital of the Company was increased to RMB530,770,000, comprising 530,770,000 domestic shares of RMB1.00 each. 328,730,000 domestic shares of RMB1.00 each were issued to Holding Company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities of the Second Production Area and Third Production Area by Holding Company on 30 September 2002. The net assets injected by Holding Company amounted to RMB785,667,466, according to the valuation performed by Shandong Zheng Yuan He Xin Certified Public Accountants Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 28 June 2002.
- (4) In September 2002, Holding Company, Itochu Corporation, a company incorporated in Japan, and Profit Rich Company, a company registered in Hong Kong, entered into a Sino-foreign equity joint venture contract to jointly establish Shandong Luteng Textile Company Limited (“Luteng Textile”) with a registered capital of US\$9,790,000. According to the joint venture contract, Holding Company was to contribute US\$7,340,000 in the form of plant and machinery, accounting for 75% of the registered capital of Luteng Textile, whilst Itochu Corporation and Profit Rich Company were to contribute cash of US\$1,000,000 and technology rights of US\$1,450,000, respectively, into Luteng Textile, representing 10.2% and 14.8% of the registered capital of Luteng Textile, respectively.

Prior to the agreed time when the parties were to make their respective contributions in accordance with the joint venture contract, Holding Company transferred all of its rights and obligations under the joint venture contract to the Company. Such transfer had obtained the approval and consent of the board of Luteng Textile and the Foreign Economic and Trade Cooperation Bureau of Binzhou City of Shandong Province. By 20 October 2002, the Company, Itochu Corporation and Profit Rich Company had each made their respective contributions towards the registered capital of Luteng Textile in accordance with the provisions of the joint venture contract.

- (5) On 18 November 2002, the Company acquired from Holding Company and Binzhou Weiqiao Textile Company Limited (renamed as Binzhou Weiqiao Property Company Limited on 2 June 2003) (“Binzhou Weiqiao”), a related company of the Company, 90% and 1% of equity interests, respectively, in Binzhou Weiqiao Technology Industrial Park Company Limited (“Binzhou Industrial Park”) at the respective consideration of RMB90,000,000 and RMB1,000,000.
- (6) On 31 March 2003, the Company increased its equity interests in Binzhou Industrial Park from 91% to 97% by the injection of fixed assets amounting to RMB223,443,780, according to the valuation performed by Shandong Huanghe Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC, as described in its valuation report dated 11 April 2003. Of this fixed asset injection, an amount of RMB200,000,000 was credited by Binzhou Industrial Park as new capital injection by the Company and RMB23,443,780 was credited by Binzhou Industrial Park as an amount due to the Company.

The Group is principally engaged in the production and sale of cotton yarns, grey fabrics and denims in the PRC and overseas. The Company changed to its present name, Weiqiao Textile Company Limited, on 19 February 2003.

The registered office of the Company is located at No. 34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the PRC. In the opinion of the directors, the ultimate holding company is Zouping County Supply and Marketing Cooperation Union (“ZCSU”), which is a collectively-owned enterprise established in the PRC.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 12 (Revised): “Income taxes”
- SSAP 35: “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarized as follows:

SSAP12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in note 3 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 2003. 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.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement. A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

The Company has unilateral control over the Group's only joint venture company, Luteng Textile, since its incorporation on 12 September 2002.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 or 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 for this purpose, after taking into consideration the estimated residual value of not more than 5% of cost, are as follows:

	Estimated useful life	Yearly depreciation rate
Land and buildings	20-50years	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 2003 RMB'000	Cost of sales 2003 RMB'000	Gross profit 2003 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	<u>441,075</u>	<u>395,941</u>	<u>45,134</u>
Total	<u>6,560,470</u>	<u>5,350,157</u>	<u>1,210,313</u>

	Sales to external customers 2002 RMB'000	Cost of sales 2002 RMB'000	Gross profit 2002 RMB'000
Mainland China	2,160,011	1,731,733	428,278
Hong Kong	1,189,614	1,011,088	178,526
East Asia	776,493	748,044	28,449
Others	<u>254,805</u>	<u>238,402</u>	<u>16,403</u>
Total	<u>4,380,923</u>	<u>3,729,267</u>	<u>651,656</u>

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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Sale of goods	<u>6,560,470</u>	<u>4,380,923</u>
Other revenue		
Interest income	12,048	9,340
Gain on sale of raw materials	27,783	29,915
Compensation from overseas suppliers on supply of inferior raw materials	24,610	3,750
Negative goodwill recognised	2,990	374
Subsidy income	2,119	4,800
Other	<u>4,570</u>	<u>1,124</u>
	<u>74,120</u>	<u>49,303</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold		5,338,325	3,714,416
Staff costs (excluding directors' and supervisors' emoluments (note (8)):			
Wages, salaries and social security costs		607,421	325,221
Retirement benefit contributions		<u>15,756</u>	<u>6,742</u>
		<u>623,177</u>	<u>331,963</u>
Amortisation of intangible assets	17	1,200	300
Auditors' remuneration		2,470	150
Depreciation	16	287,495	121,195
Directors' and supervisors' emoluments	8	1,600	212
Exchange losses, net		7,429	3,585
Operating lease expenses		4,889	37,163
Provision for bad and doubtful debts		7,031	4,182
Provision against inventories		11,832	14,851
Negative goodwill recognized as income during the year	18	(2,990)	(374)
Repairs and maintenance		<u>160,151</u>	<u>110,599</u>
Research and development costs included in:			
Wages and salaries		903	766
Consumption of consumables		<u>3,644</u>	<u>1,104</u>
		<u>4,547</u>	<u>1,870</u>

7. RETIREMENT BENEFITS

The aggregate contribution of the Group to retirement benefit scheme were approximately RMB15.9 million for the year ended 31 December 2003 (2002: RMB6.8 million). As at 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: 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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	1,269	—
Other emoluments:		
Salaries, allowances and benefits in kind	227	189
Retirement benefit contributions	<u>104</u>	<u>23</u>
	<u>1,600</u>	<u>212</u>

Fees include approximately RMB385,000 (2002: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The remuneration of each of the directors and supervisors during the year and 2002 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 for the year ended 31 December 2003 and four directors and one supervisor for the year ended 31 December 2002. The emoluments for these directors and supervisor are included in the analysis set out in note 8.

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

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	831	—
Other emoluments:		
Salaries, allowances and benefits in kind	224	146
Retirement benefit contributions	<u>100</u>	<u>19</u>
	<u>1,155</u>	<u>165</u>

The remuneration of each of the five highest paid employees during the year and 2002 fell within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,061,000).

10. FINANCE COSTS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	162,597	104,970
Less: Amount reimbursed by the immediate holding company*	—	(3,464)
Interest capitalised**	<u>(4,800)</u>	<u>—</u>
	<u>157,797</u>	<u>101,506</u>

* During 2002, the Company had entered into an arrangement with Holding Company under which the Company agreed to borrow funds from the banks on behalf of Holding Company and Holding Company agreed to reimburse the Company the interest expense thereon on an actual basis. The arrangement was terminated in 2002 when the Company fully settled the related outstanding loan balances with the banks in that year.

** The capitalisation rate adopted for capitalising interests incurred during the year ranged from 4.325% to 6.372% per annum.

11. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2002: Nil).

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Current — Hong Kong	—	—
— Mainland China	<u>305,674</u>	<u>169,627</u>
Total tax charge for the year	<u>305,674</u>	<u>169,627</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 venture are situated to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2003		2002	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>853,442</u>		<u>461,058</u>	
At PRC statutory tax rate	281,636	33.0	152,149	33.0
Expenses not deductible for tax	21,689	2.6	12,134	2.6
Income not subject to tax	(699)	(0.1)	(1,584)	(0.3)
Tax exemption	(4,150)	(0.5)	—	—
Other	<u>7,198</u>	<u>0.8</u>	<u>6,928</u>	<u>1.5</u>
Tax charge at the Group's effective rate	<u>305,674</u>	<u>35.8</u>	<u>169,627</u>	<u>36.8</u>

Under PRC income tax law, the companies (except for Luteng 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 a Sino-foreign joint venture enterprise, Luteng Textile is subject to State CIT rate at 30% and local CIT rate at 3%. As regards State CIT, it is entitled to full exemption from such tax for the first two years and 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous five years. As regards local CIT, the local tax authority has granted it full exemption from such tax commencing from 2002. No provision for CIT has been made as Luteng Textile incurred an operating loss from its date of establishment (12 September 2002) to 31 December 2002, and was approved to enjoy State CIT exemption in full effective from 1 January 2003.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and joint venture, as the Group has no liability to additional tax should such amounts be remitted.

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

12. MINORITY INTERESTS

Pursuant to the minutes of the board of directors' meeting of Weihai Weiqiao dated 2 April 2001, WCAI, which holds a 12.8% equity interest in Weihai Weiqiao, was entitled to a fixed return at a rate of 20% on its capital contribution to Weihai Weiqiao for the two-year period ended 31 December 2002. Accordingly, the net results of operations of Weihai Weiqiao attributable to WCAI for the year ended 31 December 2002 were approximately RMB3.8 million. From 2003 onwards, the net results of operations of Weihai Weiqiao attributable to WCAI are calculated based on the percentage of equity interest in Weihai Weiqiao held by WCAI.

13. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was RMB472 million (2002: RMB280 million).

14. 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 to 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, 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, 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 Binzhou Industrial Park resolved to appropriate 10% and 5% of the profit attributable to shareholders for the years ended 31 December 2003 and 2002, determined in accordance with PRC Accounting Regulations, to the statutory surplus reserve and the statutory public welfare fund, respectively.

Except as described above, 10% of the profit attributable to shareholders, determined in accordance with PRC Accounting Regulations, were appropriated to each of the statutory surplus reserve and the statutory public welfare fund as approved in resolutions passed by the board of directors of the respective companies for the years ended 31 December 2003 and 2002.

(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 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 board of directors of Luteng Textile.

(2) **Dividend**

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Proposed final RMB0.056 per share (2002: Nil)	<u>45,808</u>	<u>—</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 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.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Earnings		
Net profit from ordinary activities attributable to shareholders used in the basic earnings per share calculation	<u>541,672</u>	<u>288,240</u>
	Number of shares	
	2003	2002
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>608,061,840</u>	<u>284,897,973</u>

The weighted average numbers of ordinary shares in issue during the year used in the basic earnings per share calculations for both 2003 and 2002 have been reflected the H shares issued under the initial public offering during 2003 and the domestic shares issued to Holding Company during 2002, respectively.

16. FIXED ASSETS

The Group

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:					
At beginning of year	612,084	2,758,390	8,924	295,137	3,674,535
Additions	12,036	601,176	11,481	2,465,751	3,090,444
Acquisition from Holding Company	46,582	—	—	—	46,582
Acquisition from Binzhou Weiqiao	—	16,799	—	—	16,799
Transfers	442,930	1,010,258	—	(1,453,188)	—
Disposals	—	(1,030)	—	—	(1,030)
At 31 December 2003	<u>1,113,632</u>	<u>4,385,593</u>	<u>20,405</u>	<u>1,307,700</u>	<u>6,827,330</u>
Accumulated depreciation:					
At beginning of year	20,082	191,068	889	—	212,039
Provided during the year	14,189	271,775	1,531	—	287,495
Disposals	—	(34)	—	—	(34)
At 31 December 2003	<u>34,271</u>	<u>462,809</u>	<u>2,420</u>	<u>—</u>	<u>499,500</u>
Net book value:					
At 31 December 2003	<u>1,079,361</u>	<u>3,922,784</u>	<u>17,985</u>	<u>1,307,700</u>	<u>6,327,830</u>
At 31 December 2002	<u>592,002</u>	<u>2,567,322</u>	<u>8,035</u>	<u>295,137</u>	<u>3,462,496</u>

Certain of the Group's bank loans amounting to approximately RMB3,471 million were secured by certain of the Group's land and buildings, machinery and equipment, which had an aggregate net book value of approximately RMB5,130 million at 31 December 2003 (2002: RMB2,708 million).

Certain of the Group's bills payable amounting to approximately RMB19 million (note 27) were secured by certain of the Group's fixed assets, representing land use right, with an aggregate carrying amount of approximately RMB48 million as at 31 December 2003 (2002: Nil).

Prior to its transfer to land and buildings, and machinery and equipment, the carrying amount of construction in progress included capitalised interest of approximately RMB4.8 million (2002: Nil).

The Company

	Land and buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:					
At beginning of year	448,166	2,265,497	5,357	—	2,719,020
Additions	161	590,782	7,818	2,083,832	2,682,593
Acquisition from Holding Company	46,582	—	—	—	46,582
Transfers	290,693	544,781	—	(835,474)	—
Contribution to a subsidiary*	—	(208,022)	—	—	(208,022)
Disposals	—	(915)	—	—	(915)
At 31 December 2003	<u>785,602</u>	<u>3,192,123</u>	<u>13,175</u>	<u>1,248,358</u>	<u>5,239,258</u>
Accumulated depreciation:					
At beginning of year	17,641	148,415	544	—	166,600
Provided during the year	12,915	207,911	890	—	221,716
Disposals	—	(11)	—	—	(11)
At 31 December 2003	<u>30,556</u>	<u>356,315</u>	<u>1,434</u>	<u>—</u>	<u>388,305</u>
Net book value:					
At 31 December 2003	<u>755,046</u>	<u>2,835,808</u>	<u>11,741</u>	<u>1,248,358</u>	<u>4,850,953</u>
At 31 December 2002	<u>430,525</u>	<u>2,117,082</u>	<u>4,813</u>	<u>—</u>	<u>2,552,420</u>

* The Company contributed fixed assets with aggregate amount of approximately RMB208,022,000 (equivalent to the then carrying amount of such fixed assets) to its subsidiary in 2003.

17. 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:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	12,001	—
Additions	—	12,001
At closing of year	<u>12,001</u>	<u>12,001</u>
Accumulated amortisation:		
At beginning of year	300	—
Provided during the year	1,200	300
At closing of year	<u>1,500</u>	<u>300</u>
Net book value	<u>10,501</u>	<u>11,701</u>

18. NEGATIVE GOODWILL

Negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of Binzhou Industrial Park in 2002, is as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost:		
At beginning of year	(29,902)	—
Acquisition of a subsidiary (note 33 (a))	<u>—</u>	<u>(29,902)</u>
At closing of year	<u>(29,902)</u>	<u>(29,902)</u>
Recognition as income:		
At beginning of year	374	—
Recognised as income during the year	<u>2,990</u>	<u>374</u>
At closing of year	<u>3,364</u>	<u>374</u>
Net book value	<u>(26,538)</u>	<u>(29,528)</u>

19. INTERESTS IN SUBSIDIARIES

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted investments, at cost	462,235	267,968
Amounts due from subsidiaries	727,337	444,655
Amounts due to subsidiaries	<u>(301,089)</u>	<u>(174,418)</u>
	<u>888,483</u>	<u>538,205</u>

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

Particulars of the subsidiaries and joint venture of the Company as at 31 December 2003 are as follows:

Company name	Place of incorporation/ establishment and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interests directly attributable to the Company	Principal activities
<i>Subsidiaries</i>					
Weihai Weiqiao	Weihai, the PRC	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarns and fabrics
Binzhou Industrial Park	Binzhou, the PRC	Limited liability company	RMB300,000,000	97	Production and sale of cotton yarns and fabrics

Company name	Place of incorporation/ establishment and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interests directly attributable to the Company	Principal activities
Shandong Weiqiao Mianye Company Limited	Zouping, the PRC	Limited liability company	RMB5,000,000	92	Purchase, processing and sale of raw cotton, cotton seeds and lint cotton
<i>Joint venture</i>					
Luteng Textile	Zouping, the PRC	Sino-foreign equity joint venture	US\$9,790,000	75	Production and sale of polyester yarns and related products

20. OTHER LONG TERM ASSETS

The Group and the Company

	2003 RMB'000	2002 RMB'000
Export VAT refundable	<u>—</u>	<u>96,250</u>

21. INVENTORIES

	Group	
	2003 RMB'000	2002 RMB'000
Raw materials	934,946	188,876
Work in progress	252,462	111,440
Semi-finished goods	123,980	101,756
Finished goods	226,904	116,573
Consigned materials for processing	316	58
Consumables	34,064	24,578
Raw materials in transit	<u>511,313</u>	<u>206,457</u>
Total	<u>2,083,985</u>	<u>749,738</u>
	Company	
	2003 RMB'000	2002 RMB'000
Raw materials	745,244	173,077
Work in progress	214,192	89,781
Semi-finished goods	81,026	89,192
Finished goods	183,089	101,807
Consigned materials for processing	316	57
Consumables	25,263	13,066
Raw materials in transit	<u>511,313</u>	<u>206,457</u>
Total	<u>1,760,443</u>	<u>673,437</u>

The carrying amounts of inventories of the Group and the Company carried at net realizable value included in the above balances were approximately RMB36 million (2002: RMB27 million) and RMB35 million (2002: RMB27 million), respectively, as at 31 December 2003.

Certain of the Company's raw materials in transit of approximately RMB301 million as at 31 December 2003 were utilised to secure bank loans up to approximately RMB301 million (2002: Nil).

22. TRADE RECEIVABLES

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

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:		
Within 3 months	484,610	247,616
3 months to 6 months	5,449	3,744
6 months to 1 year	3,453	700
1 year to 2 years	<u>2,701</u>	<u>2,654</u>
	<u>496,213</u>	<u>254,714</u>
	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:		
Within 3 months	420,902	232,434
3 months to 6 months	5,449	3,744
6 months to 1 year	3,331	700
1 year to 2 years	<u>2,701</u>	<u>2,654</u>
	<u>432,383</u>	<u>239,532</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.

Certain of the Group's trade receivables of approximately RMB15 million as at 31 December 2003 were utilised to secure bank loans up to approximately RMB12 million (2002: Nil).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	125,529	35,424
Export VAT refundable	75,436	90,000
Other receivables and prepayments	<u>124,711</u>	<u>498</u>
Total	<u>325,676</u>	<u>125,922</u>
	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments to suppliers	125,192	35,236
Export VAT refundable	75,436	90,000
Other receivables and prepayments	<u>116,016</u>	<u>100</u>
Total	<u>316,644</u>	<u>125,336</u>

Certain of the Company's export VAT refundable of approximately RMB10 million as at 31 December 2003 were utilised to secure bank loans up to approximately RMB10 million (2002: Nil).

24. 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.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash and bank balances	1,278,193	167,635
Time deposits	<u>576,480</u>	<u>569,313</u>
	1,854,673	736,948
Less: Pledged time deposits:		
Pledged for letter of credit facilities	(292,571)	(215,413)
Pledged for issuance of bills payable (note 27)	<u>(29,909)</u>	<u>(353,900)</u>
Cash and cash equivalents	<u><u>1,532,193</u></u>	<u><u>167,635</u></u>
	Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash and bank balances	1,175,692	143,464
Time deposits	<u>528,427</u>	<u>560,913</u>
	1,704,119	704,377
Less: Pledged time deposits:		
Pledged for letter of credit facilities	(274,427)	(215,413)
Pledged for issuance of bills payable (note 27)	<u>—</u>	<u>(345,500)</u>
Cash and cash equivalents	<u><u>1,429,692</u></u>	<u><u>143,464</u></u>

Included in the pledged time deposits of the Company for letter of credit facilities as at 31 December 2003, time deposits with a total amount of RMB2 million was utilised to secure bank loans up to approximately RMB2 million (2002: Nil).

26. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date of receipt of raw materials, is as follows:

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Outstanding balances aged:		
Within 90 days	1,189,081	434,058
90 days to 3 years	<u>59,536</u>	<u>3,258</u>
	<u><u>1,248,617</u></u>	<u><u>437,316</u></u>

	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:		
Within 90 days	1,129,841	403,457
90 days to 3 years	<u>58,762</u>	<u>3,258</u>
	<u><u>1,188,603</u></u>	<u><u>406,715</u></u>

27. **BILLS PAYABLE**

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:		
Within 90 days	19,597	199,540
90 to 180 days	<u>60,000</u>	<u>228,000</u>
	<u><u>79,597</u></u>	<u><u>427,540</u></u>

Included in the above Group's balances are bills payable to the Company, the immediate holding company and related parties:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
The Company*	79,597	—
The immediate holding company	—	304,000
Related parties	<u>—</u>	<u>123,540</u>
	<u><u>79,597</u></u>	<u><u>427,540</u></u>

* The bills drawn by the subsidiaries of the Company in favor of the Company were discounted with banks by the Company prior to 31 December 2003.

	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances aged:		
Within 90 days	—	171,540
90 to 180 days	<u>—</u>	<u>228,000</u>
	<u><u>—</u></u>	<u><u>399,540</u></u>

Included in the above Company's balances are bills payable to the immediate holding company and related parties:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
The immediate holding company	—	304,000
Related parties	<u>—</u>	<u>95,540</u>
	<u><u>—</u></u>	<u><u>399,540</u></u>

The Group's and the Company's bills payable were secured by the pledge of certain of the Group's time deposits; details of which are described in note 25 above.

Certain of the Group's bills payable amounting to approximately RMB19 million were secured by certain of the Group's fixed assets with an aggregate carrying amount of approximately RMB48 million (note 16) as at 31 December 2003 (2002: Nil).

28. OTHER PAYABLES AND ACCRUALS

Included in the Group's other payables and accruals as at 31 December 2003 and 31 December 2002 are government grants totalling RMB13 million 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.

29. INTEREST-BEARING BANK LOANS

(1) Interest-bearing bank loans, current portion

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Current portion of bank loans	<u>1,991,369</u>	<u>496,824</u>
	Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Current portion of bank loans	<u>1,403,588</u>	<u>442,824</u>

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

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Bank loans:		
Secured	3,793,227	2,182,943
Unsecured	<u>680,481</u>	<u>171,694</u>
	<u>4,473,708</u>	<u>2,354,637</u>
Bank loans repayable:		
Within one year or on demand	1,991,369	496,824
In the second year	946,470	76,500
In the third to fifth years, inclusive	<u>1,535,869</u>	<u>1,781,313</u>
	4,473,708	2,354,637
Portion classified as current liabilities	<u>(1,991,369)</u>	<u>(496,824)</u>
Long term portion	<u>2,482,339</u>	<u>1,857,813</u>

	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans:		
Secured	3,603,157	2,112,943
Unsecured	<u>82,769</u>	<u>30,694</u>
	<u>3,685,926</u>	<u>2,143,637</u>
Bank loans repayable:		
Within one year or on demand	1,403,588	442,824
In the second year	830,470	76,500
In the third to fifth years, inclusive	<u>1,451,869</u>	<u>1,624,313</u>
	3,685,927	2,143,637
Portion classified as current liabilities	<u>(1,403,588)</u>	<u>(442,824)</u>
Long term portion	<u>2,282,339</u>	<u>1,700,813</u>

- (i) Other than part of the Group's and the Company's bank loans in the aggregate amount of US\$149 million (RMB1,231 million equivalent) as at 31 December 2003 (2002: US\$65.3 million or RMB540.1 million equivalent), 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 2.16% to 7.254% as at 31 December 2003 (2002: 3.15% to 7.254%).
- (ii) Certain of the Group's bank loans amounting to approximately RMB3,471 million were secured by certain of the Group's land and buildings, machinery and equipment, which had an aggregate net book value of approximately RMB5,130 million as at 31 December 2003 (2002: RMB2,708 million).
- (iii) Certain of the Company's bank loans were secured by certain of the Company's time deposits, export VAT refundable and raw materials in transit up to approximately RMB2 million (2002: Nil), RMB10 million (2002: Nil) and RMB301 million (2002: Nil) as at 31 December 2003, respectively.
- (iv) Certain of the Group's bank loans up to approximately RMB12 million were secured by certain of the Group's accounts receivable of approximately RMB15 million as at 31 December 2003 (2002: Nil).
- (v) The Company's immediate holding company has guaranteed certain of the Group's bank loans up to approximately RMB10 million as at 31 December 2003 (2002: RMB142 million).
- (vi) WCAI has guaranteed bank loans of Weihai Weiqiao up to about RMB31 million as at 31 December 2003 (2002: RMB34 million).
- (vii) The Company has guaranteed bank loans of certain of its subsidiaries up to approximately RMB555 million as at 31 December 2003 (2002: RMB60 million).
- (viii) As disclosed in note 10 above, the Company had arranged with the immediate holding company to borrow bank loans on its behalf in 2002.

30. LONG TERM PAYABLE TO THE IMMEDIATE HOLDING COMPANY

The long term payable to the immediate holding company as at 31 December 2003 and 31 December 2002 are unsecured, interest-free and are repayable over three years commencing 2005 by three installments of RMB50,000,000 in 2005, RMB50,000,000 in 2006 and RMB78,927,000 in 2007, respectively.

31. SHARE CAPITAL

Shares

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Registered, issued and fully paid:		
530,770,000 (2002: 530,770,000) domestic shares of RMB1.00 each	530,770	530,770
287,235,500 (2002: Nil) H shares of RMB1.00 each (b)	<u>287,236</u>	<u>—</u>
	<u>818,006</u>	<u>530,770</u>

The Company does not have any share option scheme.

During the year and 2002, the movements in share capital were as follows:

- (a) Pursuant to a shareholders' resolution dated 15 July 2002, the registered capital of the Company was increased to RMB530,770,000, comprising 530,770,000 domestic shares of RMB1.00 each. 328,730,000 domestic shares were issued to Holding Company, credited as fully paid in consideration for the transfer of the relevant assets and liabilities of the Second Production Area and Third Production Area by Holding Company on 30 September 2002. The net assets injected by Holding Company amounted to RMB785,667,466, according to the valuation performed by Shandong Zheng Yuan He Xin Certified Public Accountants Ltd. as described in its valuation report dated 28 June 2002. The increase in registered capital and the issuance of 328,730,000 domestic shares to Holding Company in exchange for the net assets injected were approved by the Office for Restructuring the Economic System of Shandong Province on 28 October 2002.
- (b) 249,770,000 H shares of the Company were listed on the Main Board of 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.

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 2002	202,040,000	202,040	108,791	310,831
Issue of domestic shares (a)	<u>328,730,000</u>	<u>328,730</u>	<u>456,937</u>	<u>785,667</u>
At 1 January 2003	530,770,000	530,770	565,728	1,096,498
Issue of H shares upon listing (b)	<u>287,237,500</u>	<u>287,236</u>	<u>2,317,563</u>	<u>2,604,799</u>
	818,005,500	818,006	2,883,291	3,701,297
Shares issue expenses	<u>—</u>	<u>—</u>	<u>(93,627)</u>	<u>(93,627)</u>
At 31 December 2003	<u>818,005,500</u>	<u>818,006</u>	<u>2,789,664</u>	<u>3,607,670</u>

32. 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 on page 4 of the financial statements.

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 2002	108,791	23,766	23,766	131,326	108,749	396,398
Declared final 2001 dividend	—	—	—	(131,326)	—	(131,326)
Capital contribution (note 31(a))	456,937	—	—	—	—	456,937
Net profit for the year	—	—	—	—	280,011	280,011
Transfer from/(to) reserves (note 14 (1))	<u>—</u>	<u>26,313</u>	<u>26,313</u>	<u>—</u>	<u>(52,626)</u>	<u>—</u>
As at 31 December 2002	565,728	50,079	50,079	—	336,134	1,002,020
Issue of H shares (note 31 (b))	2,317,563	—	—	—	—	2,317,563
Share issue expenses (note 31 (b))	(93,627)	—	—	—	—	(93,627)
Net profit for the year	—	—	—	—	472,215	472,215
Transfer from/(to) reserves (note 14 (1))	<u>—</u>	<u>54,254</u>	<u>54,254</u>	<u>—</u>	<u>(108,508)</u>	<u>—</u>
Proposed final 2003 dividend	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,808</u>	<u>(45,808)</u>	<u>—</u>
As at 31 December 2003	<u>2,789,664</u>	<u>104,333</u>	<u>104,333</u>	<u>45,808</u>	<u>654,033</u>	<u>3,698,171</u>

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Pursuant to an equity transfer agreement entered into between the Company, the immediate holding company and Binzhou Weiqiao, a related party of the Company, on 18 November 2002, the immediate holding company and Binzhou Weiqiao transferred their equity interests in Binzhou Industrial Park of 90% and 1%, respectively, to the Company for a consideration of RMB90 million and RMB1 million, respectively.

	Year ended 31 December 2002 RMB'000
Net assets acquired:	
Fixed assets	723,187
Cash and cash equivalents	13,997
Prepayments, deposits and other receivables	29,210
Inventories	32,235
Short term bank loan	(8,000)
Trade payables	(21,544)
Bills payable	(28,000)
Other payables and accruals	(12,130)
Amount due to the immediate holding company	(494,483)
Amounts due to related parties	(101,613)
Minority interests	<u>(11,957)</u>
	120,902
Negative goodwill arising from acquisition (note 18)	<u>(29,902)</u>
	<u>91,000</u>
Satisfied by:	
Amount due to the immediate holding company	90,000
Amount due to a related party	<u>1,000</u>
	<u>91,000</u>

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Year ended 31 December 2002 RMB'000
Cash and cash equivalents acquired	<u>13,997</u>
Net cash inflow in respect of the net assets acquired	<u>13,997</u>

- (b) Major non-cash transactions
- (i) During 2003, Holding Company transferred to the Group all rights and benefits to all of its cotton processing equipment at nil consideration.

- (ii) During 2002, the Company's immediate holding company injected the net assets of its wholly-owned Second Production Area and Third Production Area to the Company by way of capital contribution amounting to approximately RMB786 million as follows:

	Year ended 31 December 2002
	<i>RMB'000</i>
Net assets injected:	
Fixed assets	1,427,001
Inventories	45,769
Amount due to the immediate holding company	(47,828)
Other payables and accruals	(2,941)
Short term bank loans	(368,334)
Long term bank loans	<u>(268,000)</u>
	<u>785,667</u>
Satisfied by:	
Share capital	328,730
Capital reserve	<u>456,937</u>
	<u>785,667</u>

- (iii) During 2002, the Company acquired plants and buildings for a total sum of approximately RMB179 million from its immediate holding company. The Company has agreed with the immediate holding company to settle this acquisition cost 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 (note 30).

- (iv) During 2002, a minority shareholder contributed technology rights of approximately RMB12 million (note 17) to a subsidiary of the Company.

34. 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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Letters of credit issued	191,266	28,890
Bills discounted with recourse	—	370,000
Outward letters of credit discounted	<u>—</u>	<u>7,227</u>
	<u>191,266</u>	<u>406,117</u>
	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Letters of credit issued	191,266	28,890
Bills discounted with recourse	—	370,000
Guarantee given to banks in connection with facilities granted to subsidiaries	555,471	60,000
Outward letters of credit discounted	<u>—</u>	<u>7,227</u>
	<u>746,737</u>	<u>466,117</u>

35. 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:

	Group	
	2003 RMB'000	2002 RMB'000
Contracted, but not provided for	<u>109,197</u>	<u>61,798</u>

	Company	
	2003 RMB'000	2002 RMB'000
Contracted, but not provided for	<u>109,197</u>	<u>—</u>

(2) Operating lease commitments

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

	Group	
	2003 RMB'000	2002 RMB'000
Within one year	9,530	2,870
In the second to fifth years, inclusive	36,560	10,500
After five years	<u>127,190</u>	<u>32,300</u>
	<u>173,280</u>	<u>45,670</u>

	Company	
	2003 RMB'000	2002 RMB'000
Within one year	9,470	2,810
In the second to fifth years, inclusive	36,320	10,260
After five years	<u>126,360</u>	<u>31,400</u>
	<u>172,150</u>	<u>44,470</u>

36. 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 Reorganisation, further details of which are set out in note 1 to these financial statements, and transactions and balances disclosed in note 10, note 24, note 26, note 28, note 29 and note 33 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	2003 RMB'000	2002 RMB'000
Holding Company	The immediate holding company	Purchase of lint cotton and tailings	164,600	224,260
		Expenses on provision of electricity and steam power	229,194	145,684
		Sale of cotton yarns, grey fabrics and denims	8,829	449,458
		Sale of ancillary materials and spare parts	598	85,719
		Sale of lint cotton and tailings	—	410,127
		Purchase of cotton yarns, grey fabrics and denims	60,131	1,110,732
		Purchase of fixed assets	46,582	47,843
		Purchase of ancillary materials and spare parts	6,575	23,542
		Expenses on equipment and property leasing	4,889	37,163
		Expenses on provision of processing services	—	1,669
Shandong Weiqiao Dyeing and Weaving Co., Ltd.	A fellow subsidiary	Sale of cotton yarns	107,325	99,324
		Sale of grey fabrics and denims	—	70,377
		Purchase of corduroy	34,227	11,169
		Expenses on provision of processing services	2,997	129
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabrics	96,012	15,425
		Expenses on provision of processing services	8,242	3,186
		Purchase of coloured fabrics	15,172	881
Shandong Weiqiao Bleaching-Dyeing Co.,Ltd.	An associate of Holding Company	Sale of cotton yarns	6,105	4,047

Name of related parties	Relationship with the Company	Nature of transactions	2003 RMB'000	2002 RMB'000
Binzhou Industrial Park	A fellow subsidiary (before becoming a subsidiary of the Company in November 2002)	Sale of lint cotton and tailings	—	21,938
		Purchase of cotton yarns and grey fabrics	—	25,321
		Purchase of tailings	—	1,121
Binzhou Weiqiao	A fellow subsidiary	Sale of lint cotton and tailings	—	41,539
		Sale of cotton yarns and grey fabrics	—	26,563
		Sale of ancillary materials and spare parts	—	1,793
		Purchase of cotton yarns and grey fabrics	—	156,210
		Purchase of lint cotton and tailings	—	3,740
		Purchase of ancillary materials and spare parts	—	2,731
		Purchase of fixed assets	16,799	—
No. 1 Oil and Cotton Co., Ltd	A fellow subsidiary of Holding Company	Purchase of lint cotton	374	5,570
No. 2 Oil and Cotton Co., Ltd	A fellow subsidiary of Holding Company	Purchase of lint cotton	2,251	3,226
No. 6 Oil and Cotton Co., Ltd	A fellow subsidiary of Holding Company	Purchase of lint cotton	12,307	30,401
Zouping Fuhai Oil Industrial Co., Ltd	A fellow subsidiary of Holding Company	Purchase of lint cotton	299	17,803
Pozhuang Cotton Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	5,147	12,925
Zouping Cotton and Hemp Fibre Co., Ltd.	A fellow subsidiary of Holding Company	Purchase of lint cotton	627	18,249
Zouping Cotton and Hemp Fibre Co.	A fellow subsidiary of Holding Company	Purchase of lint cotton	—	5,164

In addition to the above, Holding Company transferred to the Group all rights and benefits to all of its cotton processing equipment at nil consideration in 2003.

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

Pursuant to an agreement entered into between the Company and Holding Company dated 10 May 2000 and a supplementary agreement dated 1 July 2002, commencing from 1 January 2002, Holding Company provided electricity and steam to the Company at a billing rate of RMB0.35/kwh and RMB60/ton, respectively. Each of Binzhou Industrial park and Luteng Textile entered into an agreement with Holding Company on 1 September 2002. Pursuant to the agreements, Holding Company provided electricity and steam to these two companies at a billing rate of RMB0.35/kwh and RMB60/ton, respectively, commencing from 1 September 2002.

In connection with the Reorganisation, the above agreements were terminated on 25 August 2003 and on the same date, the Company and Holding Company entered into a supply of electricity and steam agreement. Pursuant to the agreement, 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 connection with the Reorganisation, on 25 August 2003 the Company entered into several agreements with Holding Company and its subsidiaries other than the companies now comprising the Group (collectively, the “Holding Group”) which govern the supply of cotton by Holding Company, the supply of cotton yarns and grey fabrics to and the provision of processing services by the Holding Group.

Up to 31 December 2003, the Group has entered into nine property lease agreements with Holding Company, with a right of renewal exercisable by the Group. The significant terms of such agreements are summarized 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.

In addition, during the year ended 31 December 2003, the Group received bills receivable aggregating approximately RMB76 million (2002: RMB1,363 million) from Holding Company. All of the bills were discounted with banks, none of which remained outstanding with recourse as at 31 December 2003 (note 34). According to the arrangement with Holding Company, discounting charges were borne by Holding Company. During the year ended 31 December 2003, discounting charges of approximately RMB1 million (2002: RMB21 million) were borne by Holding Company.

During the year ended 31 December 2003, the Group issued bills payable aggregating approximately RMB617 million (2002: RMB578 million) to the subsidiaries (including Holding Company) of ZCSU (the “ZCSU Group”). All of the bills were discounted with banks and the related discounting charges were borne by the ZCSU Group.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 February 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

China is the largest textile producing country in the world. The cotton textile industry maintained its upward momentum to achieve unprecedented growth in 2003. The output of cotton yarn and cotton fabric in the PRC increased by 15.79% and 9.22% respectively in 2003 as compared to the output in 2002.

Leveraging on its competitive advantages, including low labour costs, access to the world's largest source of cotton, favorable government policies and China's accession to the WTO, the total export value of cotton yarn and grey fabric increased steadily. In the first half of 2003, domestic transportation and domestic sales of cotton textile products have been affected by the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), but the export sales of cotton textile products has not been affected.

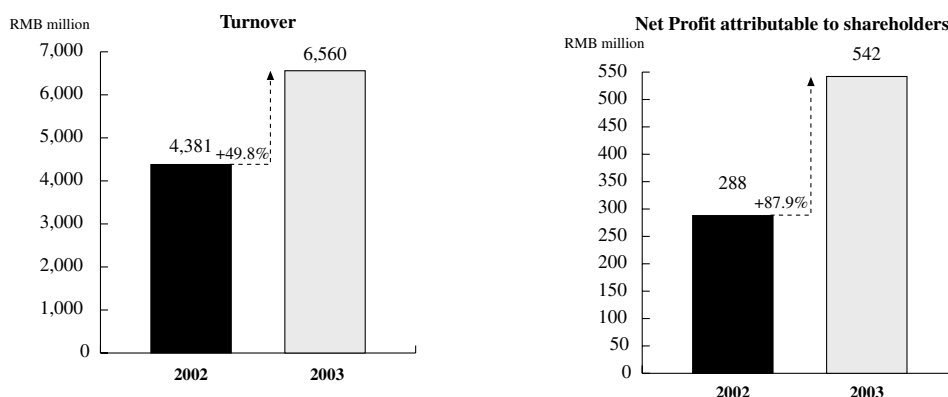
In the 2003/2004 marketing year (from September 2003 to August 2004), the PRC's demand for cotton is expected to have an overwhelming 6.67 million tons while cotton production only reach 4.93 million tons. Shortage in the supply of cotton led to a surge in domestic cotton price of about 55% in 2003. In the international market, the price of cotton increased by 32% in 2003. As a result, a number of domestic textile manufacturers with smaller operation scale and less financial strength were adversely affected, as evidenced by the rising number of loss making textile factories from 23% in early 2003 to 47% in October 2003. While such industry consolidation is inevitable, it will enable Weiqiao Textile, an industry leader with large economies of scale, solid customer base and unrivaled competitive edges, to enjoy tremendous growth and development potentials.

There was electricity deficiency throughout the PRC in 2003, Weiqiao Textile were not affected because the Group was able to get stable supply of electricity from Holding Company at a price no higher than market price.

Business Review

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. In 2002, it was ranked number one in terms of turnover in the cotton textile industry in the PRC and in terms of the aggregate export value of cotton yarn and grey fabric in the PRC. Growing along side with the country's booming economy and cotton textile industry, the Group continued to flourish and achieved new business heights in 2003. In 2003, the Group sustained its leading position in the PRC cotton textile market and succeeded in capturing a greater market share.

The Group recorded significant growth in both turnover and net profit attributable to shareholders for the year ended 31 December 2003. The bar charts below illustrate the turnover and net profit attributable to shareholders for the years ended 31 December 2002 and 31 December 2003:

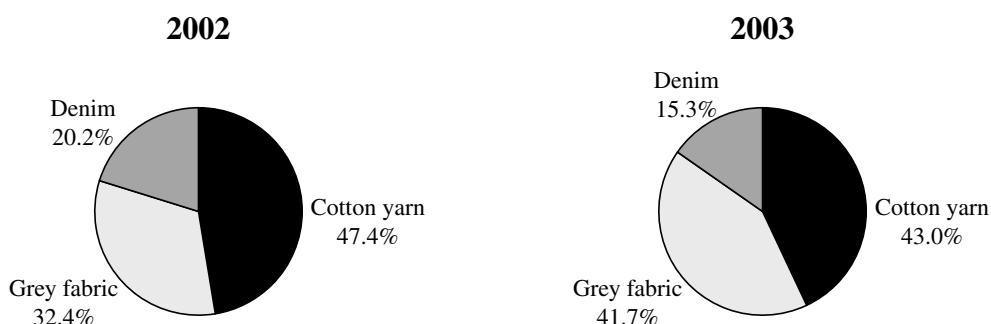


During the Year, the audited turnover of the Group was about RMB6,560 million, representing an increase of 49.8% over the comparable period in 2002, and net profit attributable to shareholders was about RMB542 million, representing an increase of 87.9% over the comparable period in 2002.

Such increases in turnover and net profit were mainly attributable to the commencement of the full operations of the Third Production Area as well as the increase in the commencement production of the Binzhou Weiqiao Technology Industrial Park Co., Ltd. (“Binzhou Industrial Park”) in the third quarter of 2003. This in turn enabled the Group to further enhance its economies of scale to reduce the unit fixed production costs and raw materials purchasing cost.

The pie charts below illustrate the sales analysis of the Group by product for the years ended 31 December 2002 and 31 December 2003.

Turnover breakdown by products



In terms of turnover, the largest proportion of turnover was attributable to cotton yarn among the three key product categories of the Group. The growth in sales of cotton yarn was mainly attributable to the further enhancement of the Group’s production capacity as well as the robust market demand. Grey fabric was the second key source of the Group’s turnover.

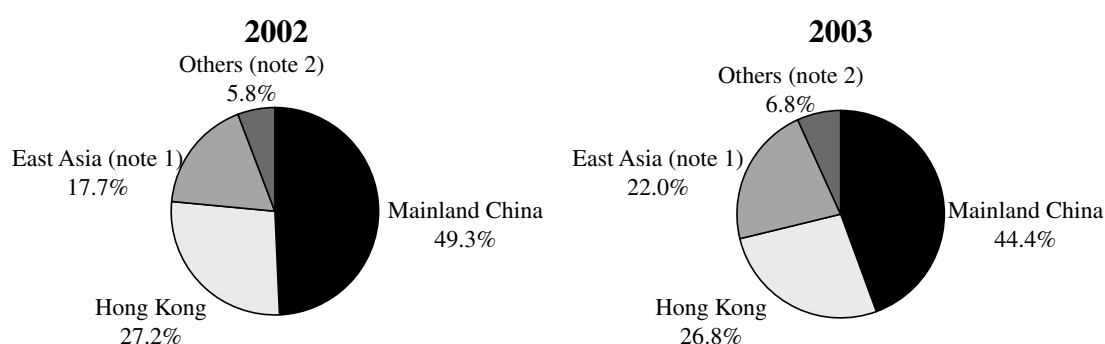
Economies of scale were well achieved as a result of the rapid growth in the grey fabric market and the enhancement in the efficiency of the Group's equipment. Such factors contributed to the improvement in the performance of the grey fabric segment which recorded a greater percentage increase in sales than other products. As for denim, which is mainly for sale in the domestic market, the decline in sales in the first half of 2003 was due to the SARS outbreak in the PRC which adversely affected sales in the domestic retail sector. The outbreak also adversely affected the transportation of the Group's denim products whose key markets are in Guangdong and Fujian regions within the country. However, the sales of denim rebounded in the second half of 2003 and the overall sales in 2003 increased by 13.7% compared to 2002.

In 2003, the Group produced an aggregate of about 324,000 tons of cotton yarn, 585 million metres of grey fabric and 105 million metres of denim. Due to the commencement of full operations of the Third Production Area and the commencement of production of Binzhou Industrial Park in the third quarter of 2003, the aggregate production volume of cotton yarn and grey fabric increased by 99.9% and 116.9%, respectively, compared to the corresponding period in 2002.

While the cotton price increase had an adverse impact on many players in the PRC cotton textile industry, the Group was able to minimize such impact by capitalizing on its advantages of access to imported cotton quota, good product quality and extensive and loyal customer base. During the Year, the ratio of imported and domestic lint cotton was 57.2% (2002: 27.8%), and 42.8% (2002: 72.2%), respectively. The Group was able to pass on the increase in raw material cost to its customers and succeeded in improving its gross profit margin.

The pie charts below illustrate the sales analysis of the Group by geographical segment for the years ended 31 December 2002 and 31 December 2003, respectively:

Turnover breakdown by geographical segments



Notes:

1. Principally comprising Japan and South Korea
2. Principally comprising Taiwan, Thailand, the US and certain European countries

The Group also takes pride in its extensive customer base. It has nearly 3,000 customers in more than 20 provinces and municipalities in the PRC and about 400 customers spanning across more than 20 countries and regions. Comparing to 2002, the number of the Group's domestic and overseas customers has increased by 50% and 33%, respectively. The Group's customers include renowned market giants such as Fountain Set (Holdings) Limited and Texwinca Holdings Limited, as well as esteemed traders such as Itochu Corporation, Nichimen Corporation and Marubeni Corporation, who together contribute to the Group's stable revenue base, increasing orders and satisfactory business growth.

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 2002 and 2003:

Product category	For the year ended 31 December 2002		2003	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Cotton yarn	489,449	23.6	605,789	21.5
Grey fabric	48,014	3.4	386,362	14.1
Denim	<u>114,193</u>	12.9	<u>218,162</u>	21.7
Total	<u>651,656</u>	14.9	<u>1,210,313</u>	18.5

The gross profit margin of the Group increased to 18.5% for 2003 from 14.9% for 2002.

As a result of the increase in market price of lint cotton, the principal raw material of the Group, in 2003, the gross profit margin attributable to cotton yarn decreased to 21.5% (2002: 23.6%) for 2003.

As a result of the increase in average unit selling prices and production volume and the improvement in product mix, the gross profit margins attributable to grey fabric increased to 14.1% (2002: 3.4%) for 2003.

The gross profit margin for denim increased to 21.7% for 2003 from 12.9% for 2002. This is mainly due to the improvement in the Group's production cost as a result of increased recycling of waste materials and by-products produced during the production of cotton yarn and grey fabric, which are raw materials of denim.

Selling and distribution costs

The Group's selling and distribution costs increased by 88.9% to RMB 148 million for 2003 from RMB79 million for 2002. As a result of the increase in sales, in particular, export sales which increased by 64.2% to RMB3,646 million for 2003 from RMB2,221 million for 2002,

transportation costs increased to RMB104 million (2002: RMB58 million), sales commission increased to RMB19 million (2002: RMB12 million), staff costs increased to RMB18 million (2002: RMB5 million), and other expenses increased to RMB 7 million (2002: RMB4 million).

Administrative expenses

Administrative expenses for 2003 amounted to RMB90 million, representing an increase of 123.2%, as compared to RMB40 million for 2002. Such increase was mainly due to the increase in the number of administrative staff as a result of the injection of the operating assets of the Second Production Area and Third Production Area into the Company by Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”, formerly known as Shandong Weiqiao Textile Group Company Limited) and the acquisition of the 91% equity interests in Binzhou Industrial Park from Holding Company and Binzhou Weiqiao Property Company Limited (“Binzhou Weiqiao”) (formerly named Binzhou Weiqiao Textile Company Limited) by the Company and the establishment of Shandong Luteng Textile Co., Ltd. in the second half of 2002 and the establishment of Shandong Weiqiao Mianye Company Limited on 30 September 2003. Staff cost and other related expenses have increased as a result.

Finance costs

Finance costs rose to RMB158 million for 2003, representing an increase of 55.5% as compared to RMB102 million for 2002. The increase in bank loans for 2003 as compared with 2002 was mainly due to the injection of the operating assets and related liabilities of the Second Production Area and the Third Production Area into the Company by Holding Company in the second half of 2002, the acquisition of 91% equity interests in Binzhou Industrial Park in the second half of 2002 from Holding Company and Binzhou Weiqiao, the establishment of Shandong Weiqiao Mianye Company Limited on 30 September 2003, the production capacity expansion at the end of 2003, the funding of the capital expenditures in 2003 and the general working capital requirements of the Group.

Liquidity and financial resources

The cash and cash equivalents of the Group were RMB1,532 million as at 31 December 2003, representing an increase of 814% from cash and cash equivalents of RMB168 million as at 31 December 2002. During 2003, the Group invested RMB2,788 million in capital expenditures and incurred a net cash outflow from operating activities of RMB731 million and incurred an exchange loss of RMB7 million. These cash outflows were largely offset by an increase in net bank loans of RMB2,119 million, a net IPO proceeds of approximately RMB 2,511 million, a decrease of pledged deposit by RMB247 million and an interest income of RMB12 million. The net debt-to-equity ratio (total bank borrowings net of cash and cash equivalents over shareholders’ equity) decreased to 0.64 as at 31 December 2003 from 1.42 as at 31 December 2002 as a result of the reasons above.

The Group’s total borrowings, consisting of bank loans and long term payable to Holding Company, as at 31 December 2003 were RMB4,653 million in total, compared with RMB2,534 million in total as at 31 December 2002. The maturity profile spread over a period

of five years with RMB1,991 million repayable within one year or on demand, RMB997 million in the second year and RMB1,665 million in the third to fifth years, inclusive. Day-to-day funding requirements and capital expenditure of the Group are expected to be met by its IPO proceeds and internal cash flow. The Group also has access to significant uncommitted short-term borrowing facilities provided by its principal banks.

The Group's accounts receivable turnover days were about 28 days for the year ended 31 December 2003, increasing from 21 days for the year ended 31 December 2002. The increase in accounts receivable turnover days was attributable to the Group's increased ratio of export sales from 50.7% for 2002 to 55.6% for 2003. The accounts receivable turnover days for export sales are longer than that for domestic sales.

For the year ended 31 December 2003, the Group's inventory turnover days increased to 142 days from 73 days for the year ended 31 December 2002. The inventory turnover days increased mainly because the Group purchased an increased volume of imported lint cotton for use in early 2004 resulting from the unstable price of lint cotton in the second half of 2003.

During the year ended 31 December 2003, 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 2003.

Profit attributable to Shareholders and earnings per share

The Group's profit attributable to Shareholders for 2003 was about RMB542 million, representing an increase of 87.9%, as compared to about RMB288 million in 2002, which is higher than the profit forecast as stated in the Company's prospectus.

During the year ended 31 December 2003, the amount of basic earnings per share of the Company was RMB0.89. No diluted earnings per share amount has been presented as the Company did not have any dilutive potential ordinary shares during the year.

Capital structure

As at 31 December 2003, the Group's borrowings were primarily denominated in RMB and US dollars while its cash and cash equivalents were mainly held in RMB and US dollars.

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 2003, the Group had debts, representing bank loans and long term payable to Holding Company of about RMB4,653 million in total and cash and cash equivalents of about RMB 1,532 million. The gearing ratio was 41% (total indebtedness (consisting of bank loans and long term debts payable to Holding Company)/total assets).

Details of the bank loans outstanding as at 31 December 2003 are described in Note 29 to the audited consolidated financial statements ('Audited Accounts'). As at 31 December 2003, 97.9% of the Group's bank loans was at fixed interest rates and 2.1% was at floating interest rates. The Group did not have any seasonal variance of borrowing requirements.

Use of IPO proceeds

Weiqiao Textile conducted an IPO in September 2003. Our H Shares were listed on the main board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 24 September 2003. The IPO was well received by institutional investors and the public. The international placing was significantly over-subscribed and the Hong Kong public offer recorded an impressive subscription rate of 118.6 times. The over-allotment option was fully exercised on 25 September 2003. The net proceed of the Company’s H Share Offer is about RMB2,511 million. During the year ended 31 December 2003, the Company applied the proceeds from its IPO in September 2003 for the purposes set out in the prospectus dated 15 September 2003 as follows:

	<i>HKD million</i>	
	Planned	Actual allocation
Expansion of product portfolio to include high value-added cotton textile products	406	339
Upgrading the existing production technology	94	94
Establishment of a technology development center	47	—
Upgrading the information systems	34	—
Repayment to bank loans	566	566
Acquisition relating to the Group’s cotton textile manufacturing business	100	—
Financing general working capital	1,124	1,124

Details of the Group’s asset pledged

Details are set out in Note 29 to the Audited Accounts.

Exposure to foreign exchange risk

Income and most of the expenditure of the Group are denominated in RMB and US dollars. 55.6% of the Group’s income and 57.2% of the Group’s purchase cost of lint cotton were dominated in US dollars in 2003. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2003. The board of directors of the Company believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

Contingent liabilities

Details are set out in Note 34 to the Audited Accounts.

Employment, training and development

As at 31 December 2003, the Group had a total of over 69,000 employees. Total staff costs amounted to 9.5% of its total turnover for the year ended 31 December 2003. Employees were remunerated based on their performance, experience and prevailing industry practices. The remuneration policies and packages were reviewed on a regular basis. Bonuses and commissions may also be awarded to employees based on performance evaluation. These provide drives and incentives to encourage better performance and motivation.

Taxation

Tax payable by the Group grew from RMB170 million for 2002 to RMB306 million for 2003, representing an increase of 80.2%. This increase was primarily due to the increase in profit before tax by 85.1% to RMB853 million for 2003 from RMB461 million for 2002. Details of the reconciliation of the Group's effective tax rate to the applicable rate are set out in Note 11 to the Audited Accounts.

Outlook

Due to the enormous international demand for cotton textile products, the Group expects that the PRC cotton textile market will continue to exhibit growth, prosperity and a smooth development. The Group is confident that it will achieve greater business heights and corporate development in the coming future.

By the end of 2003, the domestic cotton price was about RMB17,300 per ton (including tax) while the Cotlook's Daily A cotton price was about US\$0.75 per pound. The PRC government recently increased the import quota by another 500,000 tons of cotton in addition to the 894,000 tons for 2004 in an effort to relieve the pressure of the high domestic cotton prices. However, domestic cotton prices are expected to remain at a high level for 2004. The gap between the average domestic cotton price and average international cotton price will narrow in 2004. Market consolidation is expected to continue in the industry. The smaller and less efficient operators will be driven out of the market, leaving behind leading cotton textile manufacturers with sufficient production facilities and capabilities and industry recognized product quality. Weiqiao Textile, the largest cotton textile manufacturer in the PRC, will have the opportunity of acquiring a greater market share as a result of such consolidation.

As China joins the WTO, the global textile trade business will become further integrated and liberalized, which helps to boost the market potential of the textile industry in China. The Agreement on Textiles and Clothing provides that all the quotas on textile products will be removed by the end of 2004. The relaxation of the quota restrictions on imported cotton will directly lower our cotton costs, which gives us an advantage over international competitors. It will enhance the export to European and American markets and extend our market coverage. The rapid economic growth of China and the consolidation of the textile industry in China will also present the Group with more business opportunities.

With a view of achieving further historic highs in performance and unrivaled operation success, the Group will ride on its robust growth momentum by introducing more advanced equipments, further increasing its production capacity and expanding the range of its high value-added products. The Group plans to increase its capital investment to expand its capacity of cotton yarn and grey fabric by about 50% and 70% respectively by the end of 2004 to capture the growing market demand. From time to time, the Directors will assess the supply of raw materials and other resources and if necessary implement appropriate measures to ensure that a steady supply can be maintained to support the Group's continuous expansion. The Group plans to introduce more advanced production equipment to expand its product portfolio to have more high value-added cotton textile products. The Group will also improve its existing information system and employ more high caliber employees to sustain its competitive advantages in the market. Last but not least, in addition to the enormous PRC market, the Group will further explore the markets in Asia, Europe and US, so as to strengthen its leading position in the domestic cotton textile market as well as to solidify its presence in the global cotton textile industry. Weiqiao Textile will not rest on its laurels by its encouraging performance, but instead it will become even more motivated to achieve astounding success to reward its supportive shareholders and enhance value for its loyal customers.

SUPPLEMENTARY INFORMATION

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2003, together with the reasons therefor, are set out in Note 31 to the Audited Accounts.

Substantial Shareholders

As at 31 December 2003, so far as is known to the directors ("Director"), supervisors ("Supervisors") and 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 Future Ordinance ("SFO") were as follows:

Long positions in the domestic shares of the Company:

	Number of domestic shares <i>(note 1)</i>	Approximate percentage of total issued domestic share capital <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited <i>(Note 2)</i>	410,311,100 <i>(note 3)</i>	77.31
Zouping County Supply and Marketing Cooperation Union ("ZCSU")	410,311,100 <i>(note 4)</i>	77.31

Long positions in the H shares of the Company:

	Number of H shares <i>(note 5)</i>	Approximate percentage of total issued H share capital <i>(%)</i>
Value Partners Limited	23,139,000 <i>(note 6)</i>	8.06
Cheah Cheng Hye	23,139,000 <i>(note 7)</i>	8.06
J.P. Morgan Chase & Co.	15,069,500 <i>(note 8)</i>	5.25

Notes:

1. Unlisted shares.
2. Formerly known as Shandong Weiqiao Textile Group Company Limited, name changed in 14 October 2003
3. These 410,311,100 domestic shares are directly held by Holding Company.

4. 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.
5. Shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”).
6. These 23,139,000 H shares are held by Value Partners Limited as investment manager.
7. These 23,139,000 H shares are deemed corporate interests under the SFO indirectly held through Value Partners Limited, in which Cheah Cheng Hye has a controlling interest.
8. 8,006,000 H shares are held by J.P. Morgan Chase & Co. in its capacity as investment manager and 7,063,500 H shares in its capacity as custodian corporation/approved lending agent.

Directors’ and Supervisors’ Interests in Shares

As at 31 December 2003, the interests and short positions of the Directors and Supervisors in the shares, underlying shares, debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the domestic shares of the Company:

	Type of interest	Number of domestic shares <i>(note 1)</i>	Approximate percentage of total issued domestic share capital <i>(%)</i>
Zhang Hongxia (Executive Director)	Personal	17,700,400	3.34
Zhang Bo (Executive Director, Chairman)	Personal	12,932,000	2.44
Qi Xingli (Executive Director)	Personal	8,052,500	1.52
Zhang Shiping (Non-executive Director)	Personal	5,200,000	0.98

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 <i>(%)</i>
Zhang Shiping (Non-executive Director)	Holding Company	Personal	4.53

Note 1: Unlisted shares

Final Dividend

The Directors recommended the payment of a final dividend of RMB 0.056 per share, payable to shareholders whose names appear on the register of members of the Company as at close of business on 17 March 2004. The final dividend represents about 35% of the Group's distributable profits during the period from the date of listing of the Company (24 September 2003) to 31 December 2003. According to the relevant regulations in the PRC and as disclosed in the Company's prospectus, the Group's net profit after tax can only be distributed after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, statutory public welfare fund and general reserve fund, employee's bonus and welfare fund and enterprise expansion fund.

Closure of Register of Members

The Company's register of members will be closed from Thursday, 18 March 2004 to Saturday, 17 April 2004 (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, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 17 March 2004.

Capital Commitment/Charges on assets

As at 31 December 2003, the Group had authorized and contract for a capital commitment of RMB 109 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 2003.

Audit Committee

The Company has established an audit committee ("Audit Committee") in accordance with the requirements of the Code of Best Practice ("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 ("Listing Rules"), 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 27 February 2004 to review the Group's annual report and provide advice and recommendations to the board of directors of the Company.

Compliance with the Code of Best Practice

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice throughout the year ended 31 December 2003.

Publication of Annual Results on Website

The financial information required to be disclosed under paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk in due course.

Proposed Amendments to Articles of Association

It is proposed that the articles of association of the Company be amended to reflect the provisions of Appendix 3 to the Listing Rules which will be amended. Such amendments involve conformation with the following:

- (1) where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted;
- (2) the minimum 7 day period for lodgment by any shareholder of the Company of the notice to nominate a director shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days before the date of such meeting; and
- (3) directors shall abstain from voting at the board meeting on any matter in which any of his associates has a material interest and are not to be counted towards the quorum of the relevant board meeting.

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

By Order of the Board
Zhang Bo
Chairman

Hong Kong, 27 February 2004

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

Notice of 2003 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 2003 will be held at 9 a.m. on 17 April 2004 at the conference room on the second floor of the Binzhou Weiqiao Technology Industrial Park Co. Ltd. office building, at the West End of Huang He Second Road, Binzhou City, Shandong Province, the 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 2003;
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 2003;
3. to consider and approve the annual remuneration proposal for the Company’s Directors and Supervisors for the year ending 31 December 2004;
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 2004 and 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) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and
 - (ii) 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 People’s Republic of China (“**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 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;

“**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 provisions of Appendix 3 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which will be amended. The details of the amendments are as follows:

- (a) A new second paragraph (as set out below) shall be added to Article 8.17 of the Articles of Association of the Company.

“That, where any shareholder is, under the Exchange Listing Rules (as such term is defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

- (b) Paragraph 2 of Article 10.2 of the Articles of Association of the Company shall be deleted in its entirety and replaced by the following:

“That the period for lodgment of the notices to the Company (i) by any shareholder of his/her/its intention to propose a person for election as a director; and (ii) by such nominee of his/her willingness to be elected, will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting, provided that the minimum length of period during which such notices may be given, will be at least 7 days.”

- (c) Article 10.12 of the Articles of Association of the Company shall be deleted in its entirety and replaced by the following:

“Article 10.12 A director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as such term is defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) has a material interest nor shall he be counted in the quorum present at the same board meeting, but this prohibition shall not apply and a director may vote (and be counted in the quorum) in respect of any resolution concerning any one or more of the following matters:

- (a) the giving to him or any of his associates of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself or any of his associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) where the Company or any of its subsidiaries is offering securities and the director or any of his associates is or may be entitled to participate in the underwriting or sub-underwriting of such offer;
- (d) any contract in which he or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
- (e) any contract concerning any other company (not being a company in which the director and any of his associates in aggregate own 5 per cent. or more) in which he or any of his associates is interested directly or indirectly as an officer or shareholder;

- (f) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors, their associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any director or any of his associates as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- (g) any contract for the benefit of employees of the Company or of any of its subsidiaries under which the director or any of his associates benefits in a similar manner to the employees and which does not accord to any director or any of his associates as such any privilege or advantage not accorded to the employees to whom the contract relates; and
- (h) any contract for the purchase or maintenance for any director or directors of insurance against any liability.

A company shall be deemed to be one in which a director and any of his associates in aggregate own 5 per cent. or more if and so long as (but only if and so long as) they are (either directly or indirectly) the holder of or beneficially interested in 5 per cent. or more of any class of the equity share capital of that company (or of any third company through which the interest of the director or that of his associate is derived) or of the voting rights available to members of that company. For the purpose of this paragraph there shall be disregarded any shares held by the director or any of his associates as bare or custodian trustee and in which he and his associates have no beneficial interest, any shares comprised in a trust in which the interest of him and his associates is in reversion or remainder if and so long as some other person is entitled to receive the income of the trust and any shares comprised in an authorised unit trust scheme in which he or any of his associates is interested only as a unit holder.

Where a company in which a director and any of his associates in aggregate own 5 per cent. or more is materially interested in a contract, he also shall be deemed to be materially interested in that contract.

If any question arises at any meeting as to the materiality of an interest of a director (other than the chairman of the meeting) and any of his associates or as to the entitlement of any director (other than the chairman of the meeting) to vote and the question is not resolved by his voluntarily agreeing to abstain from voting, the question shall be referred to the chairman of the meeting and his ruling in relation to the director concerned shall be final and conclusive except in a case where the nature or extent of the interest of the director or any of his associates concerned, so far as known

to him, has not been fairly disclosed. If any question shall arise in respect of the chairman of the meeting or any of his associates and is not resolved by his voluntarily agreeing to abstain from voting, the question shall be decided by a resolution of the directors (for which purpose the chairman of the meeting shall be counted in the quorum but shall not vote on the matter) and the resolution shall be final and conclusive except in a case where the nature or extent of the interest of the chairman of the meeting or any of his associates, so far as known to him, has not been fairly disclosed.””

By Order of the Board
Zhao Suwen
Company Secretary

Shandong, PRC, 27 February 2004

Notes:

- (A) The H Share register of the Company will be closed from Thursday, 18 March 2004 to Saturday, 17 April 2004 (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 Wednesday, 17 March 2004, 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 Wednesday, 17 March 2004.

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

Computershare Hong Kong Investor Services 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 Saturday, 27 March 2004.

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

No. 34 Qidong Road
Weiqiao Town
Zouping County
Shandong Province
People’s Republic of China

Tel: (86) 543 472 1437
Fax: (86) 543 472 1200

- (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 2003.
- (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, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19/F, 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.

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

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