魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

2018
ANNUAL REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL DATA

Results

	For the year ended 31 December (RMB'000)				
	2014	2015[1]	2016[1]	2017[1]	**2018[1]**
				(restated)	
Revenue	11,211,146	12,498,205	14,175,446	16,373,385	**16,455,884**
Gross profit	742,819	2,187,631	2,251,359	1,770,198	**1,719,619**
Gross profit margin (%)	6.6	17.5	15.9	10.8	**10.5**
Profit before income tax	446,927	1,327,264	1,514,657	944,855	**1,024,364**
Net profit attributable to shareholders of the parent company	308,243	979,347	992,706	522,249	**643,906**
Net profit margin (%)	2.7	7.8	7.0	3.2	**3.9**
Basic earnings per share (RMB)	0.26	0.82	0.83	0.44	**0.54**

Note: (1) The financial data from 2015 to 2018 as shown on the table above include the data regarding the electricity and steam business, which leads to the notable change in certain data or indicators as compared to those of the previous years.

Assets and liabilities

	As at 31 December (RMB'000)				
	2014	2015[1]	2016[1]	2017[1]	**2018[1]**
Total assets	28,959,365	29,081,434	31,832,301	28,512,475	**24,952,770**
Equity	16,210,478	17,095,184	17,780,738	17,959,111	**18,408,850**
Total liabilities	12,748,887	11,986,250	14,051,563	10,553,364	**6,543,920**
Return on equity[2] (%)	1.9	5.7	5.6	2.9	**3.5**
Current ratio (times)	3.3	3.7	2.7	1.7	**2.1**
Accounts receivable turnover (days)	9	7	9	9	**9**
Inventory turnover (days)	190	151	113	72	**72**
Accounts payable turnover (days)	43	38	28	24	**27**

Notes: (1) The financial data from 2015 to 2018 as shown on the table above include the data regarding the electricity and steam business, which leads to the notable change in certain data or indicators as compared to those of the previous years.

(2) Calculated based on average equity.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Zhang Hongxia *(Chairman)*
Ms. Zhang Yanhong *(Vice Chairman)*
Ms. Zhao Suwen *(Chief Financial Officer, Authorized Representative)*
Mr. Zhang Jinglei *(Company Secretary, Authorized Representative)*

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shiping
Ms. Zhao Suhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Yau, George
Mr. Chen Shuwen
Mr. Liu Yanzhao

SUPERVISORS

Ms. Wang Xiaoyun
Ms. Fan Xuelian
Ms. Bu Xiaoxia

SENIOR MANAGEMENT

Mr. Wei Jiakun *(General Manager)*

COMPANY SECRETARY

Mr. Zhang Jinglei

AUDIT COMMITTEE

Mr. Chan Wing Yau, George *(Chairman of the Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

REMUNERATION COMMITTEE

Mr. Liu Yanzhao *(Chairman of the Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

NOMINATION COMMITTEE

Ms. Zhang Hongxia *(Chairman of the Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

AUTHORISED REPRESENTATIVES

Ms. Zhao Suwen
Mr. Zhang Jinglei

PLACE OF BUSINESS IN HONG KONG

Suite 5109
The Center, 99th Queen's Road Central
Central, Hong Kong

LEGAL ADDRESS IN THE PRC

No. 34, Qidong Road, Weiqiao Town
Zouping City, Shandong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Wei Fang Road
Zouping Economic Development Zone
Zouping City, Shandong Province
The PRC

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

COMPANY WEBSITE

www.wqfz.com

STOCK CODE

2698

SHAREHOLDERS' REFERENCE

LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

LISTING DATE

24 September 2003

NUMBER OF ISSUED SHARES AS AT 31 DECEMBER 2018

H shares: 413,619,000
Domestic shares: 780,770,000

INVESTOR RELATIONS

Ms. Xu Hang
Tel: (852) 2815 1090
Email: rebecca@wqfz.com

IR & PR CONSULTANT

Christensen China Limited
Tel: (852) 2117 0861
Fax: (852) 2117 0869
Email: weiqiao@ChristensenIR.com

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date
15 March 2019

DATE OF ANNUAL GENERAL MEETING

30 May 2019

DISTRIBUTION DATE OF FINAL DIVIDEND

28 June 2019


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CHAIRMAN'S STATEMENT

It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the audited consolidated results of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year" or "Year under Review").

OVERVIEW

In 2018, the effect of the supply-side structural reform of the PRC textile industry has gradually emerged and the supply structure has been adjusted and optimised. The profit growth has improved significantly and the adaptability and flexibility of the industry to the change in demands have shown a continuous enhancement as well. The stable performance in both domestic and overseas markets stimulated the investment and efficiency indicators to improve steadily. Overall, the industry continued to maintain stable operation performance. However, the textile industry faced significant change in the outer environment, where the PRC economy transformed from high growth to high quality development. Meanwhile, the PRC textile industry also faced risks and pressure associated with issues such as the China-US trade friction and unstable trade environment.

In terms of domestic sales, the growth rate of the textile and apparel product industry of the PRC in domestic sales has been better since 2018 as compared with the past two years. The industry demonstrated a positive effect in strengthening the efficiency in demand and supply. According to the statistics from the National Bureau

CHAIRMAN’S STATEMENT

of Statistics of the PRC, the total retail sales of consumer goods of the country grew by approximately 9.0% year-on-year to approximately RMB38,098.7 billion in 2018, of which the total retail sales of apparel, footwear, headwear and knitwear by companies above a designated size in China (with annual revenue of over RMB20 million) amounted to approximately RMB1,370.7 billion, representing a year-on-year increase of approximately 8.0%, which was 0.2 percentage point higher than that of the previous year. Online retail continued to grow rapidly with online retail sales of wearing products recording a year-on-year increase of approximately 22.0% in 2018, which was 1.7 percentage points higher than that of the previous year.

In terms of export sales, the PRC textile and apparel products remained competitive in the international market. In 2018, the export market of the industry continued to improve. According to the statistics from the General Administration of Customs of the PRC, the aggregated exports of textile products and apparel from the PRC for 2018 was approximately US$276.7 billion, representing a year-on-year increase of approximately 3.0% and approximately 2.2 percentage points higher than that of the corresponding period of last year. Among these, exports of textile products reached approximately US$119.1 billion, representing a year-on-year increase of approximately 7.8%, which was approximately 3.6 percentage points higher than that of the corresponding period of last year, and exports of apparel amounted to approximately US$157.6 billion, representing a year-on-year decrease of approximately 0.3%.

CHAIRMAN'S STATEMENT

In terms of textile raw materials, the market witnessed greater fluctuations in cotton price in 2018. During the first half of the year, driven by several factors including strong global demand and the lower-than expected cotton output by the United States and India, the cotton price increased significantly. Affected by the trade friction, the cotton price began to drop from the high level during the second half of the year. The Group paid close attention to the market development and took reasonable actions to source cotton globally, so as to reduce the impact of cotton price fluctuations on its operating results.

BUSINESS

During the Year, against the situation of the slowdown in the global economic development, the escalation of trade friction and the continuously intensified competition, the Group actively promoted business transformation and upgrading and the shift in growth drivers, stepped up efforts in the research and development of new products and market exploration, and further improved the quality of its products under the management philosophy of prudent and steady development, so as to achieve high quality development. The Group recorded revenue of approximately RMB16,456 million, representing an increase of approximately 0.5% as compared with 2017. The net profit attributable to owners of the Company was approximately RMB644 million, representing an increase of approximately 23.4% as compared with that of 2017, while earnings per share was RMB0.54.

In terms of the textile business, the Group adhered to the new development concept and kept focusing on improving development quality and efficiency. The Group accelerated structural adjustment and business transformation and upgrading, making new milestones in promoting high quality development and realizing the transformation and upgrading of the traditional manufacturing industry. The Group developed 1,912 new products throughout the year, and a series of new products have won a number of awards. Our cotton fabric products were awarded the "Champion Single Products in Manufacturing Industry" by the Ministry of Industry and Information Technology. Weiqiao Textile also passed the on-site inspection of the quality award by China National Textile and Apparel Council and was selected as one of first pilot demonstration enterprises on intelligent manufacturing of the textile industry, and was honored as the Nationwide Equipment Management Outstanding Unit.

In terms of the electricity and steam business, the Group improved its management efficiency and reduced its wastage and consumption, thereby further optimizing the productivity of its captive power plants. The Group proactively promoted green development, and fully achieved ultra-low emission by installing flue gas dedusting facilities and desulphurization and denitrification facilities for all of the Group's power generating units. Meanwhile, the Group accelerated the process of the technical improvement project of desulphurization wastewater zero discharge and the technical improvement project of recycled-water defluoridation.

In terms of capital operation, the Group further reduced the level of liabilities and optimized its debt structure. The Group redeemed domestic corporate bonds with a principal amount of RMB3 billion upon maturity and repaid some interest-bearing bank loans, which reduced the finance costs correspondingly.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking forward to 2019, it is expected that the global macro-economic environment will be gradually improved. However, the growth momentum is expected to weaken. With the complexity and volatility of the economic and trade environment and the increase in uncertainties including the trade friction, the export environment of the PRC textile products will become more complicated, while the transformation and upgrading of the domestic market is expected to provide continuous support for the development of the textile industry.

In terms of the textile business, by seizing the opportunities arising from the transformation and upgrading of the textile industry, the Group will continue to reinforce its production capacity advantage, make continuous efforts in promoting management innovation, technology improvements as well cost reduction and efficiency. The Group will also look to improve automation level and productivity, reduce labour intensity and production costs, so as to enhance its operation capabilities and competitive strength. The Group will increase its investments in research and development activities, optimize its product portfolio, extend its business to the high-end of the industrial chain, and continue to launch high value-added and high-tech textile and fabric products, striving to lead the transformation of the textile manufacturing industry.

The Group will also continue to optimize the productivity and operation of its captive power plants, with an aim to improve the overall profitability of the Group. Furthermore, the Group will continue to fulfill its social responsibilities such as energy saving and environmental protection to a high standard. Adhering to the strategy of "Green Development", the Group will increase investments in environmental protection and implement higher standards for environmental protection, laying a solid foundation for the sustainable and healthy development of the Group.

In addition, the Group will also further strengthen its fund management and optimize its debt structure. Under the premise of maintaining the Group's sustainable operation capacity and sufficient liquidity, the Group will further reduce its level of liabilities and capital costs, thereby improving shareholder returns and maximizing shareholder interests.

The management of the Group and I would like to express our gratitude to our shareholders for their unwavering support towards the Group. Looking forward, the Group will focus more on its major tasks such as innovation development, intelligent manufacturing and green development, promote high quality development, make great efforts to reduce costs and enhance efficiency, and strive to build a high-quality team, so as to create greater returns for our shareholders.

Ms. Zhang Hongxia
Chairman

Shandong, the PRC
15 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2018, the global economy was on a recovery track, and the PRC economy showed an overall stable and positive momentum. However, the economic growth was under pressure in the second half of the year due to the trade friction. Under this macro context, the PRC textile industry witnessed an overall steady performance, with stable growth in the domestic market and improvement in the export business.

During the Year, consumption upgrade boosted domestic sales. According to the statistics from the National Bureau of Statistics of the PRC, the total retail sales of consumer goods of the country grew by approximately 9.0% year-on-year to approximately RMB38,098.7 billion in 2018, of which the total retail sales of apparel, footwear, headwear and knitwear by companies above a designated size in China amounted to approximately RMB1,370.7 billion, representing a year-on-year increase of approximately 8.0%.

The rebound in exports has boosted the growth of the export of textile products and apparel. According to the statistics from the General Administration of Customs of the PRC, the aggregated exports of textile products and apparel from the PRC were approximately US$276.7 billion in 2018, representing a year-on-year increase of approximately 3.0%.

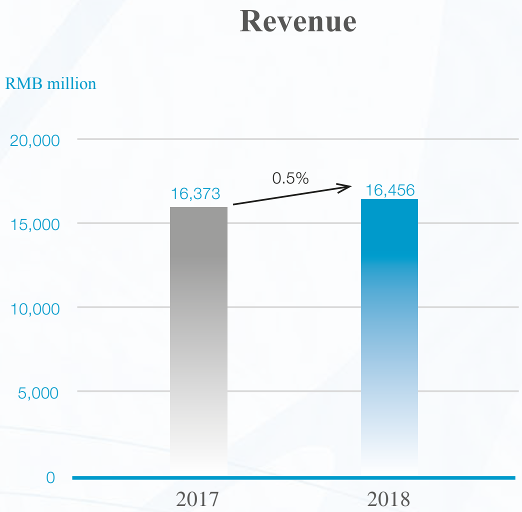
In terms of textile raw materials, the market witnessed greater fluctuations in cotton price during 2018. In May, domestic cotton price staged a strong rally following a period of significant sideways fluctuations. In the second half of the year, due to the combined effect of various factors such as the substantial increase in cotton output across the globe and the China-US trade friction, the cotton price continued to decrease.

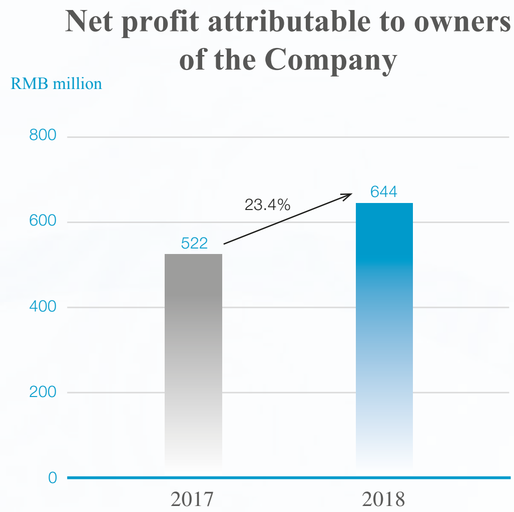
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year under Review, the production costs of the Group increased as the raw material costs and labour costs remained at a high level, but the finance costs of the Group were significantly decreased due to the further decrease in the level of liabilities and optimization of the debt structure. Net profit attributable to owners of the Company increased as compared to the same period last year.

For the years ended 31 December 2018 and 2017, the revenue of the Group and net profit attributable to owners of the Company were as follows:



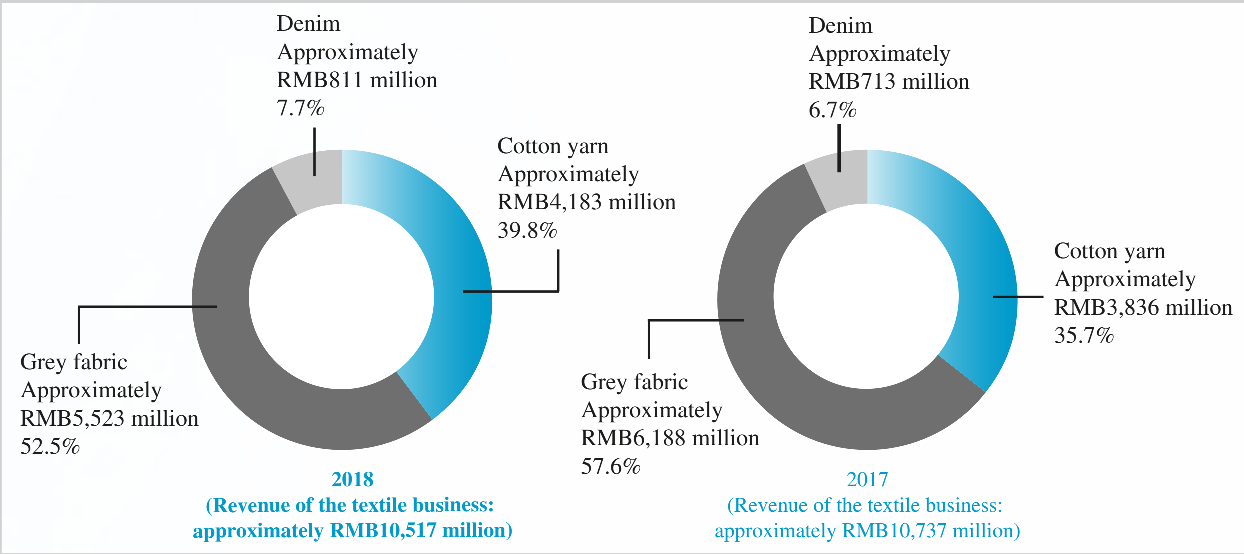


For the year ended 31 December 2018, the Group recorded revenue of approximately RMB16,456 million, remaining basically stable with the corresponding period of last year, where the revenue of textile products was approximately RMB10,517 million, representing a decrease of approximately 2.0% over the corresponding period of last year. This was mainly due to the sluggish demand of textile products from downstream due to the effect of various factors including the increase in the necessary production cost and the trade friction, resulting in a year-on-year decrease of approximately 10.7% in the Group's revenue from the sales of grey fabric. The revenue of the electricity and steam was approximately RMB5,938 million, representing an increase of approximately 5.4% over the corresponding period of last year, which was mainly due to the increase in the amount of electricity generated by the Group according to the market demand, resulting in the increase in the sales volume of electricity. Net profit attributable to owners of the Company amounted to approximately RMB644 million, representing an increase of approximately 23.4% as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Textile Business

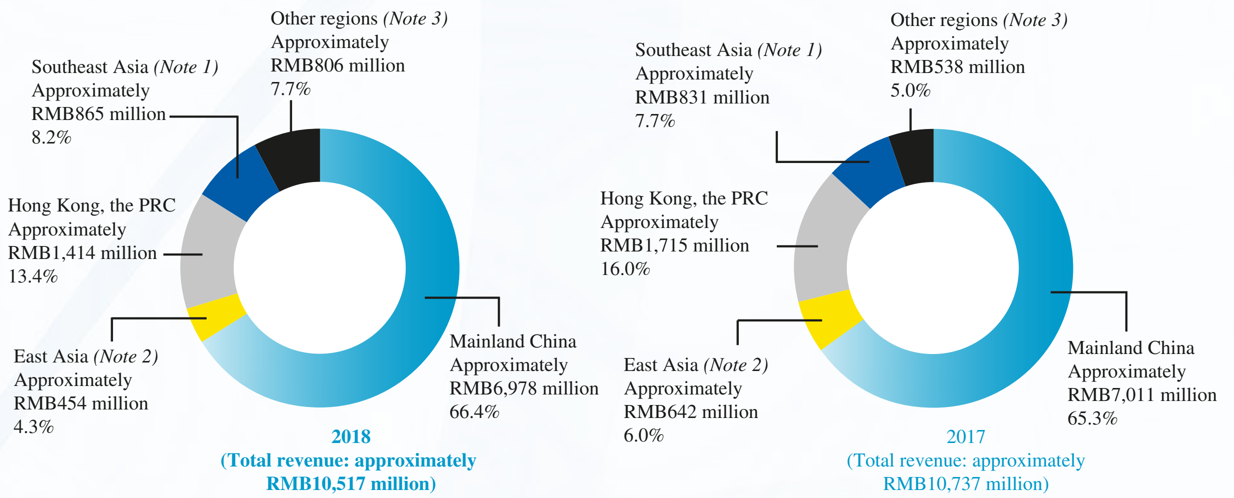
The charts below are the comparison of the breakdown of revenue of the textile business categorized by products for the years ended 31 December 2018 and 2017, respectively:



For the year ended 31 December 2018, the revenue of the Group's cotton yarn recorded an increase over the corresponding period of last year, which was mainly because the Group adjusted its production plan to increase the sales volume of cotton yarn in accordance with the market conditions. The revenue of grey fabric recorded a decrease, which was mainly due to the sluggish demand of textile products from downstream caused by the effect of various factors including the increase in the necessary production cost and the trade friction, resulting in a year-on-year decrease in the sales volume. The revenue of denim recorded a year-on-year increase, which was mainly due to the increase in the sales of denim as the Group proactively adjusted its production structure in accordance with the market demands and sold out part of the grey fabric inventory.

MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are the comparison of the breakdown of revenue of the textile business categorized by geographical location for the years ended 31 December 2018 and 2017, respectively:



Note 1: *Southeast Asia mainly includes Vietnam, Thailand, Malaysia, Indonesia, the Philippines and Burma;*

Note 2: *East Asia includes Japan and South Korea;*

Note 3: *Other regions mainly include the US, Europe, Africa and Taiwan, China.*

For the year ended 31 December 2018, the Group continued to implement a sales strategy of placing equal emphasis on domestic sales and overseas exports, generating revenue from the sales of textile products in the overseas and in the domestic markets of approximately 33.6% and approximately 66.4% of the Group's total revenue respectively, which were basically stable with not much change as compared with last year.

During the Year under Review, the Group's cotton yarn output was approximately 421,000 tons, representing an increase of approximately 6.9% as compared with the corresponding period of last year; grey fabric output was approximately 897 million meters, representing a decrease of approximately 2.6% as compared with the corresponding period of last year; denim output was approximately 70 million meters, which was basically stable as compared with the corresponding period of last year.

All production bases of the Group are located in Shandong Province, the PRC. The production and operations of the Group remained steady and all facilities were functioning in good conditions during the Year under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

Electricity and Steam Business

As at 31 December 2018, the installed capacity of the Group's thermal power assets amounted to 2,760 MW, which was in line with the corresponding period of last year. In 2018, the power generation of the Group was approximately 18,548 million kWh, representing an increase of approximately 6.3% as compared with the corresponding period of last year; while its electricity sold amounted to approximately 16,102 million kWh, representing an increase of approximately 6.5% over the corresponding period of last year, which was mainly due to the increase in the amount of electricity generated by the Group according to the market demand, resulting in the increase in the sales volume of electricity.

For the year ended 31 December 2018, the revenue of the Group's sales of electricity and steam amounted to approximately RMB5,938 million, representing an increase of approximately 5.4% as compared with the corresponding period of last year. The gross profit thereof was approximately RMB1,439 million, representing a decrease of approximately 2.4% as compared to the corresponding period of last year. The decrease in gross profit from the sales of electricity and steam as compared with the corresponding period of last year was mainly attributable to the rising raw material costs during the Year.

The Group fully achieved ultra-low emission by installing flue gas dedusting facilities and desulphurization and denitrification facilities for all of the Group's power generating units.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to the major products for the years ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December					
	2018			2017		
Product categories	**Revenue**	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	**%**	*RMB'000*	*RMB'000*	%
Cotton yarn	**4,183,083**	**168,050**	**4.0**	3,836,323	158,926	4.1
Grey fabric	**5,523,329**	**6,136**	**0.1**	6,188,351	3,445	0.1
Denim	**811,050**	**106,546**	**13.1**	712,380	132,533	18.6
Electricity and steam	**5,938,422**	**1,438,887**	**24.2**	5,636,331	1,475,294	26.2
Total	**16,455,884**	**1,719,619**	**10.5**	16,373,385	1,770,198	10.8

For the year ended 31 December 2018, the gross profit of the sales of textile products decreased by approximately 4.7% as compared with the corresponding period of last year to approximately RMB281 million, which was primarily due to several factors including the rising raw material costs and the increasing staff costs of the Group during the Year. The gross profit from the sales of electricity and steam decreased by approximately 2.4% from the corresponding period of last year to approximately RMB1,439 million, and the gross profit margin was approximately 24.2%, down by approximately 2.0 percentage points from that of the same period of last year, which was primarily due to the rising raw material costs.

Selling and Distribution Expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses increased from approximately RMB159 million to approximately RMB166 million, representing an increase of approximately 4.4% compared with the corresponding period of last year. Among these expenses, transportation costs decreased from approximately RMB104 million to approximately RMB101 million, representing a decrease of approximately 2.9% compared with the same period of last year. Salary of the sales staff was approximately RMB38 million, representing an increase of approximately 11.8% from approximately RMB34 million for the same period of last year, which was mainly due to the increase in the salary and welfare of the sales staff. Sales commission was approximately RMB16 million, representing an increase of approximately 23.1% from approximately RMB13 million for the same period of last year, which was primarily due to the increase in the export sales of the Group through brokers, resulting in an increase in commissions.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

For the year ended 31 December 2018, the administrative expenses of the Group were approximately RMB277 million, representing an increase of approximately 7.8% from approximately RMB257 million for the corresponding period of last year. The increase was primarily attributable to the increase in the salary and welfare of the administrative staff.

Finance Costs

For the year ended 31 December 2018, finance costs of the Group were approximately RMB376 million, representing a decrease of approximately 28.1% from approximately RMB523 million for the corresponding period of last year, which was mainly attributable to the further decrease in the level of liabilities, optimization of the debt structure and the repayment of a portion of the interest-bearing bank loans and corporate bonds by the Group during the Year.

Liquidity and Financial Resources

The working capital of the Group is mainly financed with the cash inflow from operating activities. For the year ended 31 December 2018, the Group recorded a net cash inflow from operating activities of approximately RMB1,996 million. Net cash outflow from investing activities was approximately RMB181 million, and net cash outflow for financing activities was approximately RMB4,942 million.

As at 31 December 2018, cash and cash equivalents of the Group were approximately RMB9,597 million, representing a decrease of approximately 24.6% as compared with the cash and cash equivalents of approximately RMB12,723 million as at 31 December 2017, which was mainly attributable to the repayment of a portion of the interest-bearing bank loans and corporate bonds by the Group during the Year. The Group will continue to take effective measures to ensure adequate liquidity and financial resources to satisfy business needs, and maintain a stable and healthy financial position.

For the year ended 31 December 2018, the inventory turnover days of the Group were 72 days, which was in line with that of the corresponding period of last year.

For the year ended 31 December 2018, the average turnover days of the Group's receivables were 9 days, which was in line with that of the corresponding period of last year.

For the year ended 31 December 2018 and the corresponding period of last year, the Group did not use derivative financial instruments.

Net Profit Attributable to Owners of the Company and Earnings per Share

For the year ended 31 December 2018, net profit attributable to owners of the Company was approximately RMB644 million, representing an increase of approximately 23.4% from approximately RMB522 million for the corresponding period of last year.

For the year ended 31 December 2018, earnings per share of the Company were RMB0.54, representing an increase of approximately 22.7% from approximately RMB0.44 for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The major objective of the Group's capital management is to ensure ongoing operations capacity and maintain a satisfactory capital ratio in order to support its own business operation and maximize shareholders' interests. The Group continued to focus on its equity and debt mix to ensure the best capital structure that reduces capital costs.

As at 31 December 2018, the debts of the Group were mainly bank borrowings amounting to approximately RMB1,925 million (31 December 2017: approximately RMB3,262 million) and corporate bonds amounting to approximately RMB963 million (31 December 2017: approximately RMB3,963 million). The Group had cash and cash equivalents of approximately RMB9,597 million (31 December 2017: approximately RMB12,723 million). As at 31 December 2018, the Group's gearing ratio (net debt (after deducting the interest-bearing bank and other borrowings of cash and cash equivalents) divided by total equity) was approximately -36.4% (31 December 2017: approximately -30.6%).

The Group manages its interest expenses through a fixed rate and floating rate debt portfolio. As at 31 December 2018, approximately 92.2% of the Group's bank loans were subject to fixed interest rates, while the remaining of approximately 7.8% were subject to floating interest rates.

During the Year, the Group repaid net bank borrowings of approximately RMB1,337 million, and redeemed corporate bonds of approximately RMB3,000 million. In the future, the Group will also further strengthen the fund management and optimize the debt structure, further reduce the level of liabilities while maintaining the Group's sustainable operation capacity and sufficient liquidity. During the year of 2019, approximately RMB963 million of the Group's corporate bonds will expire, and it is expected that the Company will repay the principal and interest of such bonds on schedule with its cash on hand. After repaying such corporate bonds, the Group's liabilities are expected to record a further decrease. The Group will also negotiate with various correspondence banks to further optimize the debt structure and reduce the level of liabilities.

As at 31 December 2018, the Group's bank loans were mainly denominated in Renminbi. Cash and cash equivalents were denominated in Renminbi, US dollars and Hong Kong dollars, of which cash and cash equivalents denominated in US dollars and Hong Kong dollars represented approximately 3.3% of the total amount.

Pledged Assets

Details of pledged assets of the Group are set out in Note 36 to the consolidated financial statements.

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of approximately 52,000 employees, representing a decrease of approximately 3,000 employees as compared with that of the corresponding period of last year. This decrease in the number of the staff was mainly due to the normal employee turnover during the Year. Total staff costs of the Group for the Year amounted to approximately RMB3,332 million, representing an increase of approximately 14.7% from approximately RMB2,904 million as recorded for the corresponding period of last year, which was mainly attributable to the improvement of employees' benefits and the increase in employee remuneration by the Group during the Year.

The remuneration of the Group's employees is determined based on their performance, experience and the prevailing industry practice. The management of the Group will periodically review the remuneration policies and packages. In addition, the management also grants bonuses and rewards to the employees based on their performance to encourage and motivate them to engage in technological innovation and technique improvement. The Group also provides relevant training, such as safety training and skills training, to staff based on the technical requirements of different posts.

Exposure to Foreign Exchange Risks

The Group adopts a strict and prudent policy in managing the exchange rate risks. Export revenue and import procurement of the Group are settled in US dollars, and a portion of bank deposits are denominated in US dollars. For the year ended 31 December 2018, approximately 33.6% of the Group's revenue and approximately 15.2% of the purchase costs of cotton were denominated in US dollars. The Group recorded an exchange gain of approximately RMB7 million for the Year due to the depreciation of RMB. The Group did not experience any significant difficulties or impacts on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believe that the Group will have sufficient foreign currency to meet its demands.

Contingent Liabilities

As at 31 December 2018 and the corresponding period of last year, the Group did not have any significant contingent liabilities.

Taxation

For the year ended 31 December 2018, the tax of the Group decreased from approximately RMB424 million in 2017 to approximately RMB382 million, representing a decrease of approximately 9.9%. Such decrease in tax was mainly attributable to the decrease in the deferred income tax recognized in respect of provisions for asset impairment by the Group for the Year.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2018, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

Significant Investments Held

Save as disclosed in this annual report, the Group did not hold any other significant investment which had significant impact on the Group's overall operation during the year ended 31 December 2018.

Future Plans for Material Investments or Capital Assets

During the year ended 31 December 2018 and as of the date of this annual report, there was no plan authorised by the Group for any material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RISKS AND UNCERTAINTIES

The Group's operation is exposed to certain risks and uncertainties, some of which are beyond its control. Such risks and uncertainties include domestic and overseas economic conditions, credit policies and foreign exchange policies of the PRC, changes in the laws, regulations and enforcement policies, cotton price and sales price of textile products as well as market competition.

The potential risks relating to the Group's business increase with the growth of its business. In order to identify, assess and control these risks which may jeopardize the Group's success, the Group has implemented the risk management system covering each major aspect of the business operation, including financial security, production and legal compliance. Given that the Group has established risk management as a system project, each department within the Group is responsible for identifying and assessing the risks involved in its respective operation. The audit committee of the Group will supervise and evaluate the risk management policies implemented by the Group and monitor the performance of such risk management system.

ENVIRONMENTAL POLICIES

The Group has implemented the internal control procedures to ensure the compliance with the applicable environmental protection laws and regulations, which involves, among others, enhancement of the employees' awareness of environmental protection, formulation of standards for controlling and monitoring pollution level, development of guidelines for waste treatment and formulation of preventive and rectification measures.

In light of the waste water discharged during production of denim, the Group has installed waste water treatment and recycling equipments, so as to reduce impact of waste water on the environment.

Given the pollutant emission, such as sulphur dioxide, and noises generated by the power plants during power generation process, the Group has installed de-dust, desulfurization and denitrification equipments in the power plants to reduce emission. In addition, the Group has installed sound-proof devices to reduce the noises generated from the daily operation of its power plants.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was incorporated in the PRC and majority of its business operation is located in China, while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The operation of the Group is subject to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the other relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2018 and up to the date of this annual report, the Group has, in all material respects, complied with all the relevant laws and regulations in the PRC and Hong Kong.

RELATIONSHIP WITH KEY STAKEHOLDERS

(i) Employees

The Group embraces human resources as one of its most valuable assets, and highly values the personal development of its employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their professional skills. The Group provides pre-employment and on-the-job training as well as promotion opportunities for the employees. The training programs cover fields such as management skills, sales and production, customer services, quality control, conduct ethics and other training related to the industry. The Group will sincerely consider the valuable feedbacks from its employees for enhancing the workplace productivity and working environment harmony. In addition, the Group offers the employees with competitive remuneration packages, and will provide them with additional bonus in accordance with their performance to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

The Group has developed long-standing cooperation relationship with a number of suppliers, and taken great care to ensure that they share its commitment to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, capability to produce high-quality products and quality control effectiveness. The Group also requires the suppliers to abide by its anti-bribery policy.

(iii) Customers

Efforts are taken to strengthen relationship with the Group's existing customers and to develop cooperation relationship with potential customers. The Group has established customer network covering over 20 provinces and cities across the country and over 20 overseas countries and regions through its inhouse sales team and agents. The Group also maintains communication with its customers through various channels like textile product trade fairs, the internet and telephone.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking forward to 2019, we expect to witness a more complex macro environment both at home and overseas with increasing risk factors. The textile industry is expected to maintain stable performance driven by domestic demands and industry transformation. However, due to a series of external challenges such as costs and environmental protection and trade friction that need to be properly addressed, the industry is under greater pressure to promote high-quality development and enhance risk resilience.

To face the challenging international and domestic market conditions, the Group will continue to implement further structural adjustment and promote innovation-driven and high quality development. In terms of production, the Group will proactively introduce advanced equipment and technologies to achieve intelligent and automatic operations, with an aim to reduce labour input and improve production efficiency. In terms of products, the Group will keep abreast of the industry development trend, take proactive measures to adjust its product portfolio, promote the development of high-end products, step up its efforts to develop new materials and new techniques and launch new and advanced products. In terms of sales, the Group will continue to focus on both domestic sales and overseas exports, give full play to its advantages in the domestic market while further enlarging its international market share, with an aim to promote simultaneous growth of domestic and oversea businesses and gain more market shares.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Zhang Hongxia, aged 47, is the chairman and an executive Director of the Company. She graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a professional diploma in financial accounting. She is a qualified political administrator (政工員). She obtained a master degree in business administration for senior management from Dalian University of Technology (大連理工大學) on 7 July 2006, and is responsible for the overall strategic planning of the Group. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. She had over 24 years of management experience in the cotton textile industry. She previously worked in Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) ("Weiqiao Cotton Spinning Factory") as the deputy head and head of the technical division as well as the director of the production technical department. She had also served as the deputy general manager and the general manager of Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the "Holding Company"), a controlling shareholder of the Company, the director of Binzhou Weiqiao Property Company Limited (濱州魏橋置業有限公司), the chairman of Shandong Weilian Printing and Dyeing Company Limited (山東魏聯印染有限公司) ("Weilian Print"), the director and the general manager of Shandong Huibin Cotton Spinning and Dyeing Company Limited (山東慧濱棉紡漂染有限公司) ("Huibin Dyeing"), the director and the general manager of Shandong Weiqiao Mianye Company Limited (山東魏橋棉業有限公司) (from 30 September 2003 to 25 December 2012), the executive director of Weihai Weiqiao Technology Industrial Park Company Limited (威海魏橋科技工業園有限公司) ("Weihai Industrial Park"), and the executive director of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) ("Weihai Weiqiao"). She is currently a director of the Holding Company (from 14 April 1998), a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) ("Binzhou Industrial Park") (from 26 November 2001), the chairman and the general manager of Shandong Luteng Textile Company Limited (山東魯藤紡織有限公司) (from 12 September 2002), the chairman and general manager of Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (from 12 March 2004), the chairman and an executive director of Weiqiao Textile (Hong Kong) Trading Company Limited (魏橋紡織(香港)貿易有限公司) (from 12 October 2011). Currently, Ms. Zhang is also the vice chairman of the 11th session of The Hong Kong General Chamber of Textiles, the vice president of the 6th session of the China Chamber of Commerce for Import & Export of Textiles and Apparel, the invited vice chairman of China National Textile and Apparel Council, the vice president of China Cotton Textile Association, the vice president of China Cotton Association, the chairman of Binzhou Textile Association, a council member of the China Association of Women Entrepreneurs, the vice president of Shandong Association of Women Entrepreneurs and the president of Binzhou Association of Women Entrepreneurs(濱州市女企業家協會). Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her younger sister.

Ms. Zhang Yanhong, aged 43, is the vice chairman and an executive Director of the Company. She graduated from Shandong University (山東大學) and obtained a professional diploma in computer and its application. She further obtained a professional diploma in computer application from Renmin University of China in 1996, a senior diploma in Innovative Management MIA from senior research class of Tsinghua University in 2006 and a master degree in business administration for senior management from Dalian University of Technology in July 2006. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. Ms. Zhang had over 18 years of management experience in the cotton textile industry. Ms. Zhang once acted as an executive director and the general manager of Weihai Industrial Park, an executive director and the general manager of Weihai Weiqiao. Ms. Zhang has also been a director of Weihai Weiqiao since 15 June 2017. She has been a director of Weihai Industrial Park from 12 June 2017, a director of Holding Company since October 2012 and the vice chairman of the Company from 24 January 2019. Mr. Zhang Shiping is her father and Ms. Zhang Hongxia is her elder sister.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zhao Suwen, aged 44, is an executive Director and the chief financial officer of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a professional diploma in business administration. She is a qualified economist. Ms. Zhao obtained the chief financial officer (CFO) advanced study graduation certificate from School of Continuing Education, Tsinghua University (清華大學) on 11 October 2008. She is responsible for the supervision of the Group's finance and accounting affairs. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. She had over 25 years of experience in the cotton textile industry. She previously worked at Weiqiao Cotton Spinning Factory as an accountant for about 5 years and as the manager of the financial department of the Company. She is currently also a director of Holding Company (from October 2012). Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Mr. Zhang Jinglei, aged 42, is an executive Director and the company secretary of the Company. He graduated from Xi'an Engineering College (西安工程學院) and obtained a junior college diploma majoring in proximate analysis in July 1997. He joined the Company (including its predecessor) in October 1997, and worked in the sales department of the Company from September 1998 to September 2000. He has successively worked in the securities office, production technology section and the securities department since October 2000. He has engaged in corporate governance of the Company for years and participated in relevant trainings provided by domestic and overseas securities regulatory authorities. He was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. He is currently also a non-executive director of China Hongqiao Group Limited (中國宏橋集團有限公司) ("China Hongqiao") (stock code: 1378.HK) and a director of Holding Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shiping, aged 72, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a professional diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. He was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. He previously held the positions of workshop supervisor, head of the production division, deputy head and head of No. 5 Oil and Cotton Factory, party secretary and head of Weiqiao Cotton Spinning Factory, the general manager of the Holding Company, the Chairman of the Company, the chairman of Weilian Print, the chairman of Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd., the chairman of Shandong Weiqiao Tekuanfu Printing and Dyeing Co., Ltd. (山東魏橋特寬幅印染有限公司) ("Tekuanfu"), the chairman of Shandong Weiqiao Garment Co., Ltd. (山東魏橋服裝有限公司) ("Weiqiao Garment"), the chairman of Binzhou Weiqiao Aluminum Technology Co., Ltd. (濱洲魏橋鋁業科技有限公司), the chairman of Shandong Weiqiao Elite Garment Co., Ltd. (山東魏橋創杰服裝有限公司) ("Elite Garment"), the director of Huibin Dyeing, the director of Binzhou Industrial Park (from 26 November 2001 to May 2010), the chairman of Weihai Weiqiao (from 25 July 2001 to May 2010), the chairman of Profit Long Investment Limited (保恒俐投資有限公司), the party secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) (from 8 March 1998 to 12 February 2014), the chairman of Holding Company (from 14 April 1998 to 25 September 2018) and a director of China Hongqiao Holdings Limited (中國宏橋控股有限公司) (from 5 February 2010 to 17 February 2012). He is currently also the chairman of Shandong Hongqiao New Material Co., Ltd. (山東宏橋新型材料有限公司) ("Shandong Hongqiao") (from 27 July 1994), the chairman of Shandong Weiqiao Investment Holdings Company Limited (previously known as Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司)) ("Weiqiao Investment"), the chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (魏橋創業(香港)進出口有限公司), and the chairman and an executive director of China Hongqiao (stock code: 1378. HK). Mr. Zhang Shiping was a representative of the Ninth, Tenth and Twelfth National People's Congress, and was granted the title of "National Labour Model" by the State Council in 1995 and was rated as one of the "2015 Top Ten Economic Figures in China" in 2016. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

Ms. Zhao Suhua, aged 49, graduated from Adult Education College of Qingdao University (青島大學), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2018. She had over 21 years of management experience in the cotton textile industry. She had been the supervisor of the production technical department and head of the production technical department of the Company (from May 2000 to February 2006), and the standing deputy general manager of the sales department (from February 2006 to May 2008). Ms. Zhao Suhua is the elder sister of Ms. Zhao Suwen.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Yau, George, aged 64, graduated from Waterloo University in Canada and obtained a bachelor degree in mathematics. Mr. Chan served as the executive director of China Golden Development Holdings Limited (中國金展控股有限公司), and served as the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), the director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), the executive director of HSBC Asset Management Ltd. (滙豐投資管理有限公司), a member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), a member of the Consumers Litigation Fund Executive Committee (消費者訴訟基金執行委員會), president of the Rotary Club of Tsim Sha Tsui East (國際扶輪社香港尖沙咀東), the director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), a board member of Hong Kong Ocean Park (香港海洋公園董事局), the chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會), the director, general manager and chief investment officer of Dao Heng Fund Management Co., Ltd. (道亨基金管理有限公司), the chairman of China Sub-Committee of the Hong Kong Investment Funds Association (香港投資基金公會中國事務委員會), a member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), a member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會), a convener of Sir Robert Black Trust Fund Investment Committee (柏立基爵士信託基金投資委員會) and a member of Police Children's Education Trust (警察子女教育信託基金) and Police Education and Welfare Trust (警察教育及福利信託基金). He is currently the chairman and chief executive officer of Capital Focus Asset Management Limited (匯駿資產管理有限公司). Mr. Chan is also the independent non-executive director of Infinity Development Holdings Company Limited (星謙發展控股有限公司) (stock code: 640.HK). He was appointed as an independent non-executive Director at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent non-executive Director at the Company's annual general meeting held on 28 May 2018, with the term of his appointment effective from 28 May 2018.

Mr. Chen Shuwen, aged 64, graduated from Dongbei University of Finance and Economics (東北財經大學) with a bachelor degree in Economics in 1982 and obtained a master degree and a PhD in Economics from Jilin University (吉林大學) in 1988 and 1996, respectively. Mr. Chen has taught for ten years in Jilin University (from January 1982 to February 1992). Mr. Chen has substantial management and leadership experience serving in the PRC government. Mr. Chen commenced his career as the Deputy County Chief of the Benxi Manchu Autonomous County, Liaoning Province, the PRC, in March 1992 and was the director of the Benxi City Commission for Restructuring the Economic Systems (本溪市經濟體制改革委員會) (from September 1995 to January 1998). He was the director general of the Benxi City Foreign Trade & Economic Cooperation Committee (本溪市對外經濟貿易合作委員會) (from February 1998 until February 2001). Mr. Chen was the professor and the tutor for doctorate students at the Faculty of Management and Economics of Dalian University of Technology (大連理工大學管理學院) (from December 2003 to September 2010) as well as the dean at the Department of Public Administration and Law of Dalian University of Technology (大連理工大學公共管理與法學學院) (from October 2010 to January 2015). Mr. Chen was the independent directors of Dalian Huarui Heavy Industry Group Co., Ltd. (大連華鋭重工集團股份有限公司) (stock code: 002204) (from December 2012 to February 2015), Yingkou Port Liability Co., Ltd. (營口港務股份有限公司) (stock code: 600317) (from October 2006 to April 2013) and Dalian Daxian Enterprises Holdings Co., Ltd. (大連大顯控股股份有限公司) (stock code: 600747) (from September 2008 to August 2013), respectively. Mr. Chen is currently the professor and the tutor for doctorate students at the Faculty of Humanities and Social Sciences of Dalian University of Technology (大連理工大學人文與社會科學學部) (since October 2010), as well as an independent non-executive director of Sinofortune Financial Holdings Limited (華億金控集團有限公司) (stock code: 8123.HK) (since September 2011) and an independent director of Dalian Dafu Enterprises Holdings Co., Ltd.(大連大福控股股份有限公司) (stock code: 600747) (since July 2015). Mr. Chen is a qualified PRC lawyer currently practicing at Liaoning Tianhe Law Firm (遼寧天合律師事務所). His appointment as an independent non-executive Director was approved at the annual general meeting of the Company held on 27 May 2014. He was appointed and re-elected as an independent non-executive Director of the Company at the Company's annual general meeting held on 4 October 2017.

Mr. Liu Yanzhao, aged 45, graduated from Shandong Economics College (山東經濟學院), currently known as Shandong University of Finance and Economics (山東財經大學), and obtained a bachelor's degree in economics in July 1996. He has almost 23 years of experience in accounting. He served as the director of capital verification department of Shandong Binzhou Audit Firm (山東濱州審計事務所) from July 1996 to October 1999. From October 1999 to January 2005, he served as the director of audit department of Shandong Huanghe Limited Liability Accounting Firm (山東黃河有限責任會計師事務所) and he has been the deputy head and deputy director accountant of Shandong Huanghe Limited Liability Accounting Firm (山東黃河有限責任會計師事務所) since January 2005. Mr. Liu was accredited as a Chinese certified public accountant by Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2000, a Chinese certified public valuer by China Appraisal Society (中國資產評估協會) in 2001, a Chinese certified tax agent by Shandong Certified Tax Agent Management Center (山東省註冊稅務師管理中心) in 2003 and a senior accountant by Shandong Senior Evaluation Committee of Qualification in Account (山東省會計專業資格高級評審委員會) in 2012. He was awarded the "Outstanding Inspection Individual in Asset Appraisal Industry (資產評估行業檢查先進個人)" by Ministry of Finance and China Appraisal Society (中國資產評估協會) in 2004 and the "Outstanding Certified Public Accountant in Shandong Province (山東省優秀註冊會計師)" by Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2012. He was appointed as an independent non-executive Director of the Company at the Company's annual general meeting held on 28 May 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Ms. Wang Xiaoyun, aged 54, graduated from Adult Education College of Qingdao University (青島大學), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She had over 24 years of management experience in the cotton textile industry. She had successively served as a quality control officer, the workshop supervisor, the deputy factory head and the factory head of the Company, the deputy general manager of the production district of Zouwei Garden I (鄒魏一園生產區) (from January 2004 to February 2006) and the non-executive director of the Company (from 30 May 2008 to 29 May 2012). She was appointed as an employee representative supervisor at the Company's employee representatives' meeting held on 28 May 2015. She was appointed and re-elected as an employee representative supervisor of the Company at the Company's employee representatives' meeting held on 28 May 2018. She is now the head of the production technical department of the Company (since February 2006).

Ms. Fan Xuelian, aged 48, graduated from Binzhou Area Supply and Marketing Staff Secondary School (濱州地區供銷職工中專學校) in December 1994 in Binzhou, Shandong, the PRC, majoring in corporate management. She served as a yarn worker at Binzhou First Cotton Textile Plant (濱州第一棉紡織廠) from September 1988 to June 1989, and at Weiqiao Cotton Spinning Factory successively as a responsible person for doffing, an operating manager and the deputy factory head from June 1989 to April 1998. She also successively served as a deputy head and head in the sub-branch factory of the Company (including its predecessor) from April 1998 to August 2014. She has served at the Holding Company as the chairwoman of the labor union, the head of the party committee office, the head of the publicity department and a committee member of the C.P.C. since August 2014, and as the supervisor of the Holding Company since November 2012. Her appointment as a shareholder representative supervisor was approved at the extraordinary general meeting of the Company held on 1 March 2018.

Ms. Bu Xiaoxia, aged 46, graduated from Shandong University (山東大學) in July 1994 in Jinan, Shandong, the PRC, majoring in corporate management. She served at the production technology division of Weiqiao Cotton Spinning Factory as an operation inspector from September 1994 to April 1998. She also served successively as an operation inspector, a section head, a deputy division head and a division head of the production technology division of the Company (including its predecessor) from April 1998 to May 2009. She has served as a deputy general manager of Zouping No. 3 Industrial Park (鄒平第三工業園) of the Company since May 2009. Her appointment as a shareholder representative supervisor was approved at the extraordinary general meeting of the Company held on 1 March 2018.

SENIOR MANAGEMENT

Mr. Wei Jiakun, aged 51, was appointed as the general manager of the Company on 18 November 2014. Mr. Wei is responsible for supervising the Group's general operation and formulating the Group's business strategies, as well as overseeing the Group's production, operation and marketing of the Group's products. He joined the Company's predecessor, Weiqiao Cotton Spinning Factory (位橋棉紡廠) in 1986 and had over 29 years of experience in cotton textile industry. Mr. Wei had served as the workshop supervisor and the director in the spinning mill of Weiqiao Cotton Spinning Factory (位橋棉紡廠) from September 1990 to October 2001, the general manager of Weihai Weiqiao from November 2001 to September 2002, the deputy general manager of Weiqiao Industrial Park of the Company from October 2002 to January 2005, the general manager of Zouping No.2 Industrial Park of the Company from February 2005 to April 2009 and the general manager of Binzhou Industrial Park from May 2009 to November 2014. Currently, he also serves as the director of the Holding Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim as well as electricity and steam business. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

Particulars of the Company's subsidiaries are set out in Note 42 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended 31 December 2018 and the consolidated financial position of the Group as at 31 December 2018 are set out in the audited consolidated financial statements on pages 79 to 81 in this annual report.

The Directors recommended the payment of a final dividend of RMB0.1656 (inclusive of tax) per share (the "2018 Final Dividend") to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 14 June 2019 (Friday), and the dividend will be paid on 28 June 2019. The 2018 Final Dividend is subject to the approval at the coming annual general meeting of the Company. 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 as dividends after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, general reserve fund, employee's bonus, welfare fund and enterprise expansion fund.

According to the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), which took effect on 1 January 2008, its implementation rules and the relevant interpretation by tax authorities in the PRC, when a company distributes the final dividends to non-resident enterprise shareholders and natural person shareholders whose names appear on the H-share register of the company, such company is required to withhold and pay on behalf of such shareholders an enterprise income tax at the rate of 10% in general (except as required otherwise by the laws, regulations and tax treaties regarding the tax revenue). Any shares registered in the name of a non-person shareholder, including Hong Kong Securities Clearing Company Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that he or she is entitled to are subject to the enterprise income tax.

The Company will strictly comply with the laws and the requirements of relevant government departments, and will withhold and pay the enterprise income tax on behalf of its shareholders whose names appear on the H-share register of the Company on the record date. The Company will take no responsibility and will reject any requests from shareholders whose identity cannot be confirmed within the specified time or cannot be confirmed at all or any disputes arising from the arrangement of withholding tax or paying tax. However, the Company may provide assistance to the extent of its ability.

For the distribution of dividends, dividends for holders of domestic shares will be distributed and paid in RMB, while dividends for H shares will be declared in RMB but paid in Hong Kong dollars ("HK$") (conversion of RMB into HK$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK$ announced by the People's Bank of China within five working days prior to and including 14 June 2019 (Friday)).

During the Year, there was no arrangement under which any shareholder of the Company has waived or agreed to waive any dividend.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company may declare and distribute dividends to the shareholders of the Company to allow the shareholders to share the Company's profits and the Company to retain adequate reserves for future growth.

In accordance with the articles of association of the Company (the "Articles of Association"), the Board is responsible for establishment of the profit distribution plan of the Company, including final dividend distribution plan, and the declaration of final dividend will be subject to the approval at the general meeting. The Board may decide on the plan for distributing interim or special dividends of the Company as authorized by the general meeting. The amount of dividends is subject to the discretion of the Board, and will depend upon the Company's profitability, financial conditions, cash requirements and availability and other relevant factors. The Company's ability to pay dividends is also subject to the requirements of the Listing Rules and relevant applicable laws, rules and regulations in the PRC and Hong Kong and the Articles of Association.

In accordance with Company Law of the PRC, the Company may only distribute dividends out of its distributable annual earnings (i.e., the Company's after tax profits after offsetting (i) the accumulated losses brought down from the previous years, if any, and (ii) the allocations to the statutory common reserve, the statutory public welfare fund and, if any, the discretionary common reserve (in such order of priorities) before payment of any dividend on shares). According to the Articles of Association, for the purposes of determining profit distribution, the after tax profits of the Company are the lesser of its after tax profits determined in accordance with (i) PRC accounting standard and regulations; and (ii) international accounting standard of the accounting standard or the place where the shares are listed overseas.

The Company's current policy is to distribute approximately 35% of the distributable annual profit of the Company as dividends to the shareholders every year. Such dividend policies may be amended where: (i) the cash available to the Company is in an amount lower than the above-mentioned amount; (ii) there is a negative impact on the cash flow of the Group as the investments made by the Company approved by the Directors are not fully covered by appropriate financing; and (iii) the comprehensive financial position, available financial resources and business prospects of the Company. The past dividend distribution by the Company shall not be used as a reference or basis to determine the amount of dividends to be declared in the future.

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the years ended 31 December 2014, 2015 and 2016, and from the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the year ended 31 December 2018 on pages 79 to 81 of this annual report is set out below:

Results

	For the year ended 31 December				
	2014 *RMB'000*	2015 *RMB'000*	2016 *RMB'000*	2017 *RMB'000* (restated)	**2018** ***RMB'000***
Revenue	11,211,146	12,498,205	14,175,446	16,373,385	**16,455,884**
Cost of sales	(10,468,327)	(10,310,574)	(11,924,087)	(14,603,187)	**(14,736,265)**
Gross profit	742,819	2,187,631	2,251,359	1,770,198	**1,719,619**
Other income and gains	900,701	232,339	340,408	167,036	**164,981**
Selling and distribution expenses	(159,054)	(132,683)	(165,379)	(159,160)	**(166,246)**
Administrative expenses	(297,710)	(327,570)	(319,224)	(257,185)	**(277,490)**
Other expenses	(111,440)	(27,849)	(12,740)	(55,574)	**(40,143)**
Finance costs	(637,728)	(609,142)	(581,415)	(523,073)	**(376,475)**
Share of profit of an associate	9,339	4,538	1,648	2,613	**118**
Profit before tax	446,927	1,327,264	1,514,657	944,855	**1,024,364**
Tax	(139,914)	(349,654)	(526,445)	(423,797)	**(381,504)**
Profit and total comprehensive income for the year	307,013	977,610	988,212	521,058	**642,860**
Profit and total comprehensive income attributable to:					
Owners of the Company	308,243	979,347	992,706	522,249	**643,906**
Non-controlling interests	(1,230)	(1,737)	(4,494)	(1,191)	**(1,046)**
	307,013	977,610	988,212	521,058	**642,860**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	28,959,365	29,081,434	31,832,301	28,512,475	**24,952,770**
Total liabilities	12,748,887	11,986,250	14,051,563	10,553,364	**6,543,920**

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2018 are set out in Note 17 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as at 31 December 2018 are set out in the Note 30 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital during the year ended 31 December 2018 are set out in Note 33 to the consolidated financial statements.

The Company does not have any share option scheme.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 and up to the publication date of this annual report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the shares or debentures of the Company or any other body corporate or had exercised any such right during the Year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities during the year ended 31 December 2018.

PURCHASE OF ADDITIONAL H SHARES OF THE COMPANY BY THE HOLDING COMPANY

The Holding Company, through its wholly-owned subsidiary, purchased additional 278,000, 322,000, 265,500, 270,000, 261,500, 360,000, 400,000 and 414,500 H shares of the Company on 19 June 2018, 20 June 2018, 21 June 2018, 22 June 2018, 25 June 2018, 26 June 2018, 28 June 2018 and 29 June 2018 respectively, amounting to a total of additional 2,571,500 H shares, representing approximately 0.62% of total issued H share capital of the Company as at 31 December 2018 and approximately 0.22% of total issued share capital of the Company as at 31 December 2018. As at 31 December 2018, the Holding Company held interests in a total of approximately 63.67% of the total issued share capital of the Company.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in Note 41 to the consolidated financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2018 are set out in Note 41 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for approximately 41.0% of the Group's total sales for the year ended 31 December 2018, while sales to its largest customer accounted for approximately 19.6% of the Group's total sales for the year ended 31 December 2018.

During the year ended 31 December 2018, purchases from the Group's five largest suppliers accounted for approximately 45.8% of the Group's total purchases for the year ended 31 December 2018, while purchases from the Group's largest supplier accounted for approximately 12.9% of the Group's total purchases for the year ended 31 December 2018.

The Group has sold certain products to Holding Company, its subsidiaries and associates (the "Parent Group"), details of which are set out in the section headed "Connected Transactions" below.

Save as disclosed above, at no time during the year ended 31 December 2018, did a Director, his/her associate(s) or a shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Board considers each of the independent non-executive Directors to be independent.

DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

The Directors' and supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments shall be determined by the Board of the Company with reference to their duties, responsibilities and performance. During the year ended 31 December 2018, except for Mr. Wang Naixin (an independent non-executive Director who resigned on 28 May 2018), there was no arrangement under which a Director has waived or agreed to waive any emoluments. Details of emoluments of the Directors, chief executives, supervisors and five highest paid employees are set out in Note 13 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors, supervisors and senior management of the Company has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Articles of Association, each Director, supervisor and senior management is eligible for re-election and consecutive appointment upon expiration of his/her term of office.

Save as mentioned above, the Company has not entered into any service contract with any of the Directors and supervisors which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

The Directors, supervisors and senior management as at the date of this report and their respective term of office are as follows:

Executive Directors:

Ms. Zhang Hongxia	Until the date of annual general meeting for the year of 2020
Ms. Zhang Yanhong	Until the date of annual general meeting for the year of 2020
Ms. Zhao Suwen	Until the date of annual general meeting for the year of 2020
Mr. Zhang Jinglei	Until the date of annual general meeting for the year of 2020

Non-executive Directors:

Mr. Zhang Shiping	Until the date of annual general meeting for the year of 2020
Ms. Zhao Suhua	Until the date of annual general meeting for the year of 2020

Independent non-executive Directors:

Mr. Chan Wing Yau, George	Until the date of annual general meeting for the year of 2020
Mr. Chen Shuwen	Until the date of annual general meeting for the year of 2019
Mr. Liu Yanzhao	Until the date of annual general meeting for the year of 2020

Supervisors:

Ms. Wang Xiaoyun	Until 28 May 2021
Ms. Fan Xuelian	Until the date of annual general meeting for the year of 2020
Ms. Bu Xiaoxia	Until the date of annual general meeting for the year of 2020

Senior management:

Mr. Wei Jiakun *(General manager)*	Until 18 November 2020

REPORT OF THE DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the Directors, supervisors and senior management are set out on pages 23 to 29 in this report.

DIRECTORS' AND SUPERVISORS' MATERIAL INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in Note 38, headed "Related Party Transactions", to the consolidated financial statements and in the section headed "Connected Transactions" in this annual report, none of Directors, supervisors or entities connected with a Director or supervisor is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of the Company or any of its subsidiaries subsisting during the year ended 31 December 2018 or at the end of the year that is significant in relation to the businesses of the Group.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 38, headed "Related Party Transactions", to the consolidated financial statements and in the section headed "Connected Transactions" in this annual report, during the year ended 31 December 2018, there is no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, so far as known to any Directors, supervisors and chief executives of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or recorded in the register required to be kept under Section 336 of the SFO:

Interests in the domestic shares:

Name of Shareholder	**Number of domestic shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2018** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2018** *(%)*
Holding Company	757,869,600	97.07	63.45
Weiqiao Investment	757,869,600 *(Note 2)*	97.07	63.45

Interests in the H shares:

Name of Shareholder	Type of interest	Number of H shares *(Note 3)*	Approximate percentage of total issued H share capital as at 31 December 2018 *(%)*	Approximate percentage of total issued share capital as at 31 December 2018 *(%)*
Brandes Investment Partners, L.P.	Investment manager	65,939,020 (Long position) *(Note 4)*	15.94	5.52
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 5)*	9.93	3.44

Note 1: Unlisted shares.

Note 2: Weiqiao Investment holds 39% equity interests in Holding Company.

Note 3: Shares listed on the Main Board of the Stock Exchange.

Note 4: These 65,939,020 H shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 5: These 41,073,100 H shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Save as disclosed above, to the best knowledge of the Directors, supervisors and the chief executives of the Company, as at 31 December 2018, there was no other person (not being a Director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY

As at 31 December 2018, the interests of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the domestic shares:

	Type of interest	**Number of domestic shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2018** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2018** *(%)*
Ms. Zhang Hongxia *(Executive Director/Chairman)*	Beneficial interest	17,700,400	2.27	1.48
Mr. Zhang Shiping *(Non-executive Director)*	Beneficial interest	5,200,000	0.67	0.44

Note 1: Unlisted shares.

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

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital as at 31 December 2018 *(%)*
Mr. Zhang Shiping *(Non-executive Director)*	Holding Company	Beneficial	31.59
Ms. Zhang Hongxia *(Executive Director)*	Holding Company	Beneficial and spouse *(Note 1)*	9.73 *(Note 1)*
Ms. Zhang Yanhong *(Executive Director)*	Holding Company	Beneficial	5.63
Ms. Zhao Suwen *(Executive Director)*	Holding Company	Beneficial	0.38
Ms. Zhao Suhua *(Non-executive Director)*	Holding Company	Spouse *(Note 2)*	4.93 *(Note 2)*

Note 1: Ms. Zhang Hongxia holds an aggregate of 9.73% equity interests of the Holding Company, of which 7.00% are directly held by Ms. Zhang. The remaining 2.73% equity interests are held by her husband, Mr. Yang Congsen, while Ms. Zhang is deemed to be interested in these equity interests under the SFO.

Note 2: Ms. Zhao Suhua is deemed to be interested in the 4.93% equity interests of the Holding Company held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors, supervisors or chief executives of the Company and their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into by the Company or subsisted during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

At no time during the year ended 31 December 2018 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any directors of the Company (whether made by the Company or otherwise) or of its associated company (if made by the Company).

The Company has purchased and maintained directors', supervisors' and senior management liability insurance for the year ended 31 December 2018, which provides appropriate protection over certain legal actions brought against its directors, supervisors and senior management.

CONNECTED TRANSACTIONS

The "Related Party Transactions" as set out in Note 38 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to comply with the relevant requirements under Chapter 14A of the Listing Rules.

During the year ended 31 December 2018, certain transactions were entered into between the Group and the following connected persons:

1. The Holding Company is the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules.

2. Weilian Print is a 73% owned subsidiary of Holding Company. Shandong Weiqiao Hengfu Knitting Co., Ltd. (山東魏橋恒富針織印染有限公司) ("Hengfu Knitting") is a 60% owned subsidiary of Holding Company. Hongyuan Home Textile is a 60% owned subsidiary of Holding Company. Tekuanfu is a 99% owned subsidiary of Holding Company. Weiqiao Garment is a 67.18% owned subsidiary of Holding Company. Elite Garment is a 75% owned subsidiary of Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. (山東魏橋嘉嘉家紡有限公司) is a 100% owned subsidiary of Holding Company. Shandong Xiangshang Fushi Culture Co., Ltd. (山東向尚服飾文化有限公司) is a 100% owned subsidiary of Holding Company. As the above eight companies are associates of the promoter/substantial shareholder of the Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Both Zouping County Hongli Thermal Power Co., Ltd. (鄒平縣宏利熱電有限公司) ("Hongli Thermal Power") and Binzhou City Hongnuo New Materials Co., Limited (濱州市宏諾新材料有限公司) ("Binzhou City Hongnuo") are indirectly wholly-owned subsidiaries of China Hongqiao. Mr. Zhang Shiping, a non-executive Director, is an executive director of China Hongqiao, indirectly holding 70.04% interest in Hongli Thermal Power and Binzhou City Hongnuo. Accordingly, each of Hongli Thermal Power and Binzhou City Hongnuo constitutes a connected person of the Company under the Listing Rules.

Details of the non-exempt continuing connected transactions of the Group for the year ended 31 December 2018 are set out below. The Company has complied with the relevant requirements under the Listing Rules.

Supply of Cotton Yarn, Grey Fabric and Denim by the Group to Parent Group

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003 to 25 August 2006 (the "Supply Agreement"). In September 2003, the Stock Exchange granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of the supply of cotton yarn and grey fabric by the Group to Parent Group under the Supply Agreement. The waiver was granted for a term of three financial years ended 31 December 2005. Pursuant to the renewal mechanism of such agreement, the Supply Agreement was renewed on 25 August 2006 for a term of three years commencing from 25 August 2006. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 20 October 2008 with the term starting from 1 January 2009 and ending on 31 December 2011. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 31 October 2011 with the term commencing from 1 January 2012 and ending on 31 December 2014 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 21 October 2014 with the term commencing from 1 January 2015 and ending on 31 December 2017. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 17 October 2017 with the term commencing from 1 January 2018 and ending on 31 December 2020 (both dates inclusive), pursuant to which the Company will continue to supply or procure its subsidiaries to supply cotton yarn/grey fabric and denim to the Parent Group. The prices of cotton yarn, grey fabric and denim supplied by the Group to the Parent Group are the same with their respective prices when supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC.

Further details of this continuing connected transaction are set out in the prospectus and the Company's announcements and circulars dated 28 December 2006, 15 January 2007, 20 October 2008, 31 October 2008, 31 October 2011, 11 November 2011, 21 October 2014, 24 November 2014, 17 October 2017 and 10 November 2017, respectively.

Lease of Land Use Rights by Holding Company to the Company

The Company and Holding Company entered into relevant leasing agreements, pursuant to which Holding Company agreed to lease to the Company the land use rights in respect of lands respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, and the land use rights in respect of land located within the economic development zone which is situated to the east of Zouping County, Shandong Province, the PRC, for the Company's operations, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

(i) A land use right lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, was entered into with an annual rental of RMB888,700 for the land relating to the Weiqiao Second Production Area.

(ii) A land use right lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, was entered into with an annual rental of RMB1,503,000 for the land relating to the Weiqiao Third Production Area.

(iii) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB2,167,000 for the land relating to the Zouping Industrial Park Area.

(iv) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB994,100 for the land relating to the Zouping Industrial Park Area.

(v) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB2,000,000 for the land relating to the Zouping Industrial Park Area.

(vi) A property lease agreement dated 31 January 2013 with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, was entered into with an annual rental of RMB600,000 for a building located at No. 1, Wei Fang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC. On 31 January 2016, the agreement has been renewed with the commencement date and expiry date on 1 February 2016 and 1 February 2019, respectively, and the other clauses and terms remain unchanged.

(vii) A land use right lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, was entered into with an annual rental of RMB7,001,400 for the land relating to the Zouping Industrial Park Area.

(viii) A land use right lease agreement dated 24 April 2007 with the commencement date and expiry date on 24 April 2007 and 24 April 2027, respectively, was entered into with an annual rental of RMB4,164,000 for the land relating to the Zouping Industrial Park Area.

On 26 November 2008 and 14 December 2011, respectively, the lease of certain parts of the land where the Zouping Third Industrial Park is situated was terminated and the annual rental has been adjusted thereafter to RMB3,816,000 and RMB2,070,000, respectively, on a pro-rata basis. Except for this, all of the original clauses and terms remain unchanged.

(ix) A land use right lease agreement dated 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, was entered into with an annual rental of RMB740,500 for the land relating to the Weihai Industrial Park Area.

(x) A plant lease agreement dated 1 May 2016 with the commencement date and expiry date on 1 May 2016 and 1 May 2019, respectively, was entered into with an annual rental of RMB800,000 for a production plant located at the southern side of Huixian Yi Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights and property in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their business in Zouping County, Shandong Province, the PRC. For further details of the leases of land and property to the Company by the Holding Company, please refer to Note 38, headed "Related Party Transactions", to the consolidated financial statements.

REPORT OF THE DIRECTORS

Supply of Excess Electricity by the Company to Holding Company

The Company and Holding Company entered into the supply of excess electricity agreement, pursuant to which the Company has the right to supply electricity, which is in excess of the Group's actual electricity consumption, to Holding Company for a term commencing on 18 March 2008 and ending on 31 December 2010 (both dates inclusive). The parties to the supply of excess electricity agreement have agreed to renew the transaction, and, on 4 November 2010, the Company entered into a supply of excess electricity agreement with Holding Company for a period of three years commencing on 1 January 2011 and ending on 31 December 2013 (both dates inclusive), pursuant to which the Group will supply excess electricity to Holding Company. Pursuant to the renewal mechanism of such agreement, the Company and Holding Company entered into a supply of excess electricity agreement on 1 November 2013 for a term commencing on 1 January 2014 and ending on 31 December 2016 (both dates inclusive) (the "Old Supply of Excess Electricity Agreement"). Pursuant to the renewal mechanism of such agreement, the Company and Holding Company entered into a supply of excess electricity agreement on 26 October 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive) (the "Supply of Excess Electricity Agreement"), pursuant to which the Group will supply excess electricity to the Parent Group. Terms and conditions under the Supply of Excess Electricity Agreement are basically the same as the conditions under the Old Supply of Excess Electricity Agreement.

The pricing basis at which excess electricity is supplied to Holding Company by the Group shall be as follows: The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is determined based on the price of raw coal procured by the Group in September 2016. Accordingly, the benchmark price of excess electricity to be supplied to Holding Company by the Group shall be RMB0.37 per kWh (VAT inclusive). If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, the benchmark price of excess electricity would be adjusted accordingly. The Company and Holding Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh on the basis of the benchmark price of excess electricity, at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal.

Further details of this continuing connected transaction are set out in the prospectus and the Company's announcements and circulars dated 13 August 2005, 16 August 2005, 14 January 2008, 1 February 2008, 20 October 2008, 31 October 2008, 4 November 2010, 8 November 2010, 1 November 2013, 12 November 2013, 21 October 2014, 24 November 2014, 22 March 2015, 17 April 2015, 26 October 2016 and 29 November 2016, respectively.

Supply of Steam for Production Use by Hongli Thermal Power to Minghong Textile

Holding Company and the Company entered into the steam supply agreement on 3 July 2015 for a period from 3 July 2015 to 31 December 2017 (both days inclusive), pursuant to which, Holding Company agreed to supply steam to the Company for production use.

As such steam supply agreement was terminated by the Holding Company by providing written notice pursuant to the termination terms as set out in the agreement on 20 October 2017, Hongli Thermal Power and Shandong Minghong Textile Technology Company Limited ("Minghong Textile"), a wholly-owned subsidiary of the Company, entered into the steam supply agreement on 20 October 2017, pursuant to which, Hongli Thermal Power agreed to supply steam to Minghong Textile for the production needs for the period from 20 October 2017 to 31 December 2019 (both days inclusive).

The price at which steam is supplied to Minghong Textile by Hongli Thermal Power shall be RMB150 per ton (inclusive of value-added tax at 11%). The price of steam supplied by Hongli Thermal Power to Minghong Textile was determined by reference to the market prices of the comparable types of steam for production use supplied by other suppliers to any independent third parties in Weiqiao Town, Zouping City, Shandong Province, the PRC.

Further details of this continuing connected transaction are set out in the Company's announcements dated 3 July 2015 and 20 October 2017.

Supply of Steam for Production Use by Binzhou City Hongnuo to Binzhou Industrial Park

Binzhou Industrial Park, a subsidiary of the Company, and Binzhou City Hongnuo entered into the steam supply agreement on 3 July 2015 for a period from 3 July 2015 to 31 December 2017 (both days inclusive). Pursuant to the renewal mechanism of such agreement, Binzhou Industrial Park and Binzhou City Hongnuo entered into the steam supply agreement on 20 October 2017 for a period from 20 October 2017 to 31 December 2019 (both dates inclusive), pursuant to which, Binzhou City Hongnuo agreed to supply steam to Binzhou Industrial Park for its production use.

The price at which steam is supplied to Binzhou Industrial Park by Binzhou City Hongnuo shall be RMB170 per ton (inclusive of value-added tax at 11%). The price of steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park was determined by reference to the prices at which comparable types of steam for production use are supplied by Binzhou City Hongnuo to independent third parties under normal commercial terms in the ordinary course of its business in Binzhou City, Shandong Province, the PRC.

Further details of this continuing connected transaction are set out in the Company's announcements dated 3 July 2015 and 20 October 2017.

Lease of Property Use Rights by Hongru Textile to Hengfu Knitting

On 1 January 2014, the Company and the Holding Company entered into the production plant lease agreement (the "Old Plant Lease Agreement") for a term commencing from 1 January 2014 and ending on 31 December 2016 with an annual rental of RMB800,000, pursuant to which the Company agreed to lease to the Holding Company certain production plants (the "Subject Plants") located at the southern side of Huixian Yi Road, Zouping Economic Development Zone, Zouping County, Shandong Province, the PRC, for the production and operation of the Holding Company.

Due to business restructuring of the Holding Company, the Subject Plants were transferred by the Holding Company for Hengfu Knitting's usage, a subsidiary of the Holding Company. On 1 February 2016, the Company, the Holding Company and Hengfu Knitting entered into the tripartite agreement (the "Tripartite Agreement I") to reflect the foresaid change. The principal terms of the Tripartite Agreement I provide that Hengfu Knitting as the new lessee shall lease the Subject Plants from the Company from the effective date of the Tripartite Agreement I and bear the rental incurred from the effective date of the Tripartite Agreement I, while the rental incurred before the effective date of the Tripartite Agreement I shall be borne by the Holding Company.

Due to business restructuring, the Company established Shandong Hongru Textile Technology Company Limited ("Hongru Textile"), a wholly-owned subsidiary of the Company, and transferred the Subject Plants to Hongru Textile. On 1 May 2016, the Company, Hongru Textile and Hengfu Knitting entered into the tripartite agreement (the "Tripartite Agreement II") to reflect the aforesaid change. The principal terms of the Tripartite Agreement II provide that Hongru Textile as the new lessor shall lease the Subject Plants to Hengfu Knitting since the effective date of the Tripartite Agreement II and receive the relevant rental from the effective date of Tripartite Agreement II, while the Company shall be entitled to receive the rental accrued before the effective date of the Tripartite Agreement II.

Pursuant to the renewal mechanism of the Old Plant Lease Agreement, Hongru Textile and Hengfu Knitting entered into a production plant lease agreement (the "Plant Lease Agreement") on 1 January 2017 for a term commencing from 1 January 2017 and ending on 31 December 2019 with an annual rental of RMB800,000, pursuant to which, Hongru Textile agreed to lease the Subject Plants to Hengfu Knitting for its production and operation. The price for the leasing of the Subject Plants by Hongru Textile to Hengfu Knitting was determined by both parties through friendly negotiation based on the fair market rate of Zouping Economic Development Zone, Zouping City.

Figures for the Year Ended 31 December 2018

Below is a table setting out the aggregate value for each of the above-mentioned continuing connected transactions for the year ended 31 December 2018:

	Transaction nature	**Aggregate value for the year ended 31 December 2018** *(RMB'000)*
1.	Supply of cotton yarn, cotton fabric and denim by the Group to the Parent Group	445,702
2.	Supply of excess electricity by the Company to Holding Company	2,431,327
3.	Lease of property by Hongru Textile to Hengfu Knitting	727
4.	Lease of land use rights and property by Holding Company to the Group	17,059
5.	Supply of steam for production use by Holding Company to the Company	–
6.	Supply of steam for production use by Hongli Thermal Power to Minghong Textile	4,682
7.	Supply of steam for production use by Binzhou City Hongnuo to Binzhou Industrial Park	22,794

Confirmation by the Independent Non-executive Directors and Auditors

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that each of the continuing connected transactions was:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or, if there were no sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned, and in the interest of the shareholders of the Company as a whole;

(iii) entered into either in accordance with the relevant agreement governing such transactions or where there were no such agreements, on terms no less favorable than those available to or from independent third parties; and

(iv) within the relevant annual cap.

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the Board;

(ii) the above continuing connected transactions are conducted in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions have been conducted in accordance with the terms of the agreements governing such transactions; and

(iv) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 3, Note 12 and Note 39 to the consolidated financial statements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code.

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

REPORT OF THE DIRECTORS

CODE ON CORPORATE GOVERNANCE

The Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has been in compliance with all provisions of the CG Code for the year ended 31 December 2018.

PUBLIC FLOATING

Pursuant to the information that is publicly available to the Company, and so far as the Directors are aware as at the latest practicable date prior to the issue of this annual report, the Company has sufficient public floating as required under Rule 8.08 of the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the 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 three independent non-executive Directors. An Audit Committee meeting was held on 15 March 2019 to review the Group's annual report, annual results announcement and financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

The business review of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 12 to 15.

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited was the Company's international auditor for the year ended 31 December 2018. A resolution for the reappointment of SHINEWING (HK) CPA Limited as the international auditor of the Company will be proposed at the annual general meeting of 2018.

On 14 April 2017, Ernst & Young Hua Ming LLP and Ernst & Young have resigned as the domestic auditor and the international auditor of the Company, respectively, with effect from 14 April 2017. On 14 April 2017, according to relevant requirements of the Articles of Association, the Board decided to appoint ShineWing Certified Public Accountants and SHINEWING (HK) CPA Limited as the domestic auditor and the international auditor of the Company, respectively, to fill the vacancies following the resignation. Further details of the change of auditors are set out in the Company's announcement dated 18 April 2017.

On Behalf of the Board

Ms. Zhang Hongxia
Chairman

Shandong, the PRC
15 March 2019

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2018, the supervisory committee of the Company (the "Supervisory Committee") duly performed its duties of supervision in accordance with the principle of being accountable to shareholders and the laws and regulations including the Company Law of the PRC and the Articles of Association. During the Year, the Supervisory Committee actively participated in reviewing the subject matters of material decisions and the significant economic activities of the Company, provided advices and recommendations thereon, effectively supervised the acts of Directors and the management in performing their duties and reviewed on an irregular basis the Company's operation and financial positions so as to protect the interests of shareholders. The work of the Supervisory Committee in 2018 is reported as follows:

1. Work of the Supervisory Committee

In 2018, the Supervisory Committee of the Company convened three meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 16 March 2018, the sixth meeting of the 6th Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, "The Working Report of the Supervisory Committee for 2017", "The Audited Financial Report for the Year Ended 31 December 2017", "The Profit Distribution Proposal for 2017" and "The Financial Report on the Final Account for 2017" were reviewed and approved.

2. On 6 April 2018, the seventh meeting of the 6th Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, the election of Ms. Wang Xiaoyun as the new chairman of the Supervisor Committee of the Company was discussed and approved, with the tenure of appointment be the same as that of her role as a supervisor.

3. On 17 August 2018, the first meeting of the 7th Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, the review result report for the six months ended 30 June 2018 issued by SHINEWING (HK) CPA Limited was discussed and approved.

2. Independent Opinions of the Supervisory Committee on Relevant Issues of the Company for 2018

1. Operation in compliance with laws

During the Year under Review, the members of the Supervisory Committee participated in the discussion on major operational decisions of the Company by sitting in on board meetings and general meetings and carried out supervision on the Company's financial and operational positions. The Supervisory Committee is of the view that in 2018, the Company operated in strict compliance with the Company Law, the Articles of Association and other related laws and regulations and the decisions made were scientific and reasonable; the internal management and internal control system were improved and a sound internal control mechanism was established; the Directors and senior management of the Company performed their duties diligently and in compliance with the laws and regulations, the Articles of Association to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

2. ***Financial activities of the Company***

   The Supervisory Committee had reviewed and inspected the financial position and financial management of the Company, and considered that the Group's financial report for 2018 truly reflected the financial position and operational results of the Group, and the audit report with standard unqualified opinion issued by SHINEWING (HK) CPA Limited was true and fair.

3. ***Connected transactions of the Company***

   The Supervisory Committee is of the view that, the connected transactions of the Company during the Year under Review were conducted at arm's length with reasonable pricing and without prejudice to the interests of shareholders and the Company; there was no use of capitals for non-operational purpose by controlling shareholders and other related parties.

In 2019, the Supervisory Committee will continue to monitor and facilitate the improvement of the Company's governance structure in accordance with relevant provisions of the Articles of Association, put more emphasis on the coordination of the power structure, decision-making body and implementation body of the Company, concern for the relationships among shareholders and the management, pay attention to the progress and problems in the acts, performance and results of the management at all levels, and perform its duties diligently to protect the legitimate interests of the Company and shareholders.

By Order of the Supervisory Committee

Ms. Wang Xiaoyun
Chairman of Supervisory Committee

Shandong, the PRC
15 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company believes that good corporate governance can create values for the shareholders of the Company. The Board is committed to keeping the standards of corporate governance within the Company and to ensuring that the Company conducts its business in an honest and responsible manner. The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2018, the Company has complied with the code provisions of the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the Model Code contained in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, the Directors have confirmed that for the year ended 31 December 2018, they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding securities transactions by the Directors.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

As at 31 December 2018 and up to the date of this annual report, the Board comprised four executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board members are as follows:

Executive Directors

Ms. Zhang Hongxia *(Chairman)*
Ms. Zhang Yanhong *(Vice Chairman)*
Ms. Zhao Suwen
Mr. Zhang Jinglei

Non-executive Directors

Mr. Zhang Shiping
Ms. Zhao Suhua

Independent Non-executive Directors

Mr. Chan Wing Yau, George
Mr. Chen Shuwen
Mr. Liu Yanzhao

Mr. Zhang Shiping is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Responsibilities of the Board

The Board of the Company is accountable to the general meeting, and is responsible for convening general meetings; implementing resolutions of the general meetings; formulating operating plans and investment plans of the Company; formulating annual financial budgets and final accounts of the Company; formulating profit distribution plans (including the plan for the distribution of final dividends) and the plan to make up losses of the Company; formulating the plans to increase or reduce the registered capital of the Company and to issue the Company's debentures; formulating the plans for the Company's merger, demerger and dissolution; making decisions on the deployment of the internal management bodies of the Company; appointing or removing the Company's general manager and the Company's deputy general manager and financial controller pursuant to the nomination of the general manager, and making decisions on their remunerations; formulating the Company's basic management system; formulating the plans for the amendment to the Articles of Association; subject to compliance with the relevant requirements of the state, making decisions on the level of salaries, welfare and incentives measures of the Company; making decisions on other significant operations and administrative matters not required to be decided by the general meeting under the Articles of Association; formulating major acquisition or disposal plans of the Company and other duties as provided by the Articles of Association.

The Board is also responsible for fulfilling its corporate governance responsibilities as set out in code provision D.3.1 of the CG Code, which include but not limited to:

(i) developing and reviewing the Company's policies and practices on corporate governance;

(ii) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to the employees and the Directors; and

(v) reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2018, the Board has fulfilled the above responsibilities. The Board has reviewed the Company's compliance with the CG Code for the year ended 31 December 2018 and the corporate governance report set out in this annual report.

Delegation of management function of the Board

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial statements and other significant financial and operational matters.

All Directors have full and timely access to all relevant statements as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and work tasks are periodically reviewed.

Responsibilities of Management

The general manager of the Company is accountable to the Board, and is responsible for taking lead in the management of the Company's production operations, organising the implementation of the resolutions of the Board; organising the implementation of the Company's annual operation plans and investment plans; formulating the deployment plans for the Company's internal management bodies; formulating the Company's basic management system; formulating the Company's basic rules and regulations; proposing for the appointment or removal of the Company's deputy general manager and financial controller; appointing or removing the management personnel other than those required to be appointed or removed by the Board; and other duties as conferred by the Articles of Association and the Board.

The company secretary of the Company is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The company secretary of the Company also keeps the minutes of meetings of the Board and its committees.

Appointment and Re-election of Directors

The procedures of appointment, re-election and removal of Directors are laid down in the Articles of Association. The nomination committee of the Board (the "Nomination Committee") is responsible for reviewing the Board composition, selecting or making recommendations to the Board on the selection of individuals nominated for directorships and assessing the independence of the independent non-executive Directors.

Pursuant to the Articles of Association, Directors shall serve a term of three (3) years commencing from the date of being elected. Directors should retire upon expiry of the said term, but may serve successive terms if being re-elected at general meeting. Non-executive Directors should be appointed for a specific term. All Directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after the appointment.

Each of the executive Directors of the Company has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years. Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Zhang Jinglei, Mr. Zhang Shiping, Ms. Zhao Suhua and Mr. Chan Wing Yao, George were re-elected as the Directors of the Company at the 2017 annual general meeting of the Company held on 28 May, 2018. Mr. Wang Naixin resigned as an independent non-executive Director of the Company after the end of the 2017 annual general meeting due to his desire to devote more time on family matters. Mr. Liu Yanzhao was appointed as an independent non-executive Director of the Company at the 2017 annual general meeting.

Board meetings

Pursuant to the code provision A.1.1 of the CG Code, the Board shall meet regularly and Board meetings shall be held at least four times a year at approximately quarterly intervals and each regular meeting of the Board will involve the active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present.

Pursuant to the Articles of Association, at least four regular meetings of the Board shall be convened by the Company each year. Such meetings shall be convened by the chairman of Board by giving notice to all the Directors fourteen (14) days prior to the date of the said meeting. An agenda of a regular Board meeting shall be sent at least three (3) days prior to the suggested date of the said meeting. Where there is an emergency, an extraordinary meeting of the Board may be convened upon suggestion by 1/3 or more of the Directors or the Company's general manager.

CORPORATE GOVERNANCE REPORT

The general manager of the Company shall be present at the Board meetings to advise on business development, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company. The secretary to the Board is responsible for keeping minutes of the meetings of the Board and the Board committees.

The Articles of Association also contain provisions that, in principle, the Directors shall not vote on any resolution of the Board with contracts, arrangements or any other suggestion where they or any of their associates have a material interest, and shall not be counted in the quorum of the relevant Board meeting.

The Directors' Attendance Record at Meetings

During the year ended 31 December 2018, four Board meetings were held by the Directors either in person or through electronic means of communication and the attendance of individual Directors at the Board meetings and general meetings are set out below:

Board members	Attendance of Board meetings held in 2018	Attendance of general meetings held in 2018
Ms. Zhang Hongxia	4/4	2/2
Ms. Zhang Yanhong	4/4	2/2
Ms. Zhao Suwen	4/4	2/2
Mr. Zhang Jinglei	4/4	2/2
Mr. Zhang Shiping	4/4	2/2
Ms. Zhao Suhua	4/4	2/2
Mr. Chan Wing Yau, George	4/4	2/2
Mr. Chen Shuwen	4/4	2/2
Mr. Liu Yanzhao	3/4	1/2
Mr. Wang Naixin *note*	1/4	1/2

Note: During the Year, Mr. Wang Naixin (an independent non-executive Director of the Company), due to his age and desire to devote more time on his family affairs, has tendered his resignation to the Board from his positions as an independent non-executive Director, the chairman of the remuneration committee (the "Remuneration Committee") and a member of the Audit Committee and the Nomination Committee of the Company on 26 April 2018. The resignation was effective after the Company's annual general meeting held on 28 May 2018.

All the independent non-executive Directors are independent of the Company and any of its subsidiaries.

CORPORATE GOVERNANCE REPORT

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company are Ms. Zhang Hongxia and Mr. Wei Jiakun, respectively.

The responsibility of the chairman is to manage the Board, while the responsibility of the chief executive officer is to manage the business of the Company. The chairman and chief executive officer shall have clearly defined roles and duties, which are set out in the code of corporate governance of the Company.

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors, independent non-executive Directors and supervisors of the Company has signed an appointment letter with the Company for a term of 3 years respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Since the listing date on 24 September 2003, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

By reference to the guidelines as set out in Rule 3.13 of the Listing Rules, the Company confirms the independence of all the independent non-executive Directors.

INDUCTION TRAINING AND DEVELOPMENT

The Company provides induction training programme for all new Directors which, taking into account their experience and background, is designed to enhance their knowledge and understanding of the Group's culture and operations as well as their relevant roles and responsibilities. Development and training of Directors is an ongoing process so that they can perform their duties appropriately. All Directors are encouraged to attend relevant training courses at the Company's expense. During the period from 1 January 2018 to 31 December 2018, all the Directors of the Company have been required to provide their training records to the Company, which were kept by the company secretary. All Directors, namely Mr. Zhang Shiping, Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Zhang Jinglei, Ms. Zhao Suhua, Mr. Chan Wing Yau, George, Mr. Chen Shuwen, Mr. Wang Naixin and Mr. Liu Yanzhao, and the company secretary Mr. Zhang Jinglei have participated in relevant trainings and continuous study in relation to corporate governance and company management, so as to enhance their professional knowledge and skills.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors, the chief executives and the five individuals with the highest emoluments for the year ended 31 December 2018 are set out in Note 13 to the consolidated financial statements.

Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of individuals
HK$500,000 to HK$1,000,000 (approximately RMB430,000 to RMB860,000)	1

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2018, the Board conducted evaluations of its performance.

SUBORDINATE COMMITTEES OF THE BOARD

- the Audit Committee
- the Remuneration Committee
- the Nomination Committee

Each subordinate committee of the Board may decide upon all matters within its terms of reference and applicable limits of authority.

A. AUDIT COMMITTEE

The Audit Committee was established on 9 January 2003. The Audit Committee is currently comprised three independent non-executive Directors.

The Composition of the Audit Committee

Mr. Chan Wing Yau, George *(Chairman of the Audit Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

The Audit Committee held a total of two meetings during the year ended 31 December 2018.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Audit Committee at the Audit Committee meetings held during the year ended 31 December 2018:

Members of Audit Committee	**Attendance of Audit Committee meetings held in the year ended 31 December 2018**
Mr. Chan Wing Yau, George	2/2
Mr. Chen Shuwen	2/2
Mr. Liu Yanzhao(1)	1/2
Mr. Wang Naixin(2)	1/2

Note (1): Mr. Liu Yanzhao was appointed as a member of Audit Committee of the Company on 28 May 2018.

Note (2): Mr. Wang Naixin resigned as a member of Audit Committee of the Company on 28 May 2018.

The following resolutions were passed on 16 March 2018 after due consideration by members of the Audit Committee:

1. to consider and approve the Report of the Directors and Report of the International Auditors of the Company for 2017;

2. to consider and approve the audited financial report of the Company as of 31 December 2017;

3. to consider and approve the profit distribution plan and financial report on the final account of the Company for 2017;

4. to consider and approve the reappointment of ShineWing Certified Public Accountants LLP as the Company's domestic auditor for the year ended 31 December 2018 and SHINEWING (HK) CPA Limited as the Company's international auditor for the year ended 31 December 2018;

5. to consider and approve the matters in relation to the transactions of the Company; and

6. to consider and approve the annual report and results announcement of the Company for 2017.

On 17 August 2018, after due consideration, the following issues were reviewed by members of the Audit Committee:

(1) the Audit Committee has reviewed the information as set out in the accounts of the Group as of 30 June 2018, and confirmed the quality of the reviewed profit and that such materials were complete, accurate and appropriate;

(2) the accounting policies adopted in the financial statements for the six months ended 30 June 2018 were the appropriate accounting policies;

(3) regarding the portion in the financial statements for the six months ended 30 June 2018 for which accurate figures are unavailable, the Audit Committee has reviewed and confirmed the estimations and the relevant basis of calculations in respect of such portion made by the management of the Company;

(4) the financial statements for the six months ended 30 June 2018 have fully disclosed all the relevant issues, and such disclosure has accurately and fairly reflected the nature of the transactions without any misleading contents;

(5) the Audit Committee has reviewed the disclosure materials of extraordinary items for the six months ended 30 June 2018, and has ensured their accuracy, fairness and absence of misleading content, and the same are also clearly disclosed in the financial statements;

(6) the Audit Committee has reviewed the Group's draft interim report for the six months ended 30 June 2018, including the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such materials have accurately and fairly reflected the performance and financial position of the Group and are in line with the disclosure in the financial statements for the six months ended 30 June 2018 without any misleading contents;

(7) the Audit Committee has examined and reviewed the independence and objectivity of SHINEWING (HK) CPA Limited as the Group's external auditors and the effectiveness of the auditing procedures, and considered that SHINEWING (HK) CPA Limited was independent, the report issued by which was objective, and the auditing procedures carried out were effective; Meanwhile, it has also examined and reviewed the financial control, internal control and risk control systems of the Group, and considered that such control systems were effective. The management of the Group has fulfilled its responsibilities for establishing effective internal control systems; and

(8) the Audit Committee has reviewed and confirmed that the interim financial report has been prepared in compliance with the Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants, and its principal accounting policies have been consistently implemented and the assumptions have been made on an ongoing basis.

Having been reviewed by the members of the Audit Committee, the following resolutions were passed at the meeting of the Audit Committee held on 17 August 2018:

1. resolution relating to the unaudited financial report of the Company as of 30 June 2018;

2. resolution relating to the Interim Review Report of the Company;

3. resolution relating to the 2018 interim report and the relevant announcement of the Company;

4. resolution relating to the implementation of the New PRC Accounting Standards by the Company; and

5. resolution relating to the implementation of the new Hong Kong Financial Reporting Standards by the Company.

Roles and Functions

The Audit Committee is mainly responsible for:

(1) providing advice and recommendations to the Board on the appointment, reappointment and dismissal of the external auditors, approving the remuneration and recruitment terms of the external auditors as well as dealing with issues relating to the resignation or dismissal of the external auditors (in case the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Company should set out in the Corporate Governance Report the statement of the Audit Committee in which their opinions are clearly stated as well as the reasons for the Board’s disagreement with such opinions);

(2) reviewing and overseeing the independence and objectiveness of the external auditors and the effectiveness of audit procedures as per appropriate standards; the Audit Committee should discuss with the external auditors, before commencement of the audit, the nature and scope of the audit and the reporting responsibilities, and ensure the coordination between different firms of auditors if more than one auditing firms are engaged;

(3) formulating and implementing policies on non-audit services provided by the external auditors;

(4) overseeing the completeness of the financial statements, annual reports and accounts, and interim reports of the Company as well as reviewing significant opinions relating to financial reporting set out in those statements and reports. In reviewing the annual reports, accounts and interim reports to be presented to the Board, the Audit Committee should pay special attention to the following matters:

   (i) any changes in accounting policies and practices;

   (ii) areas where significant judgment is involved;

   (iii) significant adjustments arising from audit;

   (iv) any assumptions on the operation of the Company on a going-concern basis and any qualified opinions;

   (v) whether the accounting standards have been complied with; and

   (vi) whether the Listing Rules and other laws and regulations relating to financial reporting have been complied with;

(5) in respect of the four items above:

   (i) The members of the committee should keep in contact with the Board, senior management and the person appointed as the qualified accountant of the Company. The Audit Committee should meet at least once a year with the auditors of the Company; and

   (ii) The Audit Committee should consider any significant or extraordinary items reflected or which should be reflected in those reports and accounts, and consider, if thought fit, any issues raised by the qualified accountant, compliance officer or auditors of the Company;

(6) reviewing the Company's financial control, internal control and risk management systems;

(7) discussing with the management the internal control systems and ensuring the management has performed its responsibilities to establish effective internal control systems;

(8) conducting research on its own initiatives, or upon request of the Board, in respect of the findings of major investigations relating to internal control matters and the management's response;

(9) ensuring co-ordination between the internal auditing department and external auditors, and ensuring that the internal auditing department is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring the effectiveness of the internal audit function;

(10) reviewing the Group's financial and accounting policies and practices;

(11) reviewing the audit results and relevant communication reports provided by the external auditors to the management, and any significant doubt raised by the auditors to the management in respect of accounting records, financial accounts or control systems and the management's feedbacks in this respect;

(12) ensuring the Board's timely response to the matters as set out in the audit results and relevant communication reports provided by the external auditors to the management;

(13) reporting to the Board in respect of the matters set out in code provisions of the CG Code contained in Appendix 14 to the Listing Rules;

(14) reviewing the following arrangements made by the Company: employees of the Company may raise concerns in strict confidence on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made to enable the Company to conduct a fair and independent investigation of these matters and take proper measures;

(15) acting as a primary channel between the Company and the external auditors, and monitoring their working relations; and

(16) reporting to the Board in respect of the matters mentioned above.

The Audit Committee had meetings with the external auditors during the Year to discuss the interim and annual financial statements and the audit matters.

In case the Audit Committee is in doubt about the financial statements and the control systems of the Company in the course of the audit, the management of the Company should provide the Audit Committee members with all the relevant details, analysis and supporting documents, so as to ensure that the Audit Committee members are completely satisfied and provide appropriate recommendations to the Board.

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 February 2005. The Remuneration Committee is currently comprised an executive Director and two independent non-executive Directors.

The Composition of the Remuneration Committee

Mr. Liu Yanzhao *(Chairman of the Remuneration Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

One meeting was held by the Remuneration Committee during the year ended 31 December 2018.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Remuneration Committee at the Remuneration Committee meetings held during the year ended 31 December 2018:

Members of Remuneration Committee	**Attendance of Remuneration Committee meeting held in 2018**
Mr. Liu Yanzhao(1)	0/1
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1
Mr. Wang Naixin(2)	1/1

Note (1): Mr. Liu Yanzhao was appointed as the chairman of Remuneration Committee of the Company on 28 May 2018.

Note (2): Mr. Wang Naixin resigned as the chairman of Remuneration Committee of the Company on 28 May 2018.

At the Remuneration Committee meeting held on 16 March 2018, the Remuneration Committee assessed the performance of executive Directors, reviewed and approved the emoluments of Directors and supervisors for the year ended 31 December 2018.

Roles and Functions

The terms of reference of the Remuneration Committee include the following specific duties:

(1) to make recommendations to the Board on the overall remuneration policy and structure relating to Directors and senior management of the Company, and provide advice in relation to the establishment of regular and transparent procedures for formulating remuneration policy;

(2) the following duties delegated by the Board: to determine the specific remuneration package of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board regarding the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions of other positions within the Group and the desirability of performance-based remuneration;

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;

(4) to review and approve the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment, and to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair, reasonable and not excessive for the Company;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct and to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(6) to ensure none of the Directors nor any of their associates shall determine their own remuneration.

C. NOMINATION COMMITTEE

The Nomination Committee was established on 23 March 2012. The Nomination Committee is currently comprised an executive Director and two independent non-executive Directors.

The Composition of the Nomination Committee

Ms. Zhang Hongxia *(Chairman of the Nomination Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

Two meetings were held by the Nomination Committee during the year ended 31 December 2018.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Nomination Committee at the Nomination Committee meetings held during the year ended 31 December 2018:

Members of Nomination Committee	**Attendance of Nomination Committee meeting held in 2018**
Ms. Zhang Hongxia	2/2
Mr. Chen Shuwen	2/2
Mr. Liu Yanzhao(1)	0/2
Mr. Wang Naixin(2)	2/2

Note (1): Mr. Liu Yanzhao was appointed as a member of Nomination Committee of the Company on 28 May 2018.

Note (2): Mr. Wang Naixin resigned as a member of Nomination Committee of the Company on 28 May 2018.

At the Nomination Committee meeting held on 16 March 2018, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, and nominated Directors in accordance with the nomination policy of the Company.

Roles and Functions

The terms of reference of the Nomination Committee include the following specific duties:

(1) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(3) to assess the independence of independent non-executive Directors of the Company; and

(4) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman and the chief executive officer.

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy according to Provision A.5.6 of the CG Code. The Company's board diversity policy can be summarised as follows: the Company recognises the importance of diversity to corporate governance and the Board's effectiveness. The board diversity policy established by the Company is to set out the basic principles to be followed to ensure that the members of the Board have the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. The nomination and appointments of members of the Board will continue to be made on a merit basis based on the Company's business needs from time to time while taking into account diversity. Selection of the Board candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, race, language, cultural background, educational background, industrial experience and professional experience.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's performance in annual and interim reports and other financial disclosures required by the Listing Rules.

The senior management has provided sufficient explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial and other information of the Company put before it for approval.

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

PROPOSED GRANT OF A GENERAL MANDATE AT THE 2018 ANNUAL GENERAL MEETING

A general mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the 2018 annual general meeting to issue, allot and deal with not more than 20% of the aggregate nominal amount of domestic shares or H shares of the Company, subject to specific conditions. For details, please refer to No. 9 special resolution in the notice of the 2018 annual general meeting of the Company.

PROPOSED GRANT OF A GENERAL MANDATE TO REPURCHASE H SHARES AT THE 2018 ANNUAL GENERAL MEETING, DOMESTIC SHAREHOLDERS CLASS MEETING AND H SHAREHOLDERS CLASS MEETING

A general mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the 2018 annual general meeting, domestic shareholders class meeting and H shareholders class meeting to be held on 30 May 2019 to repurchase H shares with not more than 10% of the aggregate nominal amount of H shares of the Company, subject to specific conditions. For details, please refer to No. 10 special resolution in the notice of the 2018 annual general meeting, the notice of domestic shareholders class meeting and the notice of H shareholders class meeting of the Company.

EXTERNAL AUDITORS

The auditors are responsible for presenting independent opinions on the financial statements according to the results of their auditing work, and reporting to the Company on the same. Apart from providing annual auditing service, the external auditors of the Company also review the interim results of the Company and provide other non-auditing services.

As of 31 December 2018, the external auditors SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountants LLP have provided the Group with the following services:

	2018
	RMB'000
Interim review service (inclusive of value-added tax)	1,800
Annual audit service (inclusive of value-added tax)	4,200

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's risk management and internal control systems, and reviewing the effectiveness of these systems annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Relevant procedures have been designed for safeguarding assets against unauthorized use or disposal, controlling excessive capital expenditure, maintaining proper accounting records, and ensuring the reliability of financial information used for operations or publication. The Company has an internal audit function. The Audit Committee is responsible for internal control to ensure qualified management throughout the Company maintains and monitors the internal control systems on an ongoing basis.

The Group has in place a relatively comprehensive risk management and internal control system and clearly defines the responsibility and authority of each business unit, department and management member. It implements the reporting and approval procedures and accountability system of each business segment to realise compliance operation and monitor and control each segment effectively. Each business unit shall identify risks that may hinder the realisation of business objectives and coordinate with the management members to analyse and evaluate the importance of such risks. The finance department is responsible for monitoring and controlling financial risks and making recommendation on potential risks identified during the approval procedures. Other management departments shall identify and make judgment on various circumstances as well as monitor and assess potential risk factors within the scope of their responsibility and authority. If necessary, they can consult professionals at any time and report to the Board according to the internal management procedure. Before making any material decisions, the Board has to make proper assessment on the possible risks involved and the level of risks.

The Board and the Audit Committee obtain comments from the management with regard to risk management and internal control on a yearly basis; they also work together to review the effectiveness of the relevant systems and identify monitoring and control errors and material procedural defects. If any material defects in internal control are found, the management and the Board have to make active response and resolve the existing problems in the most appropriate way and, at the same time, review the prevailing systems and procedures to seek improvement and take remedial measures.

The Company understands its responsibilities under Part XIVA of the SFO and the Listing Rules and has established procedures and internal control measures for handling and dissemination of inside information. The Company shall make public disclosure on inside information as soon as reasonably practicable. The Company shall also strictly comply with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong when handling matters involving inside information and prohibit the unauthorized use of confidential or inside information.

CORPORATE GOVERNANCE REPORT

The Directors have the responsibility to continuously pay attention to the production and operation conditions and financial position of the Company as well as existing and potential material issues and their impacts; they shall also actively investigate and obtain information required for decision making. After finding out and learning about matters required to be disclosed, the relevant personnel shall make timely report to the management and the responsible Directors, judge and verify the relevant information and materials, make internal assessment on the matters involved and preliminary remedial measures and seek professional advice if necessary. After carrying out the relevant internal procedures, the Company shall confirm the information disclosure arrangement and ensure the truthfulness, accuracy, completeness, timeliness and fairness of the disclosed information and ensure that such information is free of false records, material misstatement or omission.

The Board has reviewed the risk management and internal control systems of the Group for the year ended 31 December 2018, which cover financial, operational, compliance controls and risk management functions, and considers such systems to be effective and adequate. Upon review, the Board also concluded that the Company has adequate resources, staff qualifications and experience, training programmes and budget for handling the account, internal audit and financial reporting functions.

COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary of the Company, Mr. Zhang Jinglei. The company secretary of the Company reports to the chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with shareholders and management. As of 31 December 2018, the company secretary of the Company undertook over 15 hours of professional training to update his skills and knowledge.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

The Company is liable to ensure the shareholders' interests. The Company maintains contact with its shareholders through annual general meetings or other general meetings, and encourages the shareholders to attend those meetings.

Notice of general meeting is sent by mail to the registered shareholders of the Company. Agenda, resolutions and voting form are set out in the notice of general meeting.

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

In accordance with requirements set forth by the Articles of Association of the Company, the Board shall convene an extraordinary general meeting within two months if shareholder(s) holding more than 10% (inclusive) of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting. When the Company convenes an annual general meeting, shareholders holding more than 5% (inclusive) of the total voting shares of the Company shall have the right to submit new proposals in writing to the Company, and the Company shall place the proposals on the agenda for the said annual general meeting if the said proposals fall within the functions and powers of general meetings.

Shareholders or investors can make enquiry of the Company and give suggestion through the following:

Tel: 852-2815 1090
Postal Address: Suite 5109, The Center, 99th Queen's Road Central, Central, Hong Kong

INVESTORS RELATIONS

The Company maintains a two-way communication channel to report the performance of the Company to its shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be dispatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Stock Exchange. The Company also communicates and discloses its latest business development plans through road shows and seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to them at the same time, price-sensitive information will be released in the form of official announcements in accordance with the Listing Rules.

INDEPENDENT AUDITOR'S REPORT

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

To the Shareholders of Weiqiao Textile Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Weiqiao Textile Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 170, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loss allowance on trade receivables

Refer to note 23 to the consolidated financial statements and the accounting policies on page 109.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group had trade receivables of approximately RMB431,654,000. Since 1 January 2018, the Group has adopted expected credit losses ("ECL") model to estimate the loss allowance of trade receivables under HKFRS 9. As at 31 December 2018, the loss allowance of trade receivables was approximately RMB5,199,000. We identified the loss allowance on trade receivables as a key audit matter as the amounts are significant to the consolidated financial statements as a whole and there is significant degree of management judgement involved in assessing the ECL model, based on the historical credit loss experience, forward-looking factors specific to the debtors and economic environment.	Our audit procedures were designed to review the management's assessment of ECL model adopted for the loss allowance on trade receivables. We have obtained an understanding of methodology for ECL model, development processes and its relevant controls, through review of documentation, discussion with management and valuer. We have also assessed the reasonableness of assumptions and judgements made by management on model adoption and parameters selection. We have examined the key data inputs to the ECL model on a sample basis to assess their accuracy and completeness.

Valuation of property, plant and equipment and investment properties

Refer to notes 17 and 18 to the consolidated financial statements and the accounting policies on pages 101 and 102.

The key audit matter	How the matter was addressed in our audit
We have identified the valuation of property, plant and equipment and investment properties as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by the management in assessing whether there are any indicators of impairment for property, plant and equipment and investment properties at the end of the reporting period which may affect their respective carrying amounts. The Group engaged an independent professional valuer to perform valuation on the idle property, plant and equipment as at 31 December 2018 based on market approach. As at 31 December 2018, the carrying amount of property, plant and equipment and investment properties are approximately RMB10,895,451,000 and RMB21,522,000 respectively.	Our audit procedures were designed to evaluate the management's assessment of the indicators of impairment and, where such indicators were identified, assessed the management's impairment testing and identify any valuation risk of property, plant and equipment. We have discussed with the management on the key assumptions used in the management's assessment of the indicators of impairment. We have also performed check on sample basis by physically inspecting whether the property, plant and equipment are kept in a good condition. We have considered the objectivity, independence and expertise of the valuers, and assessed the appropriateness of their valuation methodology. We challenged the data used as inputs for the valuation, which included reference to the market unit selling price of comparable properties nearby used in the valuation and performed market value benchmarking against comparable properties.

Valuation of inventories

Refer to note 22 to the consolidated financial statements and the accounting policies on page 103.

The key audit matter	How the matter was addressed in our audit
We identified the valuation of inventories as a key audit matter due to the use of judgements in identifying obsolete and slow moving inventories and determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs. As at 31 December 2018, the carrying amount of inventories is approximately RMB3,161,164,000, net of impairment provisions of approximately RMB120,489,000.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluate the condition and marketability of the inventories adopted by the management. We have tested the subsequent sales on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (restated)
Revenue	7	16,455,884	16,373,385
Cost of sales		(14,736,265)	(14,603,187)
Gross profit		1,719,619	1,770,198
Other income	9	164,981	167,036
Selling and distribution expenses		(166,246)	(159,160)
Administrative expenses		(277,490)	(257,185)
Other expenses		(40,143)	(55,574)
Finance costs	10	(376,475)	(523,073)
Share of profit of an associate		118	2,613
Profit before taxation		1,024,364	944,855
Income tax expenses	11	(381,504)	(423,797)
Profit and total comprehensive income for the year	12	642,860	521,058
Attributable to:			
Owners of the Company		643,906	522,249
Non-controlling interests		(1,046)	(1,191)
		642,860	521,058
Earnings per share attributable to the Owners of the Company			
Basic and diluted (RMB)	16	0.54	0.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018	2017
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	17	**10,895,451**	11,857,128
Investment properties	18	**21,522**	22,258
Prepaid lease payments	19	**330,652**	339,491
Other intangible assets	20	**91**	106
Investment in an associate	21	**74,731**	74,613
Deposits paid for acquisition of property, plant and equipment		**5,457**	5,378
Prepayments	24	**1,892**	–
Deferred tax assets	32	**85,711**	104,690
Total non-current assets		**11,415,507**	12,403,664
Current assets			
Inventories	22	**3,161,164**	2,624,939
Trade receivables	23	**431,654**	400,918
Deposits, prepayments and other receivables	24	**202,415**	298,416
Pledged deposits	26	**140,388**	33,000
Bank balances and cash	26	**9,596,558**	12,723,317
		13,532,179	16,080,590
Non-current assets classified as held for sale	17	**5,084**	28,221
Total current assets		**13,537,263**	16,108,811
Current liabilities			
Trade payables	27	**1,228,881**	968,220
Other payables and accruals	28	**1,118,338**	1,177,399
Contract liabilities	29	**132,216**	–
Income tax payable		**993,071**	981,515
Bank and other borrowings	30	**2,888,105**	6,262,350
Deferred income	31	**17,961**	18,321
Total current liabilities		**6,378,572**	9,407,805
Net current assets		**7,158,691**	6,701,006
Total assets less current liabilities		**18,574,198**	19,104,670

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Equity			
Issued capital	33	1,194,389	1,194,389
Reserves		17,200,010	16,735,860
		18,394,399	17,930,249
Non-controlling interests		14,451	28,862
Total equity		18,408,850	17,959,111
Non-current liabilities			
Bank and other borrowings	30	–	962,755
Deferred income	31	159,495	176,329
Deferred tax liabilities	32	5,853	6,475
Total non-current liabilities		165,348	1,145,559
Total equity add non-current liabilities		18,574,198	19,104,670

The consolidated financial statements on page 79 to 170 were approved and authorised for issue by the board of directors on 15 March 2019 and are signed on its behalf by:

....	....
Zhang Hongxia	**Zhao Suwen**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Issued capital	Capital reserve	Statutory surplus reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000* *(note 1)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	1,194,389	6,664,645	1,690,526	8,165,435	17,714,995	65,743	17,780,738
Profit and total comprehensive income for the year	–	–	–	522,249	522,249	(1,191)	521,058
Final 2016 dividend declared	–	–	–	(334,429)	(334,429)	–	(334,429)
Acquisition of addition interests in subsidiaries *(note 37(b))*	–	27,434	–	–	27,434	(35,690)	(8,256)
Transfer from retained profits	–	–	75,614	(75,614)	–	–	–
At 31 December 2017	1,194,389	6,692,079	1,766,140	8,277,641	17,930,249	28,862	17,959,111
Effect of changes in accounting policies *(note 2)*	–	–	–	(913)	(913)	–	(913)
At 1 January 2018 (as restated)	**1,194,389**	**6,692,079**	**1,766,140**	**8,276,728**	**17,929,336**	**28,862**	**17,958,198**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**643,906**	**643,906**	**(1,046)**	**642,860**
Final 2017 dividend declared	**–**	**–**	**–**	**(179,158)**	**(179,158)**	**–**	**(179,158)**
Acquisition of addition interest in a subsidiary *(note 37(a))*	**–**	**315**	**–**	**–**	**315**	**(13,365)**	**(13,050)**
Transfer from retained profits	**–**	**–**	**79,082**	**(79,082)**	**–**	**–**	**–**
At 31 December 2018	**1,194,389**	**6,692,394**	**1,845,222**	**8,662,394**	**18,394,399**	**14,451**	**18,408,850**

Note: As required by applicable law and regulations, entities established and operated in the People's Republic of China (the "PRC") shall set aside/appropriate a portion of its after tax profits of each year to fund statutory surplus reserve. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after such usage.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	1,024,364	944,855
Adjustments for:		
Finance costs	376,475	523,073
Share of profit of an associate	(118)	(2,613)
Interest income	(38,972)	(52,855)
Recognition of deferred income	(19,259)	(19,029)
Government grant	(2,294)	(8,497)
Gain on disposal of property, plant and equipment	(10,177)	(12,550)
Gain on disposal of non-current assets held for sale	(12,869)	(11,008)
Loss on written-off of property, plant and equipment	19,548	–
Loss allowance on trade receivables	36	–
Reversal of loss allowance on other receivables	(139)	–
Impairment loss on trade receivables	–	103
Allowance on inventories	113,607	51,005
Reversal of allowance for inventories	(832)	(166,837)
Depreciation of property, plant and equipment	1,100,979	1,216,221
Depreciation of investment properties	736	736
Amortisation of prepaid lease payments	8,839	8,839
Amortisation of other intangible assets	15	16
Operating cash flows before movements in working capital	2,559,939	2,471,459
(Increase) decrease in inventories	(649,000)	589,960
(Increase) decrease in trade receivables	(31,484)	49,449
Decrease in deposits, prepayments and other receivables	93,790	182,078
Increase in trade payables	260,661	26,622
Increase in other payables and accruals	103,148	18,938
Increase in contract liabilities	10,682	–
Decrease in amount due to immediate holding company	–	(59,060)
Cash generated from operations	2,347,736	3,279,446
Income tax paid	(351,287)	(262,170)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,996,449	3,017,276

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(162,018)**	(292,802)
(Increase) decrease in pledged deposits	**(107,388)**	57,985
Prepayment for acquisition of property, plant and equipment	**(5,457)**	(5,378)
Bank interest income received	**38,925**	34,958
Proceeds from disposal of non-current assets held for sale	**36,852**	26,475
Proceeds from disposal of property, plant and equipment	**17,877**	39,006
Repayment from immediate holding company	**–**	2,993,906
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(181,209)**	2,854,150
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(3,262,350)**	(4,941,500)
Repayment of corporate bond	**(3,000,000)**	–
Interest paid	**(417,150)**	(587,356)
Dividend paid	**(179,158)**	(334,429)
Acquisition of additional interests in subsidiaries	**(13,050)**	(8,256)
Redemption of corporate bonds	**–**	(2,037,245)
Government grants received	**4,359**	23,397
New bank borrowings raised	**1,925,350**	3,444,850
NET CASH USED IN FINANCING ACTIVITIES	**(4,941,999)**	(4,440,539)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,126,759)**	1,430,887
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**12,723,317**	11,292,430
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**9,596,558**	12,723,317

1. GENERAL INFORMATION

The Company is a limited company incorporated in the PRC. The registered office of the Company is located at No. 34, Qidong Road, Weiqiao Town, Zuoping City, Shandong Province, the PRC. The immediate holding company and the ultimate holding company of the Group are 山東魏橋創業集團有限公司 Shandong Weiqiao Chuangye Group Company Limited* (the "Holding Company") and 山東魏橋投資控股有限公司 Shandong Weiqiao Investment Holdings Company Limited* ("Weiqiao Investment") respectively, both of which are limited liability companies established in the PRC.

The Group was principally engaged in the manufacture and sale of cotton yarn, grey fabric, denim and generation and sale of electricity and steam.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. RMB is the currency of the primary economic environment in which the principal subsidiary of the Company operates (the functional currency of the principal subsidiary).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 1 and HKAS 28	Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

* *For identification purpose only*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments

HKFRS 9 replaced the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 3 below.

2.1.1 Classification and measurements of financial instruments

The directors of the Company have reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at the date and concluded that all initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

Debt investments previously classified as loan and receivables carried at amortised cost:

Some of the debt instruments (including trade receivables and other receivables) amounting to approximately RMB406,768,000 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these instruments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon application of HKFRS 9.

2.1.2 Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

As at 1 January 2018, an additional allowance on the Group's trade receivables and other receivables of approximately RMB712,000 and RMB505,000, respectively, have been recognised, thereby reducing the opening retained earnings of approximately RMB913,000, net of their related deferred tax impact of approximately RMB304,000.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments (Continued)

2.1.3 Summary of effects arising from initial application of HKFRS 9

The table below summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (HKAS 39)	Adoption of HKFRS 9 – Reclassification	Adoption of HKFRS 9 – Remeasurement	Carrying amount at 1 January 2018 (HKFRS 9)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loan and receivables				
– Trade receivables	400,918	(400,918)	–	–
– Other receivables	5,850	(5,850)	–	–
– Pledged bank deposits	33,000	(33,000)	–	–
– Bank balances and cash	12,723,317	(12,723,317)	–	–
At amortised cost				
– Trade receivables	–	400,918	(712)	400,206
– Other receivables	–	5,850	(505)	5,345
– Pledged bank deposits	–	33,000	–	33,000
– Bank balances and cash	–	12,723,317	–	12,723,317

The table below summarises the impact of transition to HKFRS 9 on retained earnings at 1 January 2018.

	Retained earnings
	RMB'000
Balance at 31 December 2017 as originally stated	8,277,641
Recognition of additional expected credit losses	(1,217)
Deferred tax effect	304
Balance at 1 January 2018 as restated	8,276,728

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments (Continued)

2.1.3 Summary of effects arising from initial application of HKFRS 9 (Continued)

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under HKAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of HKFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of HKFRS 9.

2.2 HKFRS 15 Revenue from contracts with customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings or other components of equity, as appropriate and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue. Details are described below.

The Group's accounting policies for its revenue streams are disclosed in Note 3 below.

The impact of transition to HKFRS 15 was insignificant on the retained earnings at 1 January 2018.

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. Enhanced disclosures are set out in note 7.

The Group is principally engaged in the manufacture and sale of cotton yarn, grey fabric, denim and generation and sale of electricity and steam. Fabrics, electricity and steam are sold both on their own in separately identified contracts with customers.

2.2.1 Sale of goods

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no impact on the timing of revenue recognition in this regard.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 15 Revenue from contracts with customers (Continued)

2.2.2 Advances received from customers

The Group receives advanced payments from customers related to the sale of fabrics, electricity and steam. Prior to the adoption of HKFRS 15, the Group presented these advances in other payables and accruals in the consolidated statement of financial position. Upon adoption of HKFRS 15, the Group assessed whether there is a significant financing component for the contracts where the length of time between the customer's advance payment and the transfer of goods to the customer is more than one year, taking into account the prevailing interest rate, and where appropriate adjusted the transaction price at contract inception. However, the Group applies the practical expedient not to adjust the transaction price for any significant financing component as the period between payment and transfer of the associated services is generally less than one year. The Group recognised contract liabilities for the advances from customers for sale of fabrics, electricity and steam yet to be rendered or delivered.

Other than the abovementioned, the directors of the Company considered that the application of HKFRS 15 has had no material impact on i) the amount or timing of revenue recognition in the respective periods; and ii) the Group's presentation in the consolidated financial statements.

2.2.3 Summary of effects arising from initial application of HKFRS 15

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of HKFRS 15 – Reclassification	Impact on adoption of HKFRS 15 – Measurement	**Carrying amount as restated at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Other payables and accruals	1,177,399	(121,534)	–	**1,055,865**
Contract liabilities	–	121,534	–	**121,534**

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 15 Revenue from contracts with customers (Continued)

2.2.4 Disclosure of the estimated on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

Impact on the consolidated statement of financial position at 31 December 2018

	As reported	**Impact of adopting HKFRS 15**	**Amount excluding impacts of adopting HKFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Other payables and accruals	1,118,338	132,216	1,250,554
Contract liabilities	132,216	(132,216)	–

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) Interpretation 23	Uncertainty Over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment features with negative compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associate and Joint Venture[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date not yet been determined.
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

The directors of the Company anticipate that, except as described below, the application of other new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective. HKFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB101,431,000 as disclosed in note 34. Out of this balance, an amount of RMB85,026,000 represents operating leases with original lease terms of over one year in which the Group will recognise right-of-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under HKFRS 16. The directors of the Company expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of HKFRS 16 will not have other material impact on amounts in the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Company Ordinance.

The consolidated financial statements have been prepared on historical cost basis. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss is attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments (on or after 1 January 2018) or HKAS 39 Financial Instruments: Recognition and Measurement (before 1 January 2018) or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statement are used by the Group in applying the equity method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

After application of the equity method, including recognising the associate's losses, the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset or the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

Policy application to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy application to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities (Continued)

The Group recognised revenue from the following major sources:

- Sales of fabric products; and
- Sales of electricity and steam

Sales of goods

Revenue from sale of fabric products, electricity and steam is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

Significant financing component

For contracts where the period between payment and transfer of the associated goods is one year or less, the Group applies the practical expedient not to adjust the transaction price for any significant financing component.

Policy application to the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy application to the year ended 31 December 2017 (Continued)

Revenue from sale of electricity and steam is recognised when electricity is supplied to customers.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits cost

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administration purpose other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight line method for the property, plant and equipment. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Properties in the course of construction for production of goods or for administration purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Deprecation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimates useful lives. The estimated reserves and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Investment in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 9).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments of the same debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)
The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor;
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost
Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Under HKAS 39 (applicable before 1 January 2018)

The Group's financial assets are classified as into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from immediate holding company, pledged deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

For certain categories of financial assets, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reserved in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables and other receivables are considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

When measuring fair value except net realisable value of inventories and value in use of property, plant and equipment for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not granted from the relevant government authorities. In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets to the Group.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment and investment properties

The Group assesses whether there are any indicators of impairment for property, plant and equipment and investment properties at the end of each reporting period. Property, plant and equipment and investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

As at 31 December 2018, the carrying amounts of property, plant and equipment and investment properties are approximately RMB10,895,451,000 and RMB21,522,000 respectively (2017: RMB11,857,128,000 and RMB22,258,000). Based on the estimated recoverable amounts, no impairment loss in respect of property, plant and equipment and investment properties has been recognised in profit or loss (2017: nil).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Depreciation of property, plant and equipment and investment properties

The Group depreciates the property, plant and equipment over their estimated useful life, using the straight line method. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 December 2018, the carrying amounts of property, plant and equipment are approximately RMB10,895,451,000 and RMB21,522,000 respectively (2017: RMB11,857,128,000 and RMB22,258,000).

Allowance recognised in respect of trade and other receivables

The impairment provisions for trade and other receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. At 31 December 2018, impairment losses of trade and other receivables are approximately RMB5,199,000 and RMB366,000 respectively.

Impairment loss recognised in respect of inventories

Management reviews the condition of the inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group carries out an inventory review at the end of each reporting period and makes provision for obsolete and slow-moving items. As at 31 December 2018, the carrying amounts of inventories were approximately RMB3,161,164,000 (2017: RMB2,624,939,000) (net of impairment provision of approximately RMB120,489,000 (2017: RMB110,640,000).

Income tax

As at 31 December 2018, no deferred tax asset has been recognised on the tax losses of approximately RMB1,709,947,000 (2017: RMB1,256,575,000) and deductible temporary difference of approximately RMB141,244,000 (2017: RMB121,900,000) respectively due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings and corporate bonds disclosed in note 30 and deposits, bank balances and cash disclosed in note 26, and equity attributable to the owners of Group, comprising issued capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through use of debts, payment of dividends and issuance of new shares.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018	2017
	RMB'000	*RMB'000*
Financial assets		
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	**10,178,987**	13,158,289
Financial liabilities		
Financial liabilities at amortised cost	**5,110,137**	9,136,905

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade receivables, other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accruals and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group has foreign currency sales, purchases and bank loans of the Group in United States dollar ("US$"), which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**538,376**	460,237	**469,663**	146,443

The Group is mainly exposed to USD.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes bank loans where the denomination of the loan is in a currency other than the functional currency of the borrower.

A positive (2017: positive) number below indicates an increase (2017: increase) in post-tax profit for the year where RMB weakening 5% (2017: 5%) against US$. For a 5% (2017: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

Effect on post-tax profit:

	2018	2017
	RMB'000	*RMB'000*
US$	**2,577**	11,767

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 30). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Interest Rate quoted by the People's Bank of China arising from the Group's RMB denominated bank balances and bank borrowings and the fluctuation of LIBOR arising from the Group's US$ denominated bank balances and bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by approximately RMB69,382,000 (2017: RMB88,520,000). This is mainly attributable to the Group's exposure to interest rates on variable-rate bank borrowings.

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an collectively basis by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-art guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

31 December 2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
					RMB'000	*RMB'000*	*RMB'000*
Trade receivables	23	N/A	*(Note)*	Lifetime ECL (simplified approach)	436,853	(5,199)	431,654
Other receivables	24	N/A	Performing	12-month ECL	9,852	(148)	9,704
Other receivables	24	N/A	Doubtful	Lifetime ECL – not credit impaired	618	(218)	400
						(5,565)	

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 23 includes further details on the loss allowance for these assets respectively.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group has concentration of credit risk as 13% (2017: 21%) and 28% (2017: 34%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at 31 December 2018 which excluded the immediate holding company and fellow subsidiaries.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on bank borrowings and obligations under finance leases as a significant source of liquidity and the management monitors the utilisation of bank borrowings and obligations under finance leases and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	At 31 December 2018				
	Within 1 year or on demand	**1 to 2 years**	**2 to 5 years**	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Trade payables	**1,228,881**	**–**	**–**	**1,228,881**	**1,228,881**
Other payables and accruals	**993,151**	**–**	**–**	**993,151**	**993,151**
Bank and other borrowings	**2,978,618**	**–**	**–**	**2,978,618**	**2,888,105**
	5,200,650	**–**	**–**	**5,200,650**	**5,110,137**

	At 31 December 2017				
	Within 1 year or on demand	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	968,220	–	–	968,220	968,220
Other payables and accruals	943,580	–	–	943,580	943,580
Bank and other borrowings	6,579,970	1,003,939	–	7,583,909	7,225,105
	8,491,770	1,003,939	–	9,495,709	9,136,905

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Fair value measurement objective and policies

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of current financial assets, current and non-current financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

7. REVENUE

Revenue represents revenue arising from sales of cotton yarn, grey fabric, denim and electricity and steam. An analysis of the Group's revenue for the year is as follows:

	2018	2017*
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
– Sales of textile products		
• Cotton yarn	**4,183,083**	3,836,323
• Grey Fabric	**5,523,329**	6,188,351
• Denim	**811,050**	712,380
– Sales of electricity and steam	**5,938,422**	5,636,331
	16,455,884	16,373,385

* The amounts for the year ended 31 December 2017 were recognised in HKAS 18.

7. REVENUE (Continued)

Disaggregation of the Group's revenue

For the year ended 31 December 2018	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
Geographical market			
Mainland China	6,978,518	5,938,422	12,916,940
China, Hong Kong	1,413,689	–	1,413,689
Southeast Asia	864,839	–	864,839
East Asia	453,912	–	453,912
Others	806,504	–	806,504
	10,517,462	5,938,422	16,455,884

The timing of revenue recognition of all revenue from contracts with customers is at a point in time.

8. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable segments are as follows:

– The textile products segment produces and sells cotton yarn, grey fabric and denim; and

– The electricity and steam segment generates electricity and steam for internal use in the production of textile products and sale to external customers.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2018

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	10,517,462	5,938,422	16,455,884
Intersegment revenue	–	787,532	787,532
Segment revenue	10,517,462	6,725,954	17,243,416
Eliminations			(787,532)
Group revenue			16,455,884
Segment profit	131,117	1,354,148	1,485,265
Unallocated income			164,981
Unallocated corporate expenses			(249,525)
Unallocated finance costs			(376,475)
Share of profit of an associate			118
Profit before tax			1,024,364

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2017

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	10,737,054	5,636,331	16,373,385
Intersegment revenue	–	716,781	716,781
Segment revenue	10,737,054	6,353,112	17,090,166
Eliminations			(716,781)
Group revenue			16,373,385
Segment profit	148,363	1,426,734	1,575,097
Unallocated income			167,036
Unallocated corporate expenses			(276,818)
Unallocated finance costs			(523,073)
Share of profit of an associate			2,613
Profit before tax			944,855

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, other income, finance costs and share of profit of an associate. This is the measure reported to the directors with respect to the resource allocation and performance assessment.

Inter-segment sales are conducted with terms mutually agreed by both contract parties.

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Segment assets

	2018 *RMB'000*	2017 *RMB'000*
Textile products	7,600,901	7,765,654
Electricity and steam	7,302,228	7,540,489
Total segment assets	14,903,129	15,306,143
Investment in an associate	74,731	74,613
Corporate and other assets	9,974,910	13,131,719
Total assets	24,952,770	28,512,475

Segment liabilities

	2018 *RMB'000*	2017 *RMB'000*
Textile products	1,535,918	1,255,866
Electricity and steam	807,722	726,185
Total segment liabilities	2,343,640	1,982,051
Corporate and other liabilities	4,200,280	8,571,313
Total liabilities	6,543,920	10,553,364

For the purposes of monitoring segment performance and allocating resources between segments:

– All assets are allocated to operating segments, other than other intangible assets, investment in an associate, deferred tax assets, unallocated deposits, prepayments and other receivables, pledged deposits, bank balances and cash and other corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

– All liabilities are allocated to operating segments, other than unallocated other payables and accruals, income tax payable, bank and other borrowings, deferred income, deferred tax liabilities and other corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2018

	Textile products RMB'000	Electricity and steam RMB'000	Unallocated RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets (Note)	72,665	94,731	–	167,396
Depreciation and amortisation	617,637	461,374	31,558	1,110,569
Reversal of allowances for inventories	(832)	–	–	(832)
Allowances for inventories	113,607	–	–	113,607
Loss allowance on trade receivables	36	–	–	36
Reversal of loss allowance on other receivables	(139)	–	–	(139)
Gain on disposal of property, plant and equipment	(10,177)	–	–	(10,177)
Gain on disposal of non-current assets held for sale	(12,869)	–	–	(12,869)
Loss on written-off on property, plant and equipment	19,548	–	–	19,548
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(38,972)	(38,972)
Interest expense	–	–	376,475	376,475
Investment in an associate	–	–	74,731	74,731
Share of profit of an associate	–	–	(118)	(118)
Income tax expense	–	–	381,504	381,504

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2017

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets *(Note)*	284,603	8,199	–	292,802
Depreciation and amortisation	749,484	439,064	37,264	1,225,812
Reversal of allowances for inventories	(166,837)	–	–	(166,837)
Allowances for inventories	51,005	–	–	51,005
Impairment loss on trade receivables	103	–	–	103
Gain on disposal of property, plant and equipment	(12,550)	–	–	(12,550)
Gain on disposal of non-current assets held for sale	(11,008)	–	–	(11,008)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(52,855)	(52,855)
Interest expense	–	–	523,073	523,073
Investment in an associate	–	–	74,613	74,613
Share of profit of an associate	–	–	(2,613)	(2,613)
Income tax expense	–	–	423,797	423,797

Note: Non-current assets included property, plant and equipment, investment properties, prepaid lease payments and other intangible assets for the years ended 31 December 2018 and 2017.

8. SEGMENT INFORMATION (Continued)

Geographical information

During the years ended 31 December 2018 and 2017, the Group's operations are mainly located in the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations.

Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	12,916,940	12,647,560
China, Hong Kong	1,413,689	1,715,285
Southeast Asia	864,839	831,054
East Asia	453,912	641,717
Others	806,504	537,769
	16,455,884	16,373,385

All non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A[1]	3,265,711	3,103,200
Holding Company[1]	2,431,327	2,312,810

[1] Revenue from sales of electricity and steam.

9. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income from bank deposits	**38,972**	34,958
Interest income from immediate holding company	**–**	17,897
Total interest income	**38,972**	52,855
Release of deferred income	**19,259**	19,029
Government grants *(note)*	**2,294**	8,497
Compensation from suppliers on the supply of sub-standard goods	**24,169**	22,835
Exchange gain, net	**6,610**	–
Gain on sale of waste and spare parts	**48,316**	35,122
Gain on disposal of property, plant and equipment	**10,177**	12,550
Gain on disposal of non-current assets held for sale	**12,869**	11,008
Gross rental income	**770**	770
Reversal of loss allowance on other receivables	**139**	–
Others	**1,406**	4,370
	164,981	167,036

Note: The income is the government grants received from local government authorities for the outward business development scheme, service industry development scheme and export credit insurance subsidies which were immediately recognised as other income for the year as the Group fulfilled the relevant granting criteria.

10. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on:		
– bank loans	**152,606**	167,777
– corporate bonds	**223,869**	355,296
	376,475	523,073

11. INCOME TAX EXPENSES

	2018 RMB'000	2017 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	362,843	372,952
Under-provision for previous years:		
PRC EIT	–	3,626
Deferred taxation	18,661	47,219
	381,504	423,797

Notes:

a) No Hong Kong Profits Tax has been provided for the years ended 31 December 2018 and 2017 as the Company did not have any assessable profits subject to Hong Kong Profits Tax.

b) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The income tax expenses can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation	1,024,364	944,855
Tax at the tax rate of 25%	256,091	236,214
Tax effect of share of result of an associate	(30)	(653)
Tax effect of expenses not deductible for tax purposes	9,864	23,785
Tax effect of income not taxable for tax purposes	(2,483)	(172)
Deductible temporary difference not recognised	4,836	14,074
Tax effect of tax losses not recognised	113,343	146,758
Utilisation of tax losses previously not recognised	(77)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(40)	165
Underprovision for previous year	–	3,626
Income tax expense for the year	381,504	423,797

12. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors', chief executive's and supervisors' emoluments	5,249	4,915
Salaries, wages, allowances and other benefits	2,833,548	2,694,034
Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments)	279,944	227,946
Total staff costs	3,118,741	2,926,895
Auditor's remuneration	5,832	9,683
Depreciation of property, plant and equipment	1,100,979	1,216,221
Depreciation of investment properties	736	736
Amortisation of prepaid lease payments	8,839	8,839
Amortisation of other intangible assets	15	16
Loss on written-off of property, plant and equipment	19,548	–
Loss allowance on trade receivables	36	–
Impairment loss on trade receivables	–	103
Allowance for inventories *(Note i)*	113,607	51,005
Reversal of allowance for inventories *(Note ii)*	(832)	–
Amount of inventories recognised as an expense	14,623,490	14,495,883
Operating leases rental relates to office premises	17,966	16,905
Research and development cost *(Note iii)*	71,004	84,405
Exchange loss, net *(Note iv)*	–	38,693

Notes:

(i) Included in cost of sales

(ii) Included in cost of sales

(iii) Staff costs of approximately RMB36,791,000 (2017: RMB36,172,000) are included in the research and development cost for the year ended 31 December 2018.

(iv) Included in other expenses

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

Details of directors', chief executive's and supervisors' emoluments are as follows:

Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiary undertaking:	**Fees** *RMB'000*	**Salaries, allowances and other benefits** *RMB'000*	**Employer's contributions to retirement benefits scheme** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2018				
Executive directors				
Ms. Zhang Hongxia	1,200	114	20	1,334
Ms. Zhang Yanhong	600	53	26	679
Ms. Zhao Suwen	600	95	18	713
Mr. Zhang Jinglei	300	86	18	404
Non-executive directors				
Mr. Zhang Shiping	100	–	–	100
Ms. Zhao Suhua	100	78	18	196
Independent non-executive directors				
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	526	–	–	526
Mr. Liu Yanzhou *(note i)*	150	–	–	150
Mr. Wang Naixin *(note ii)*	–	–	–	–
	3,726	426	100	4,252
Chief executive:				
Mr. Wei Jiakun	600	93	18	711
Supervisors:				
Ms. Wang Xiaoyun	30	79	18	127
Ms. Fan Xuelian *(note iii)*	30	–	–	30
Ms. Bu Xiaoxia *(note iii)*	30	81	18	129
Mr. Lv Tianfu *(note iv)*	–	–	–	–
Ms. Wang Wei *(note iv)*	–	–	–	–
	90	160	36	286
Total	4,416	679	154	5,249

Note:

i) Appointed on 28 May 2018.

ii) Resigned on 28 May 2018.

iii) Appointed on 1 March 2018.

iv) Resigned on 1 March 2018.

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiary undertaking:	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017				
Executive directors				
Ms. Zhang Hongxia	1,200	94	18	1,312
Ms. Zhang Yanhong	600	80	25	705
Ms. Zhao Suwen	600	78	17	695
Mr. Zhang Jinglei	300	73	17	390
Non-executive directors				
Mr. Zhang Shiping	100	–	–	100
Ms. Zhao Suhua	100	70	17	187
Independent non-executive directors				
Mr. Wang Naixin	–	–	–	–
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	502	–	–	502
	3,552	395	94	4,041
Chief executive:				
Mr. Wei Jiakun	–	684	17	701
Supervisors:				
Mr. Lv Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
Ms. Wang Xiaoyun	30	66	17	113
	90	66	17	173
Total	3,642	1,145	128	4,915

Except Mr. Wang Naixin, the independent non-executive directors of the Company, no directors, chief executive and supervisors of the Company waived or agreed to waive the emolument paid by the Group during the years ended 31 December 2018 and 2017.

No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

14. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments include four directors and the chief executive (2017: five directors and the chief executive) of the Company whose emoluments are set out in note 13.

15. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
2018 Final – RMB0.1656 (2017 Final – RMB0.1500) per share	**197,791**	179,158

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 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 China Accounting Standards for Business Enterprises; and (ii) the net profit determined in accordance with HKFRSs.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**643,906**	522,249

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share *('000 shares)*	**1,194,389**	1,194,389

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2018 and 2017.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At 1 January 2017	6,977,980	16,778,749	246,106	86,666	24,089,501
Additions	–	55,565	7,224	230,013	292,802
Disposals	(53)	(577,523)	(1,427)	–	(579,003)
Reclassified as held for sale	–	(86,748)	–	–	(86,748)
Transfers	74,479	88,650	1,185	(164,314)	–
At 31 December 2017 and 1 January 2018	**7,052,406**	**16,258,693**	**253,088**	**152,365**	**23,716,552**
Additions	**–**	**46,523**	**27,102**	**93,771**	**167,396**
Disposals	**(2,021)**	**(76,242)**	**(1,460)**	**–**	**(79,723)**
Written-off	**(44,619)**	**–**	**–**	**–**	**(44,619)**
Reclassified as held for sale	**–**	**(14,120)**	**–**	**–**	**(14,120)**
Transfers	**153,015**	**60,637**	**11,952**	**(225,604)**	**–**
At 31 December 2018	**7,158,781**	**16,275,491**	**290,682**	**20,532**	**23,745,486**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	1,288,433	9,831,872	133,972	–	11,254,277
Charge for the year	209,383	985,373	21,465	–	1,216,221
Eliminated on disposals	(22)	(551,236)	(1,289)	–	(552,547)
Reclassified as held for sale	–	(58,527)	–	–	(58,527)
At 31 December 2017 and 1 January 2018	**1,497,794**	**10,207,482**	**154,148**	**–**	**11,859,424**
Charge for the year	**209,874**	**867,177**	**23,928**	**–**	**1,100,979**
Eliminated on disposals	**–**	**(70,717)**	**(1,306)**	**–**	**(72,023)**
Eliminated on written-off	**(25,071)**	**–**	**–**	**–**	**(25,071)**
Reclassified as held for sale	**–**	**(13,274)**	**–**	**–**	**(13,274)**
At 31 December 2018	**1,682,597**	**10,990,668**	**176,770**	**–**	**12,850,035**

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CARRYING VALUES					
At 31 December 2018	5,476,184	5,284,823	113,912	20,532	10,895,451
At 31 December 2017	5,554,612	6,051,211	98,940	152,365	11,857,128

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	10 to 40 years
Machinery and equipment	5 to 14 years
Others	5 to 14 years

The buildings are situated in PRC and held under medium lease term.

At 31 December 2018, the Group's buildings, machinery and equipment with carrying values of approximately RMB185,341,000 (2017: RMB441,448,000) have been pledged to secure banking facilities granted to the Group.

The Group's idle buildings, machinery and equipment with aggregate carrying amount of approximately RMB373,810,000 as at 31 December 2018 (2017: RMB578,016,000) were valued individually by Wan Long (Shanghai) Assets Evaluation Co., Ltd. ("Shanghai Wan Long"), an independent professionally qualified valuer. Based on the valuation report, no impairment loss was charged to profit or loss for the year ended 31 December 2018 (2017: nil). The recoverable amounts of these idle buildings, machinery and equipment were the fair value less costs of disposal. The fair values were measured by using Level 2 valuation techniques within the fair value hierarchy, which were estimated with reference to the market prices of similar assets after considering the conditions of these assets.

As at 31 December 2018, the Group was in the process of obtaining the certificates of ownership for buildings which carrying values of approximately RMB974,908,000 (2017: RMB1,009,225,000) from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Non-current assets classified as held for sale

At 31 December 2018, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2018 and expected to be fulfilled in 2019.

At 31 December 2017, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2017. During the year ended 31 December 2018, the non-current assets held for sale were sold for cash proceeds of approximately RMB36,852,000, resulting a gain on disposal of approximately RMB12,869,000.

18. INVESTMENT PROPERTIES

	Buildings *RMB'000*
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	32,327
DEPRECIATION AND IMPAIRMENT	
At 1 January 2017	9,333
Charge for the year	736
At 31 December 2017	10,069
Charge for the year	736
At 31 December 2018	10,805
CARRYING VALUES	
At 31 December 2018	21,522
At 31 December 2017	22,258

Investment properties are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	25 years

The investment properties of the Group are under operating leases and were valued by Shanghai Wan Long, an independent professionally qualified valuer, at 31 December 2018 and 2017.

Under the discounted cash flow method, a fair value of approximately RMB31,051,000 (2017: RMB29,662,000) is estimated using assumptions regarding the benefits and liabilities of ownership over the assets' life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the assets. The exit yield is normally separately determined and differs from the discount rate.

19. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

	2018	2017
	RMB'000	*RMB'000*
Current assets included in deposits, prepayments and other receivables *(note 24)*	**8,839**	8,839
Non-current assets	**330,652**	339,491
	339,491	348,330

Prepaid lease payments represent the Group's interests in land which are held under medium-term leases and located in the PRC.

At 31 December 2018, the Group's prepaid lease payments with carrying values of approximately RMB57,768,000 (2017: RMB59,394,000) have been pledged to secure banking facilities granted to the Group.

20. OTHER INTANGIBLE ASSETS

	Technology right	**Software**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2017, 31 December 2017 and 31 December 2018	12,002	1,740	13,742
AMORTISATION			
At 1 January 2017	12,002	1,618	13,620
Charge for the year	–	16	16
At 31 December 2017	12,002	1,634	13,636
Charge for the year	–	15	15
At 31 December 2018	12,002	1,649	13,651
CARRYING VALUES			
At 31 December 2018	–	91	91
At 31 December 2017	–	106	106

Technology right and software are amortised on a straight-line basis over ten years.

21. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Cost of investment in associates – unlisted	67,500	67,500
Share of post acquisition profit and other comprehensive income, net of dividends received	7,231	7,113
	74,731	74,613

At 31 December 2018 and 2017, the Group had interest in the following associate:

Name of entities	Form of business	Principal place of operation and establishment	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
			2018	2017	2018	2017	
威海市環翠區宏源小額貸款有限公司 Weihai Huancui District Hongyuan Microfinance Company Limited *	Incorporated	PRC	45%	45%	45%	45%	Provision of finance and financial advisory services to small enterprises

The Group's interest in an associate is not individually material. The aggregate financial information and carrying amount of the Group's interest in that associate that is accounted for using the equity method are set out below.

	2018 RMB'000	2017 RMB'000
Share of profit and total comprehensive income for the year	118	2,613

* *For identification purpose only*

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and consumables	1,227,493	1,203,125
Work-in-progress	349,495	330,622
Semi-finished goods	629,520	444,833
Finished goods	954,656	646,359
	3,161,164	2,624,939

As 31 December 2018, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB120,489,000 (2017: RMB110,640,000).

During the year ended 31 December 2018, an allowance for inventories of approximately RMB113,607,000 (2017: RMB51,005,000) has been recognised and included in cost of sales.

During the year ended 31 December 2018, there was a change in allowance of approximately RMB102,926,000 (2017: RMB166,837,000) for inventories due to elimination of allowances upon the subsequent sales of inventories during the year.

During the year ended 31 December 2018, there was an increase in the net realised value of semi-finished goods and finished goods due to market condition. As a result, a reversal of write-down of semi-finished goods and finished goods of approximately RMB832,000 (2017: nil) has been recognised and included in cost of sales in the current year.

23. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Receivables at amortised cost comprise:		
Trade receivables	436,853	405,369
Less: loss allowance for trade receivables	(5,199)	(4,451)
	431,654	400,918

As at 31 December 2018, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB436,853,000 (2017: RMB405,369,000).

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 who have a long term relationship with the Group. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

23. TRADE RECEIVABLES (Continued)

The following is an aged analysis of trade receivables, net of loss allowance for trade receivables, presented based on the invoice date, which approximates revenue recognition date at the end of each reporting period.

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**421,145**	397,701
91 to 180 days	**6,388**	3,088
181 to 365 days	**3,703**	46
Over 365 days	**418**	83
	431,654	400,918

The aged analysis of trade receivable that were past due but not impaired are as follows:

	2017
	RMB'000
Past due but not impaired:	
Within 60 days	70,634
Over 60 days	798
	71,432

As at 31 December 2017, included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately RMB71,432,000 which were past due at the end of each reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

23. TRADE RECEIVABLES (Continued)

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Within 3 months	0.13%	421,694	549
3 months to 1 year	1.98%	10,294	203
1 to 2 years	3.19%	432	14
2 to 3 years	90.42%	2	2
Over 3 years	100.00%	4,431	4,431
		436,853	5,199

The movement in the allowance for impairment of trade receivables is set out below:

	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**4,451**	4,348
Effect on adoption of HKFRS 9	**712**	–
Loss allowance recognised in profit or loss during the year	**36**	–
Impairment loss recognised in profit or loss during the year	**–**	103
At the end of the year	**5,199**	4,451

As at 31 December 2017, included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB4,451,000 due to long outstanding and unsatisfactory repayment record.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Prepayments to suppliers	**43,306**	18,971
Rental prepayments	**2,277**	–
Prepaid lease payments *(note 19)*	**8,839**	8,839
Other taxes recoverable	**139,498**	264,552
Interest receivables	**251**	204
Deposits	**32**	-
Other receivables *(note i)*	**10,470**	5,850
	204,673	298,416
Less: loss allowance for other receivables	**(366)**	-
	204,307	298,416

	2018	2017
	RMB'000	*RMB'000*
Analysed for reporting purposes as		
– current asset	**202,415**	298,416
– non-current asset	**1,892**	–
	204,307	298,416

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note:

i) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables as follows:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Performing	1.5%	9,852	148
Doubtful	35.3%	618	218
		10,470	366

The movement in the loss allowance for other receivables is set out below:

	RMB'000
At 1 January 2017 and 31 December 2017	–
Effect on adoption of HKFRS 9	505
Decrease in loss allowance recognised in profit or loss during the year	(139)
At 31 December 2018	366

25. AMOUNT DUE FROM (TO) IMMEDIATE HOLDING COMPANY

The details movement of amount due from (to) immediate holding company during the year are as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	–	2,976,009
Accrued interest receivable from immediate holding company *(note i)*	–	17,897
Repayment from immediate holding company *(note 38(a)(vii))*	–	(2,993,906)
At 31 December	–	–

Notes:

i) As at 31 December 2016, included in advance to the immediate holding company was an amount of approximately RMB4,768,336,000 which represents a short-term financing arrangement between the Group and the immediate holding company as detailed in Note 38 (a)(vii). Except the amount of approximately RMB2,522,500,000 was interest bearing which charged by the financial institution ranged at 5.0% to 5.9% are borne by the immediate holding company directly, the remaining balance are interest-free.

ii) The amount was unsecured and repayment on demand.

26. PLEDGED DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposit

Pledged bank deposit represented deposits pledged to the bank to secure banking facilities granted to the Group.

Bank balances and cash

Bank balances earned interest at floating rates based on daily bank deposit rates which range from 0.2% to 1.2% per annum (2017: 0.2% to 1.2% per annum).

27. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Within 90 days	903,072	873,820
91 to 180 days	290,732	48,411
181 to 365 days	8,940	16,943
Over 365 days	26,137	29,046
	1,228,881	968,220

The average credit period granted to the Group is 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

28. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payroll payable	394,699	271,655
Accrued staff benefits	428,323	478,087
Receipt in advance	–	121,534
Other taxes payable	125,187	112,285
Interest payable	10,608	51,283
Other payables	159,521	142,555
	1,118,338	1,177,399

29. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000
Sales of fabric products	115,264	119,252
Sales of electricity and steam	16,952	2,282
	132,216	121,534

Contract liabilities include advances received to deliver fabric products, electricity and steam.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately RMB121,534,000. There was no revenue recognised during the year ended 31 December 2018 that related to performance obligations that were satisfied prior to 1 January 2018.

30. BANK AND OTHER BORROWINGS

	2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans			
– Unsecured	**4.8-5.2**	**2019**	**1,520,000**
– Secured	**4.8-5.2**	**2019**	**405,350**
Corporate bonds			
– Unsecured	**5.9**	**2019**	**962,755**
			2,888,105

	2017		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans			
– Unsecured	4.4-5.2	2018	2,262,500
– Secured	4.8-5.7	2018	999,850
Current portion of corporate bonds			
– Secured	5.9-7.4	2018	3,000,000
			6,262,350
Non-current			
Corporate bonds			
– Unsecured	5.9-7.4	2019	962,755
			962,755
			7,225,105

30. BANK AND OTHER BORROWINGS (Continued)

	2018 RMB'000	2017 RMB'000
Bank loans repayable:		
Within one year	**1,925,350**	3,262,350
Corporate bonds repayable:		
Within one year	**962,755**	3,000,000
After one year but within two years	**–**	962,755
	962,755	3,962,755

a) As at 31 December 2018 and 2017, all Group's bank loans are denominated in RMB.

b) As at 31 December 2018, certain of the Group's bank loans amounting to RMB405,350,000 (2017: RMB405,350,000) were secured by certain of the Group's buildings, machinery and equipment and prepaid lease payments of an aggregate carrying value of approximately RMB185,341,000 and RMB57,768,000 respectively (2017: RMB441,448,000 and RMB59,394,000 respectively).

c) In October 2013 and November 2014, the Company issued two domestic corporate bonds, (namely "2013 Bond" and "2014 Bond" respectively) each with a principal amount of RMB3 billion. These corporate bonds carry nominal interest rates of 7.00% and 5.50% per annum respectively, with denomination and issue price of RMB100 and periods of five years.

The Company has the right to raise the nominal interest rate by the end of third year and the bond holders have the right to redeem the corporate bonds within the first three working days only at the beginning of fourth year after the bond issue date (the "Redemption period"). After the Redemption Period, the rights of redemption are forfeited immediately. No right of redemption is granted by the Company after the redemption period to the maturity of the corporate bonds.

Subsequent to the completion of the issue, the corporate bonds were listed on the Shanghai Stock Exchange on 6 November 2013 and 26 November 2014 respectively.

The outstanding amount of 2013 Bond of RMB3,000,000,000 and was fully repaid in October 2018.

On 7 November 2017, the bond holders of 2014 bond, represented an aggregate amount of RMB2,037,245,000, has exercised the right of redemption. The Company has cancelled the register of redeemed bonds. The remaining outstanding balance would be repayable in 2019.

30. BANK AND OTHER BORROWINGS (Continued)

d) As at 31 December 2018, bank loans of approximately RMB150,350,000 and RMB1,775,000,000 are variable-rate loans and fixed-rate loans respectively (2017: RMB744,850,000 and RMB2,517,500,000). The variable-rate loans carry effective interest rate ranging from 4.8% per annum (2017: 4.4% to 5.7% per annum) and the fixed-rate loans carry effective interest rate ranging from 4.8% to 5.2% per annum (2017: 4.8% to 5.2% per annum).

31. DEFERRED INCOME

	RMB'000
At 1 January 2017	198,779
Additions	14,900
Amortisation during the year	(19,029)
At 31 December 2017	194,650
Additions	2,065
Amortisation during the year	(19,259)
At 31 December 2018	177,456

	2018	2017
	RMB'000	*RMB'000*
Analysed as:		
Current liabilities	**17,961**	18,321
Non-current liabilities	**159,495**	176,329
	177,456	194,650

Deferred income recognised in the consolidated statement of financial position, arising from the government grants received. The government grants were provided by local government for the purposes of providing support for the construction of new plants, product development, research activities and a pollution prevention project.

32. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liabilities), before set off certain deferred tax assets against deferred liabilities of the same taxable entity, for the financial reporting purposes:

	2018	2017
	RMB'000	*RMB'000*
Deferred tax assets	**85,711**	104,690
Deferred tax liabilities	**(5,853)**	(6,475)
	79,858	98,215

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

	Allowances and deferred income	**Accelerated tax depreciation**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	132,545	17,653	(4,764)	145,434
(Charge) credit to profit or loss	(46,203)	695	(1,711)	(47,219)
At 31 December 2017	86,342	18,348	(6,475)	98,215
Effect of change in accounting policy *(note 2)*	304	–	–	304
At 1 January 2018	86,646	18,348	(6,475)	98,519
(Charge) credit to profit or loss	(935)	(18,348)	622	(18,661)
At 31 December 2018	85,711	–	(5,853)	79,858

As at 31 December 2018, the Group has deductible temporary differences of RMB484,088,000 (2017: RMB540,662,000). Deferred tax assets of approximately RMB85,711,000 (2017: RMB104,690,000) has been recognised on approximately RMB342,844,000 (2017: RMB418,762,000). No deferred tax asset was recognised on the remaining amount of RMB141,244,000 (2017: RMB121,900,000) as it was uncertain that taxable profit would be available against which the deductible temporary differences can be utilised.

As at 31 December 2018, no deferred tax asset has been recognised on the tax losses of approximately RMB1,709,947,000 (2017: RMB1,256,575,000) due to the unpredictability of future profit streams.

32. DEFERRED TAXATION (Continued)

As at 31 December 2018, the Group has tax losses of approximately RMB1,708,476,000 (31 December 2017: RMB1,254,636,000) that will be expired within next five years. The remaining tax losses of approximately RMB1,471,000 (2017: RMB1,939,000) may be carried forward indefinitely.

33. SHARE CAPITAL

	2018 *RMB'000*	2017 *RMB'000*
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	780,770	780,770
413,619,000 H shares of RMB1.00 each	413,619	413,619
	1,194,389	1,194,389

34. OPERATING LEASE COMMITMENT

The Group as lessee

The Group leases its land and properties under operating lease arrangement. Lease for land are negotiated for terms of twenty years, and those for properties for terms of three years. At the end of each reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within one year	16,405	19,380
In the second to fifth years inclusive	60,726	70,279
After five years	24,300	40,969
	101,431	130,628

34. OPERATING LEASE COMMITMENT (Continued)

The Group as lessor

Property rental income earned during the year was approximately RMB727,000 (2017: RMB721,000). The properties are expected to generate rental yields of 2.47% on an ongoing basis. All of the properties held have committed tenants for the next year.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments as follows:

	2018 RMB'000	2017 RMB'000
Within one year	727	721

35. COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the consolidated financial statements	22,558	32,520

36. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged the following assets to banks to secure the banking facilities granted to the Group:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	185,341	441,448
Prepaid lease payments	57,768	59,394
Pledged deposits	140,388	33,000
	383,497	533,842

37. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES

During the years ended 31 December 2018 and 2017, the Group has the following changes in its ownership interest in subsidiaries that do not result in a loss of control.

Acquisition of additional interest in a subsidiary

a) In September 2018, the Group acquired an additional 14.81% issued shares of 山東魯藤紡織有限公司 Shandong Luteng Textile Company Limited* ("山東魯藤"), increasing its ownership interest to 100%. Cash consideration of approximately RMB13,050,000 was paid to the non-controlling shareholders. The carrying value of the net assets of 山東魯藤 was approximately RMB87,845,000.

A schedule of the effect of the acquisition during the year ended 31 December 2018 of additional interest is as follow:

	2018 RMB'000
Carrying amounts of non-controlling interest acquired	13,365
Consideration paid for acquisition of additional interest in 山東魯藤	(13,050)
Difference recognised in capital reserves within equity	315

b) In April 2017, the Group acquired an additional 15.31% issued shares of 山東魯藤, increasing its ownership interest to 85.19%. Cash consideration of approximately RMB6,880,000 was paid to the non-controlling shareholders. The carrying value of the net assets of 山東魯藤 was approximately RMB9,115,000.

In April 2017, the Group acquired an additional 19.92% issued shares of 山東濱藤紡織有限公司 Shandong Binteng Textile Company Limited* ("山東濱藤"), increasing its ownership interest to 100%. Cash consideration of approximately RMB1,376,000 was paid to the non-controlling shareholders. The carrying value of the net assets of 山東濱藤 was approximately RMB26,575,000.

A schedule of the effect of two acquisitions during the year ended 31 December 2017 of additional interest is as follow:

	2017 RMB'000
Carrying amounts of non-controlling interest acquired	35,690
Consideration paid for acquisition of additional interest in 山東濱藤 and 山東濱藤	(8,256)
Difference recognised in capital reserves within equity	27,434

* *For identification purpose only*

38. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into transactions with related party as follows:

Related party	Nature of transaction	2018 RMB'000	2017 RMB'000
The Holding Company	Sales of electricity *(note ii)*	2,431,327	2,312,810
	Purchases of steam *(note iii)*	-	4,838
	Expenses on land use rights and property leasing *(note v)*	17,059	16,905
	Interest income *(note vi)*	-	17,897
	Repayment from immediate holding company *(note vi)*	-	2,993,906
Fellow subsidiaries	Sales of textile products *(note vii)*	445,702	453,040
	Gross rental income	727	721
濱州市宏諾新材料有限公司 Binzhou Municipal Hongnuo New Material Co., Limited* (Former name as 濱州市濱北新材料有限公司 Binzhou Municipal Binbei New Material Co., Limited*) ("Binzhou Hongnuo") *(note iii)*	Purchases of steam *(note iii)*	22,794	24,310
鄒平縣宏利熱電有限公司 Zouping County Hongli Thermal Power Co., Ltd* ("Hongli Thermal Power")	Purchases of steam *(note iv)*	4,682	1,961

* *For identification purpose only*

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) Textile products supply agreement with the Holding Company

On 21 October 2014 and 24 November 2014, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (Supply of Cotton Yarn, Grey Fabric and Denim)". According to the announcement and the circular, the Company announced that, on 21 October 2014, it renewed the cotton yarn, grey fabric and denim supply agreement dated 31 October 2011 with a period of three years commencing on 1 January 2015 (the "Renewed Supply Agreement (Textile) 2014"). The Renewed Supply Agreement (Textile) 2014 agreed upon a new maximum aggregate annual value of textile products supplied.

On 17 October 2017 and 10 November 2017, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (Supply of Cotton Yarn, Grey Fabric and Denim)". According to the announcement and the circular, the Company announced that, on 17 October 2017, it renewed the cotton yarn, grey fabric and denim supply agreement dated 21 October 2014 with a period of three years commencing on 1 January 2018 (the "Renewed Supply Agreement (Textile) 2017"). The Renewed Supply Agreement (Textile) 2017 agreed upon a new maximum aggregate annual value of textile products supplied.

Pursuant to the Renewed Supply Agreement (Textile) 2017, the Company will supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Holding Company, its subsidiaries other than the companies now comprising the Group and the associates of the Holding Company (collectively referred to as the "Holding Group").

(ii) Electricity supply agreement with the Holding Company

The Company made an announcement and issued a circular on 1 November 2013 and 12 November 2013 respectively, to disclose that the Company entered into a new supply of excess electricity agreement (the "Renewed Supply of Excess Electricity Agreement 2013") with the Holding Company with a period of three years commencing on 1 January 2014 and the terms and conditions of the Renewed Excess Electricity Supply Agreement 2013 are basically the same as those of the Supply of Excess Electricity Agreement entered into on 4 November 2010, except for the newly agreed maximum aggregate value.

Pursuant to the agreement, the Company will supply excess electricity to the Holding Group at a price of RMB0.50 per kWh (including VAT at the rate of 17%) or the price at which a power plant in Shandong Province would sell its electricity generated to the relevant power grid, whichever is higher. However, if any applicable mandatory price for the electricity is announced by the PRC government, the mandatory price would be adopted instead.

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(ii) Electricity supply agreement with the Holding Company (Continued)

The agreement mentioned above (the "Old Supply of Excess Electricity Agreement") expired on 31 December 2016, and the Company made an announcement and a circular, respectively, on 26 October 2016 to disclose that the Company entered into a new Supply of Excess Electricity Agreement (the "Renewed Supply of Excess Electricity Agreement 2016") with the Holding Company with a period of three years commencing on 1 January 2017 and the terms and conditions of the Renewed Excess Electricity Supply Agreement 2016 are basically the same as those of the Old Supply of Excess Electricity Agreement except for the newly agreed maximum aggregate value.

As for the new price calculation method, the Company and the Holding Company agreed on a benchmark price of excess electricity of RMB0.37 per kWh (including VAT at the rate of 17%) with a benchmark price of raw coal of RMB454.35 per ton (VAT inclusive). If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, the benchmark price of excess electricity would be adjusted accordingly. The Company and Holding Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal.

(iii) Steam purchase agreements with the Holding Company and Binzhou Hongnuo

Binzhou Hongnuo is an indirect wholly-owned subsidiary of 中國宏橋集團有限公司 China Hongqiao Group Limited ("Hongqiao Group"). Mr. Zhang Shiping, the non-executive director of the Company, is the executive director and a controlling shareholder of Hongqiao Group.

On 3 July 2015, the Company made an announcement to disclose that the Company and 濱州魏橋科技工業園有限公司 Binzhou Weiqiao Technology Industrial Park Company Limited* entered into a steam supply agreement with the Holding Company and Binzhou Hongnuo. Pursuant to the agreement, the Company and Binzhou Industrial Park will purchase steam from the Holding Company and Binzhou Hongnuo for production use, at a price of RMB150 per ton (including VAT at the rate of 13%) and RMB170 (including VAT at the rate of 13%) per ton respectively, for the period from 3 July 2015 to 31 December 2017.

On 20 October 2017, the Company made an announcement, on "Continuing Connected Transactions (Entering into Weiqiao Steam Supply Agreement and Renewal of Binzhou Steam Supply Agreement)". According to the announcement, the Company announced that, on 20 October 2017, it renewed the steam supply agreement dated 20 October 2017 for a period from 1 January 2018 to 31 December 2019 (the "Renewed Supply Agreement (Steam) 2017"). The Renewed Supply Agreement (Steam) 2017 agreed upon a new maximum aggregate annual value of steam supplied.

* *For identification purpose only*

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(iv) Steam purchase agreements with the Holding Company and Hongli Thermal Power

Hongli Thermal Power is an indirect wholly-owned subsidiary of Hongqiao Group. Mr. Zhang Shiping, the non-executive director of the Company, is the executive director and a controlling shareholder of Hongqiao Group.

On 20 October 2017, the Company made an announcement to disclose that 山東銘宏紡織科技有限公司 Shandong Minghong Textile Technology Company Limited* ("Minghong Textile"), a wholly-owned subsidiary of the Company, entered into a steam supply agreement with Hongli Thermal Power. Pursuant to the agreement, Minghong Textile will purchase steam from Hongli Thermal Power for production use, at a price of RMB150 per ton (including VAT at the rate of 11%), for the period from 20 October 2017 to 31 December 2019.

(v) Lease agreements with the Holding Company

The Group as lessee

For the years ended 31 December 2018 and 2017, certain land use rights and properties of the Group were under lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the nine agreements are summarised as follows:

(1) A land use right lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, was entered into with an annual rental of RMB888,700 for the land relating to the Weiqiao Second Production Area.

(2) A land use right lease agreement dated 14 May 2003 with the commencement date and expiry date on 14 May 2003 and 14 May 2023, respectively, was entered into with an annual rental of RMB1,503,000 for the land relating to the Weiqiao Third Production Area.

(3) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB2,167,000 for the land relating to the Zouping Industrial Park Area.

(4) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB994,100 for the land relating to the Zouping Industrial Park Area.

* *For identification purpose only*

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(v) Lease agreements with the Holding Company (continued)

(5) A land use right lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, was entered into with an annual rental of RMB2,000,000 for the land relating to the Zouping Industrial Park Area.

(6) An operating lease agreement dated 31 January 2013 with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, was entered into with an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC. On 31 January 2016, the agreement has been renewed with the commencement date and expiry date on 1 February 2016 and 1 February 2019 respectively, and the other clauses and terms remain unchanged.

(7) A land use right lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, was entered into with an annual rental of RMB7,001,400 for the land relating to the Zouping Industrial Park Area.

(8) A land use right lease agreement dated 24 April 2007 with the commencement date and expiry date on 24 April 2007 and 24 April 2027, respectively, was entered into with an annual rental of RMB4,164,000 for the land relating to the Zouping Industrial Park Area.

On 26 November 2008 and 14 December 2011, respectively, the lease of certain parts of the land where the Zouping Third Industrial Park is situated was terminated and the annual rental has been adjusted thereafter to RMB3,816,000 and RMB2,070,000, respectively, on a prorate basis. Except for this, all of the original clauses and terms remain unchanged.

(9) A land use right lease agreement dated 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, was entered into with an annual rental of RMB740,500 for the land relating to the Weihai Industrial Park Area.

(10) A land use right lease agreement dated 1 May 2016 with the commencement date and expiry date on 1 May 2016 and 1 May 2019, respectively, was entered into with an annual rental of RMB800,000 for a building located at Huixian Yi Road, Economic Development Zone, Zouping County, Shandong Province, the PRC

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(vi) Interest income received and repayment from the Holding Company

Prior to 1 January 2017, the Company utilised the banking facilities and advanced the loan amounts to the Holding Company as a short-term financing. During the year ended 31 December 2017, the Holding Company repaid the loan amounts to the Company and the Company remitted to the banks as settlement of the loan amounts with banks.

As at 1 January 2017, included in the advance to the Holding Company was an amount of approximately RMB2,523,000,000, the Holding Company bears the same interest charged by the banks to the Company which ranges from 5.00% to 5.90%. During the year ended 31 December 2017, the Company has received an amount of approximately RMB17,897,000 (2018: nil) of the interest income from the Holding Company.

(vii) Sales of textile product to the fellow subsidiaries

The ultimate controlling shareholder of the fellow subsidiaries is the immediate controlling shareholder of the Company.

(viii) Production water supply agreement with the Holding Company

On 23 January 2019, the Company made an announcement to disclose that 鄒平縣匯能熱電有限公司 Zouping County Huineng Thermal Power Company Limited* ("Huineng Thermal Power"), a wholly-owned subsidiary of the Company, entered into a production water supply agreement with the Holding Company. Pursuant to the agreement, Huineng Thermal Power will purchase production water from the Holding Company for production use, at a price of RMB1.60 per ton (including VAT at the rate of 3%), for the period from 23 January 2019 to 31 December 2021.

(b) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 38(a), the Group entered into sales agreements with certain fellow subsidiaries for sale commitments amounting to approximately RMB27,391,000 (2017: RMB48,719,000), which are expected to be fulfilled in 2019.

* *For identification purpose only*

38. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management personnel during the year was as follows:

	2018	2017
	RMB'000	*RMB'000*
Short-term benefits	**5,095**	4,787
Post-employment benefits	**154**	128
	5,249	4,915

39. RETIREMENT BENEFIT SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2018, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB280,098,000 (2017: RMB228,074,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued interest payable *RMB'000* *(note 28)*	Bank loans *RMB'000* *(note 30)*	Corporate bonds *RMB'000* *(note 30)*	Deferred income *RMB'000* *(note 31)*	Dividend payable *RMB'000*	Total *RMB'000*
At 1 January 2018	51,283	3,262,350	3,962,755	194,650	–	7,471,038
Financing cash flows:						
– Addition	–	1,925,350	–	4,359	–	1,929,709
– Repayment	(417,150)	(3,262,350)	(3,000,000)	–	(179,158)	(6,858,658)
Non-cash changes:						
– Accrued interest	376,475	–	–	–	–	376,475
– Dividend declared	–	–	–	–	179,158	179,158
– Release of deferred income	–	–	–	(19,259)	–	(19,259)
– Government grant income	–	–	–	(2,294)	–	(2,294)
At 31 December 2018	10,608	1,925,350	962,755	177,456	–	3,076,169

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Accrued interest payable RMB'000 (note 28)	Bank loans RMB'000 (note 30)	Corporate bonds RMB'000 (note 30)	Deferred income RMB'000 (note 31)	Dividend payable RMB'000	Total RMB'000
At 1 January 2017	123,899	4,759,000	5,991,667	198,779	–	11,073,345
Financing cash flows:						
– Addition	–	3,444,850	–	23,397	–	3,468,247
– Repayment	(587,356)	(4,941,500)	(2,037,245)	–	(334,429)	(7,900,530)
Non-cash changes:						
– Accrued interest	514,740	–	8,333	–	–	523,073
– Dividend declared	–	–	–	–	334,429	334,429
– Release of deferred income	–	–	–	(19,029)	–	(19,029)
– Government grant income	–	–	–	(8,497)	–	(8,497)
At 31 December 2017	51,283	3,262,350	3,962,755	194,650	–	7,471,038

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**528,968**	620,874
Investment properties		**27,417**	28,357
Other intangible assets		**91**	106
Investments in subsidiaries	(a)	**12,887,445**	12,874,395
Deferred tax assets		**7,701**	8,272
		13,451,622	13,532,004
Current assets			
Inventories		**644,252**	496,068
Trade receivables		**1,660,178**	1,052,976
Deposits, prepayments and other receivables		**70,144**	1,079,392
Pledged deposits		**108,388**	33,000
Cash and cash equivalents		**8,799,697**	12,406,797
		11,282,659	15,068,233
Non-current assets classified as held for sale		**–**	5,906
		11,282,659	15,074,139
Current liabilities			
Trade payables		**2,536,589**	2,836,403
Other payables and accruals		**441,915**	477,728
Income tax payable		**661,216**	671,772
Bank and other borrowings		**2,482,755**	5,657,000
		6,122,475	9,642,903
Net current assets		**5,160,184**	5,431,236
Total assets less current liabilities		**18,611,806**	18,963,240
Non-current liabilities			
Bank and other borrowings		**–**	962,755
Net assets		**18,611,806**	18,000,485

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	2018 RMB'000	2017 RMB'000
Equity			
Issued Capital		**1,194,389**	1,194,389
Reserves	(b)	**17,417,417**	16,806,096
		18,611,806	18,000,485

Notes:

(a) As at 31 December 2018, investments in subsidiaries are carried at cost of approximately RMB12,887,445,000 (2017: RMB12,874,395,000), no impairment loss in respect of investments in subsidiaries has been recognised in profit or loss (2017: nil).

(b) Movements in reserves

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	6,673,380	1,636,068	8,074,929	16,384,377
Profit and total comprehensive income for the year	–	–	756,148	756,148
Final 2016 dividend declared	–	–	(334,429)	(334,429)
Transfer from retained profits	–	75,615	(75,615)	–
At 31 December 2017	6,673,380	1,711,683	8,421,033	16,806,096
Effect of changes in accounting policies	–	–	(344)	(344)
At 1 January 2018 (as restated)	**6,673,380**	**1,711,683**	**8,420,689**	**16,805,752**
Profit and total comprehensive income for the year	**–**	**–**	**790,823**	**790,823**
Final 2017 dividend declared	**–**	**–**	**(179,158)**	**(179,158)**
Transfer from retained profits	**–**	**79,082**	**(79,082)**	**–**
At 31 December 2018	**6,673,380**	**1,790,765**	**8,953,272**	**17,417,417**

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2018	2017	**2018**	2017	
威海魏橋紡織有限公司 Weihai Weiqiao Textile Company Limited*	PRC	RMB148,000,000	**100%**	100%	**-**	–	Production and sale of cotton yarn and fabric
Binzhou Industrial Park	PRC	RMB600,000,000	**98.5%**	98.5%	**-**	–	Production and sale of cotton yarn and fabric
山東魯藤紡織有限公司 Shandong Luteng Textile Company Limited*	PRC	RMB81,029,872	**100%**	85.2%	**-**	–	Production and sale of polyester yarn and related products
威海魏橋科技工業園有限公司 Weihai Weiqiao Technology Industrial Park Company Limited*	PRC	RMB760,000,000	**100%**	100%	**-**	–	Production and sale of cotton yarn and fabric
山東濱藤紡織有限公司 Shandong Binteng Textile Company Limited*	PRC	RMB127,712,481	**100%**	100%	**-**	–	Production and sale of compact yarn and related products
Weiqiao Textile (Hong Kong) Trading Company Limited	Hong Kong	HK$500,000	**100%**	100%			Trading of textile raw materials and products

* *For identification purpose only*

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2018	2017	**2018**	2017	
山東宏杰紡織科技有限公司 Shandong Hongjie Textile Technology Company Limited*	PRC	RMB1,460,000,000	**100%**	100%	**-**	-	Production and sale of cotton yarn and fabric
山東宏儒紡織科技有限公司 Shandong Hongru Textile Technology Company Limited*	PRC	RMB1,660,000,000	**100%**	100%	**-**	-	Production and sale of cotton yarn and fabric
山東銘宏紡織科技有限公司 Shandong Minghong Textile Technology Company Limited*	PRC	RMB580,000,000	**100%**	100%	**-**	-	Production and sale of cotton yarn and fabric
鄒平縣匯能熱電有限公司 Zuoping County Huineng Thermal Power Company Limited*	PRC	RMB6,550,000,000	**100%**	100%	**-**	-	Production and sale of electricity

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current year for the purpose of better representation of the Group's activities:

Allowance of inventories of approximately RMB51,005,000 which had previously been recorded under "Administrative expense" in the financial statements for the year ended 31 December 2017, was reclassified to "Cost of sales" in order to consistently reflect the nature of the allowance of inventories related to the cost of sales activities.

* *For identification purpose only*