魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

Annual Report 2009

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December *(RMB'000)*				
	2005	2006	2007	2008	**2009**
Revenue	13,584,389	19,826,154	18,589,586	16,453,087	**14,333,088**
Gross profit	2,244,130	3,323,090	2,662,371	1,430,734	**1,243,557**
Gross profit margin (%)	16.5	16.8	14.3	8.7	**8.7**
Profit before income tax	1,435,784	2,307,571	2,272,626	720,589	**1,199,400**
Net profit attributable to shareholders of the Company	1,242,473	1,685,405	1,868,471	596,212	**892,446**
Net profit margin (%)	9.1	8.5	10.1	3.6	**6.2**
Basic earnings per share (RMB)	1.35	1.43	1.56	0.50	**0.75**

Assets and liabilities

	As at 31 December *(RMB'000)*				
	2005	2006	2007	2008	**2009**
Total assets	24,704,766	26,140,632	26,748,676	27,296,250	**26,754,785**
Equity	9,827,008	12,027,739	13,370,679	13,369,078	**14,074,124**
Total liabilities	14,783,418	14,018,831	13,276,020	13,830,749	**12,586,695**
Return on equity* (%)	15.6	15.4	14.7	4.5	**6.5**
Current ratio (times)	1.0	1.2	1.3	1.0	**1.2**
Accounts receivable turnover (days)	15	13	18	9	**22**
Inventory turnover (days)	117	79	82	92	**78**
Accounts payable turnover (days)	60	15	27	63	**43**

Note: * Calculated based on average equity

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Hongxia *(Chairman)*
Zhang Yanhong
Qi Xingli
Zhao Suwen

NON-EXECUTIVE DIRECTORS

Zhang Shiping
Wang Zhaoting
Zhao Suhua
Wang Xiaoyun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin
Xu Wenying
Chan Wing Yau, George

SUPERVISORS

Liu Mingping
Lu Tianfu
Wang Wei

COMPANY SECRETARY

Zhao Suwen

AUDIT COMMITTEE

Chan Wing Yau, George *(Chairman)*
Wang Naixin
Xu Wenying

REMUNERATION COMMITTEE

Zhang Hongxia *(Chairman)*
Wang Naixin
Xu Wenying

AUTHORISED REPRESENTATIVES

Qi Xingli
Zhao Suwen

PLACE OF BUSINESS IN HONG KONG

33rd Floor, Edinburgh Tower
The Landmark, 15 Queen's Road Central
Central
Hong Kong

LEGAL ADDRESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Weifang Road, Zouping Development Area
Zouping County, Shandong Province
The PRC

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

INTERNATIONAL AUDITORS

Ernst & Young

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
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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 2009

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

INVESTOR RELATIONS

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FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date

29 March 2010

ANNUAL GENERAL MEETING

1 June 2010

DISTRIBUTION DATE OF FINAL DIVIDEND

25 June 2010

CHAIRMAN'S STATEMENT

Note: President of China, Hu Jintao visited the Group escorted by our Chairman Zhang Hongxia (Right Two)

It is my pleasure to present the annual results of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2009 (the "Year" or "Period under Review").

As a result of the global financial crisis, the year 2009 had been the most difficult year for the economic development in China in the new century. Nevertheless, the PRC government implemented proactive financial policies and large scale investment plan to cope with the global financial crisis, turning around the deceleration in economic growth. At the end of 2009, there was a general recovery of the Chinese economy. According to the National Bureau of Statistics of China, Gross Domestic Product ("GDP") for 2009 was RMB33,535.3 billion, representing an increase of 8.7% as compared with the previous year.

During the Period under Review, under the government's policy of "stimulating domestic demand", a steady growth had been achieved in the domestic market, which definitely was the primary factor for the tentative recovery of the textile industry. Data of the National Bureau of Statistics of China show that China's total retail sales for apparel consumer goods grew by 18.8% in 2009. Despite the fact that the growth was slower than that of the previous year, it was still maintained at a relatively high level. Total domestic output value of large textile enterprises was RMB2,971.224 billion, representing an increase of 14.69% as compared with the previous year. The proportion of products for domestic sales accounted for 79.9% of the total, representing an increase of 3.04 percentage points over that in the previous year.

China's foreign trade was affected by the international financial crisis in 2009 despite signs of the country's gradual economic recovery. China's total import and export was US$2,207.3 billion, representing a drop of 13.9% as compared with the previous year. China's export for the whole year was US$1,201.7 billion, representing a decrease of 16%. According to the statistics released by the China Customs, China's accumulated export of textile products and apparel for 2009 amounted to US$167.072 billion, representing a decline of 9.8% over last year. During the Year, following the end of negative growth in China's export of textile products and apparel in November, an upward trend appeared in December.

CHAIRMAN'S STATEMENT

During the Period under Review, China's cotton textile industry experienced a challenge of the global financial crisis. Apart from the sluggish export market, the price of lint cotton rose at the end of the Year, due to a supply shortage in the Chinese market along with the growth of domestic demand and the adjustment of inventory stock in the industry. Meanwhile, the price of all kinds of textile raw materials also rose continuously. All these factors had continuous impact on the industry and brought challenges to our Group's overall business.

With an effective business strategy and a solid, leading position in the industry, Weiqiao Textile continues to achieve satisfactory performance amidst a challenging operating environment. For the year ended 31 December 2009, the Group's revenue was approximately RMB14,333,000,000, representing a decrease of 12.9% as compared with 2008. Profit attributable to owners of the parent was approximately RMB892,000,000, representing an increase of 49.7% as compared with 2008. Earnings per share were RMB0.75. The Board of the Company recommended the payment of a final dividend of RMB0.2335 per share (tax inclusive) for the year ended 31 December 2009.

Furthermore, the Group's thermal power assets has a capacity of approximately 1,590 MW. Operation of such thermal power assets effectively controlled production cost, ensured stable energy supply and enhanced profitability.

Looking ahead, in 2010, the Chinese economy will maintain its upward trend of 2009 as well as a steady and relatively rapid development. Based on the market demand for textile products and its development trends, Weiqiao Textile will consolidate its market share in China and maintain the competitive advantage of its products. The huge consumer market for textile products and apparel in China will provide the Group with development opportunities in the long term. Therefore, the Group will continuously strengthen production innovation and technological upgrade and produce more value-added and medium-to high-end products to satisfy the demand of the domestic market. For the overseas market, the Group will continue to take advantage of its economy of scale and product mix to upgrade its products, and their quality as well as to strengthen its development in the medium-to-high-end markets so as to expand the geographical coverage of its business. We believe that, through the improvement of internal management, staff training, the stringent control of production cost and the optimization of product mix, we will be able to enhance the core competitiveness of the Group.

Meanwhile, the Sixth China-ASEAN Business & Investment Summit announced the completion of the China-ASEAN Free Trade Area (CAFTA) on 1 January 2010. According to the pact, 90% of the goods, namely 7,000 types of products, could enjoy the zero-tariff arrangement. It is expected to create a strong impetus for the recovery of China's exports of textile products and apparel. However, in 2010, despite the improving overall demand in both international and domestic markets, uncertainties still

CHAIRMAN'S STATEMENT

exist. Trade conflict between the Western countries and China will intensify and will become an unavoidable issue amidst the global economic recovery. This situation may be unfavourable to China's export. Weiqiao Textile thoroughly understands that it needs to anticipate well the external risks of the industry. Overall, the Group is still prudently optimistic towards the environment and outlook of the enterprise and the industry. With sound and comprehensive operations, strong financial position as well as rich experience in coping with the global market crisis, we have confidence to handle the setbacks in the market and maintain the Group's leading position in the industry.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, investors and business partners for their continuous trust and support, and to the staff for their contribution and dedication to the long-term development of the Group in the past year. We hope we will continue to develop and grow the business together in the days to come. The Directors believe that with everyone's dedication in the Group, Weiqiao Textile will continue to maintain its core competitive strength, realize its potential to achieve good results, and create value for all shareholders in the fast-changing market competition.

Zhang Hongxia
Chairman

Shandong, the PRC
26 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2009, China endeavoured to ensure the economic growth target of "8%" while combating against the tremendous impacts of the global financial crisis and took the lead to recover in the world's economy. The PRC government continued to launch relevant polices to support the PRC industries, including the textile industry.

During the Period under Review, the domestic consumers market was pivotal to the steady and sound development of the textile industry. However, due to the slow recovery of the export market, total exports of textile products and apparel in the PRC dropped by 9.8% year-on-year to US$167.072 billion. In particular, the accumulated exports of textile products declined by 8.3% to US$59.992 billion and those of apparel decreased by 10.6% to US$107.08 billion. Exports of textile products ended their down-trend in November and started an up-trend in December. Total exports of textile products and apparel in China in December amounted to US$16.787 billion, representing an increase of US$2.828 billion over that in the previous month and a month-on-month increase of 20.26%. This indicated the recovery of the textile industry in China.

The European Union, the US and Japan are the major export markets for China's textile products and apparel. During the Period under Review, total export of textile products and apparel from China to the above three regions amounted to US$83.851 billion, accounting for 50.19% of the total export of textile products and apparel in China. In the same period, export of textile products and apparel from China to Hong Kong, Southeast Asia and Africa decreased by 12.8%, 2.5% and 2.5% respectively. In spite of this, the stability of RMB exchange rate for the Year was favourable to the policy of ensuring industry export.

In 2009, the price of domestic cotton increased in general. Based on the Cotton A Index in China, the average price of domestic cotton was approximately RMB13,193 per tonne and it reached a historical high of RMB15,151 per tonne in December, representing an increase of 31.7% as compared with that in January 2009. With respect to the international market, the average cotton price was 62.75 US cents per pound according to the Cotlook A Index and it reached a new high of 76.78 US cents per pound in December, representing an increase of 33.07% when compared to that in January 2009. The fluctuation of the cotton price drove up the prices of raw materials of the textile industry. At the same time, the major elements of production including labour costs and energy costs in China were also increasing, exerting considerable production cost pressure on textile manufacturers.

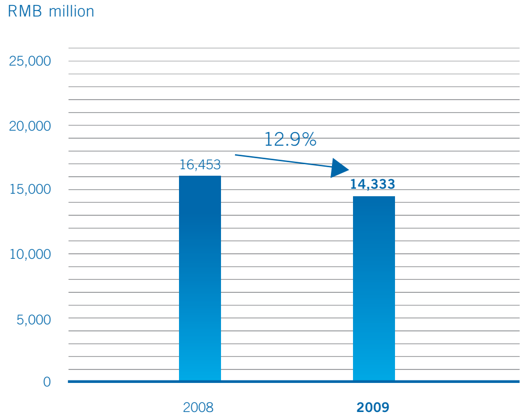
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

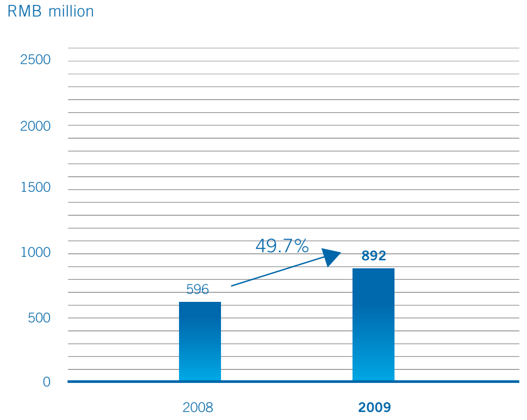
In 2009, despite various uncertainties in the market, Weiqiao Textile continued to consolidate its business growth by strengthening internal management and cost control, optimising asset allocation portfolio and adjusting product structure according to market demand under the recovering and steady economic development. Given its solid customer base, the Group successfully secured its market share which effectively restrained the decline in profitability.

For the year ended 31 December 2009, the revenue of the Group and net profit attributable to the owners of the parent are as follows:

Revenue



Net profit attributable to owners of the parent



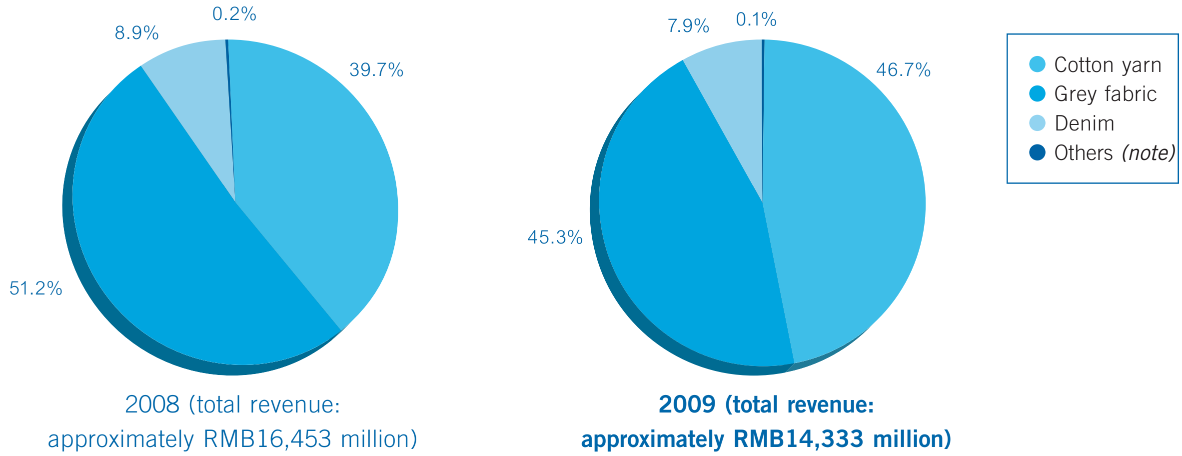
For the year ended 31 December 2009, revenue of the Group decreased by 12.9% over last year to approximately RMB14,333,000,000. This was mainly due to the overall shrinking demand for textile products in China and falling sales orders under the impacts of global financial crisis.

For the year ended 31 December 2009, net profit attributable to owners of the parent increased by 49.7% to approximately RMB892,000,000. The increase was primarily due to the increase in the gain from the sale of electricity and steam, as well as the decrease in operating cost incurred during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are a comparison of the breakdown of revenue by products for the years ended 31 December 2008 and 2009:

Proportion of revenue by products



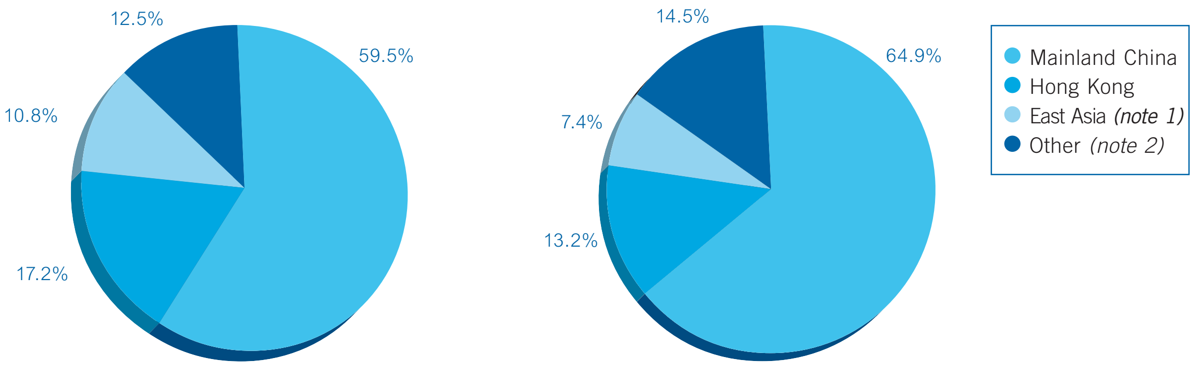
Note: Others include cotton seed and other by-products

For the year ended 31 December 2009, the proportion of revenue generated from the sales of cotton yarn increased and the proportion of revenue generated from the sales of grey fabrics decreased, which was mainly due to the low demand from the grey fabrics market under the impact of the financial crisis, resulting in a decline in export orders. The proportion of revenue from denim slightly decreased. This was mainly due to the fiercer competition in the denim market and decrease in demand in the second half of the year, resulting in the decline in revenue from denim.

MANAGEMENT DISCUSSION AND ANALYSIS

The following charts show the breakdown of the Group's revenue in terms of geographical location for the years ended 31 December 2008 and 2009:

Proportion of revenue by geographical locations



2008 (total revenue:
approximately RMB 16,453 million)

**2009 (total revenue:
approximately RMB14,333 million)**

Note 1: East Asia includes Japan and Korea

Note 2: Others mainly include Southeast Asia, the US, Europe, Taiwan and Africa

For the year ended 31 December 2009, the proportion of revenue of the Group generated from export to Hong Kong and East Asia decreased as compared with last year. This was mainly due to the shrinking overseas market demand for textile products and the reduction in export orders as a result of the global economic crisis.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2009, the Group had four production bases in total, namely:

1. Weiqiao Production Base (the First, the Second and the Third Production Areas);
2. Binzhou Production Base (the First Production Area and the Second Production Area of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park");
3. Weihai Production Base (Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park")); and
4. Zouping Production Base (the First Industrial Park of Zouping, the Second Industrial Park of Zouping and the Third Industrial Park of Zouping).

All of the above production bases are located in Shandong Province of China, with a total gross floor area of approximately 4,937,700 sq.m.

In 2009, the Group's production volume of cotton yarn, grey fabric and denim was approximately 648,000 tonnes, 1,186,000,000 meters and 105,000,000 meters, representing decreases of approximately 20.9%, 18.3% and 37.1% respectively over last year. Such decline was primarily due to the shrinking export market demand and the decline in the amount of export orders under the impacts of the global financial crisis. Meanwhile, customers had become more selective and therefore had much higher requirements on the products. Hence, the Company took measures to lower the rotation rate of equipment to ensure product quality, which negatively affected the production output; In addition, as a result of a high turnover rate of staff, it takes some time for new employees to master relevant skills, which also affected the production output.

During the Period under Review, the Group continued to actively expand its market share and to consolidate its customer base. As at 31 December 2009, the Group had a total of 8,500 domestic customers and over 830 overseas customers, representing a growth of approximately 2.4% and 2.5% respectively over last year.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to its major product categories for the years ended 31 December 2008 and 2009:

	For the year ended 31 December					
	2008			**2009**		
Product	Revenue *RMB'000*	Gross profit *RMB'000*	Gross profit margin *%*	**Revenue** ***RMB'000***	**Gross profit** ***RMB'000***	**Gross profit margin** ***%***
Cotton yarn	6,533,252	549,791	8.4	**6,689,279**	**534,732**	**8.0**
Grey fabric	8,426,382	678,805	8.1	**6,497,017**	**560,971**	**8.6**
Denim	1,458,345	201,420	13.8	**1,137,226**	**147,784**	**13.0**
Others	35,108	718	2.0	**9,566**	**70**	**0.7**
Total	16,453,087	1,430,734	8.7	**14,333,088**	**1,243,557**	**8.7**

For the year ended 31 December 2009, the gross profit margin of the Group was equal to that of last year. In controlling costs, the Group made timely adjustment to the product mix and implemented flexible and effective sales strategies according to market demand so as to maximize and ensure the overall gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

The Group's selling and distribution costs decreased by 28.0% to approximately RMB249,000,000 for the year ended 31 December 2009 from approximately RMB346,000,000 in the previous year. In particular, transportation cost decreased by 27.5% to approximately RMB195,000,000 from approximately RMB269,000,000 in 2008. This was mainly resulted from a decline in sales of the Group. On the other hand, the unit cost of transportation also decreased. Sales commission was approximately RMB17,000,000, a decrease of approximately 50.0% as compared with approximately RMB34,000,000 over last year. This was primarily due to the decrease in export sales of the Group.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2009 amounted to approximately RMB190,000,000, which was basically about the same as approximately RMB193,000,000 recorded in the previous year.

Other expenses

For the year ended 31 December 2009, the other expenses of the Group amounted to approximately RMB201,000,000, an increase of 93.3% over approximately RMB104,000,000 in last year. This was mainly due to disposal of certain low efficiency and obsolete equipments and plants in the first production area in the production base in Weiqiao in March 2010 to enhance operational efficiency and the impairment loss of RMB128,000,000 arising therefrom was recognised within the Year.

Finance costs

For the year ended 31 December 2009, finance costs of the Group were approximately RMB514,000,000, representing a decrease of 26.3% as compared with RMB697,000,000 for 2008. This was mainly due to the corresponding decrease in interest expenses of the Group as a result of the reduction in interest rates of the financial institutions.

Liquidity and financial resources

As at 31 December 2009, cash and cash equivalents of the Group were approximately RMB3,264,000,000, representing an increase of 23.4% as compared with that of approximately RMB2,644,000,000 as at 31 December 2008. It was mainly due to the decrease of investment in fixed assets and the increase of newly obtained bank borrowings in 2009 as compared with those of 2008, leading to the net cash inflow generated from operating activities exceeding the net cash outflow used in investing and financing activities in the Year.

For the year ended 31 December 2009, the Group had a net cash outflow from investing activities of approximately RMB483,000,000, a net cash outflow from financing activities of approximately RMB12,000,000 and a net cash inflow from operating activities of approximately RMB1,135,000,000. The Group principally satisfies its demand for operating capital with cash inflow from operation. The Directors believe that the Group will maintain a sound and stable financial position, with sufficient liquidity and financial resources to satisfy its business needs.

For the year ended 31 December 2009, average trade receivables turnover of the Group were approximately 22 days, compared with 9 days for last year. This was mainly attributable to the increase in export sales at the end of the Year due to the long remittance of letter of credit since the majority of the overseas customers made the settlements with letter of credit.

For the year ended 31 December 2009, inventory turnover of the Group decreased to 78 days from 92 days for last year. This was mainly attributable to the decrease in the inventories of semi-finished products of the Group during the Year due to the decrease in production volume according to the market conditions.

For the year ended 31 December 2009, the Group utilised the financial instruments, i.e. the interest swaps, to minimise the risks arising from interest rate fluctuation. At the end of the period, the Group's interest swaps were due and fully settled.

MANAGEMENT DISCUSSION AND ANALYSIS

Net profit attributable to owners of the parent and earnings per share

Net profit attributable to owners of the parent was approximately RMB892,000,000 for the year ended 31 December 2009, representing an increase of 49.7% as compared with approximately RMB596,000,000 in last year.

For the year ended 31 December 2009, earnings per share of the Company were RMB0.75.

Capital structure

The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2009, the debts of the Group were mainly bank borrowings totaling approximately RMB8,600,000,000. Cash and cash equivalents were approximately RMB3,264,000,000. The gearing ratio was 37.7% (2008: 42.9%) (Total debt (including interest-bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

As at 31 December 2009, 31.5% of the Group's bank borrowings was subject to fixed interest rates while the remaining 68.5% was subject to floating interest rates.

The Group maintained a balance between the continuity and flexibility of capital by using bank borrowings. In any future 12-month period, borrowings due shall not exceed 50% of total borrowings. As at 31 December 2009, 45.5% of the Group's debt will become due within a year.

As at 31 December 2009, the Group's borrowings were mainly denominated in Renminbi and US dollars, and 16.1% of the Group's borrowings were denominated in US dollars. Cash and cash equivalents were mainly held in Renminbi and US dollars of which 3.8% of the cash and cash equivalents was held in US dollars.

Details of Pledged Assets of the Group

Details are set out in note 28 to the financial statements.

Employee and remuneration policy

As at 31 December 2009, the Group had a total of approximately 97,000 employees, representing a decrease of approximately 16,000 employees as compared with last year. The decrease in the number of staff was due to the impact of the international financial crisis, the low demand and the decrease in orders received by the Group. Meanwhile, the higher degree of automation of the Group's facilities and equipment and the decrease in number of workers employed to operate the same number of production facilities also contributed to the decrease in the number of staff. In view of the above-mentioned situation, the Group took into account of the labor needs and did not replace the workers who left. Total staff costs for the Year amounted to approximately RMB1,862,000,000, representing 13.0% of the Group's revenue. Employee remuneration and bonuses are based on their performances, experience and the prevailing industry practices. The Group's remuneration policies and packages were reviewed periodically by the management of the Group. In addition, the Group provides bonuses and incentives based on their performances to encourage and drive its staff to strive for better performances. During the Year, the Group provided training to staff members according to their respective job functions and skills requirements, such as training sessions on safety and various skills.

Exposure to foreign exchange risk

The Group adopted a prudent policy in managing its exchange rate risks. The imports and exports of the Group were settled in US dollars and a portion of bank deposits and bank borrowings are denominated in US dollars. The repayment period of the import purchases and foreign borrowings is longer than the period of receiving export trade payments. In 2009, the exchange rate between RMB and US dollars was generally stable with certain fluctuation. For the year ended 31 December 2009, the Group recorded exchange loss of approximately RMB18,000,000. The Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates during the Year. The Directors believe that the Group will have sufficient foreign currency to meet its requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2009, the Group's contingent liabilities which were not provided for in the financial statements were undue letter of credit issued, which totaled approximately RMB158,000,000 (2008: approximately RMB86,000,000).

Details are set out in note 35 to the financial statements.

TAXATION

Taxation of the Group increased by 147.2% from approximately RMB125,000,000 for 2008 to approximately RMB309,000,000 for 2009. This was primarily due to the significant increase of the Group's profit before tax during the period under review, and a tax concession of RMB84,000,000 granted to a subsidiary of the Company Binzhou Industrial Park in 2008 in respect of purchase of PRC manufactured machinery and equipment in prior years.

EVENTS AFTER THE REPORTING PERIOD

Assets disposal

In March 2010, the Company planned to dispose of certain low efficiency and obsolete machines, equipment and plants ("Disposed Assets"). The Disposed Assets are located in the first production area of the Group's production base in Weiqiao Town, Zouping County, Shandong Province. The Company planned to sell such machines and equipment to independent third parties and to dismantle the plants where such machines and equipment are located and then to terminate the lease for the lands on which the plants are located. The Company will relocate other useable equipment from this production area to the Group's production base located in Zouping Economic Development Zone, and introduce more advanced production facilities.

The Company recognised the impairment losses of Disposed Assets during the Period under Review amounting to approximately RMB128,000,000. Details of such assets disposal were disclosed as price sensitive information in the announcement of the Company dated on 9 March 2010.

Controlling shareholder

The Company received a notice from Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) (the "ZCSU"), that on 8 March 2010, CITIC Trust Co., Ltd. (中信信託有限責任公司) (the "Trustee"), who held 51% of equity interest in Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the "Holding Company") as a trustee for ZCSU, entered into a equity transfer agreement with Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司) (the "Zouping Investment"), pursuant to which the Trustee transferred its 51% equity interest in Holding Company to Zouping Investment (the "Share Transfer"). Immediately after the Share Transfer, ZCSU will cease to hold any equity interest in Holding Company. Holding Company is the controlling shareholder of the Company and holds approximately 61.86% shares of the Company. Details of such share transfer were disclosed as price sensitive information in the announcement of the Company dated 10 March 2010.

OUTLOOK

Looking ahead, amid various uncertainties in economic growth, Weiqiao Textile will endeavour to improve its structure, push ahead its own innovation capabilities and continue to consolidate its solid image of "Weiqiao" brand so as to enhance the marketing and sales capabilities of the Group.

As the effects of the PRC government's specific policies to ensure growth, expand domestic demand and adjust structure gradually come to view, domestic demand is expected to maintain steady growth, which will greatly strengthen the development of the textile industry. The economy of China is believed to maintain a steady and fast growth momentum in 2010 and the textile industry is expected to achieve better growth under the strong support from the government.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 38, is the Chairman and general manager of the Company. She graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. She is a qualified political administrator. She obtained a Master degree in business administration for senior management from Dalian Polytechnic University (大連理工大學) on 7 July 2006, and 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. She joined the Company in 1999. She was appointed and re-elected as a director at the Company's annual general meeting held on 1 June 2009. She has over 15 years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as the deputy head and head of the technical division as well as the director of the production technical department. She had also been the deputy general manager and general manager of the Holding Company, director of Binzhou Weiqiao Property Company Limited (濱州魏橋置業有限公司), chairman of Shandong Weilian Printing and Dyeing Company Limited (山東魏聯印染有限公司) ("Weilian Print") and director and general manager of Shandong Weiqiao Bleaching-Dyeing Company Limited (山東魏橋漂染有限公司) ("Weiqiao Bleach"). She is currently also a non-executive director of the Holding Company (from 2 May 2001 onward and as a director from 14 April 1998 to 1 May 2001), a director of Binzhou Industrial Park (from 26 November 2001), a director and general manager of Shangdong Weiqiao Mianye Company Limited (山東魏橋棉業有限公司) ("Weiqiao Mianye") (from 30 September 2003), the chairman and general manager of Shandong Luteng Textile Company Limited (山東魯藤紡織有限公司) ("Luteng Textile") (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) ("Binteng Textile") (from 12 March 2004) as well as the chairman of Weihai Industrial Park (威海工業園) (from 30 January 2004). Currently, Ms. Zhang is also the vice chairman of the 5th session of the Hongkong General Chamber of Textiles Limited. Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her sister.

Zhang Yanhong

Ms. Zhang Yanhong, aged 34, graduated from Shandong University and obtained a professional diploma in computer and application. She further obtained a professional diploma in computer application from the Renmin University of China in 1996, a senior diploma in Innovative Management MIA from senior research class in Tsinghua University in 2006 and an executive master degree of business administration from Dalian Polytechnic in July 2006. She was appointed and re-elected as a director at the annual general meeting of the Company held on 1 June 2009. Ms. Zhang has over 9 years of management experience in the cotton textile industry. Ms. Zhang has been the general manager of Weihai Weiqiao (威海魏橋) since July 2001, and has been the general manager of Weihai Industrial Park from January 2004. Mr. Zhang Shiping and Ms. Zhang Hongxia are the father and sister of Ms. Zhang, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Qi Xingli

Mr. Qi Xingli, aged 45, is the deputy general manager and chief financial executive of the Company. He graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He oversees the Group's finance and accounting functions. He joined the Company in 1999. He was appointed and was re-elected as a director at the Company's annual general meeting held on 1 June 2009. He has over 21 years of experience in the cotton textile industry. He previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as deputy head of the accounting department. He had also been a deputy director and director of the financial division, deputy general manager and director of the Holding Company as well as general manager of the Company. He is currently also the supervisor of Weihai Weiqiao (from 25 July 2001) as well as the director of Binzhou Industrial Park (from 26 November 2001).

Zhao Suwen

Ms. Zhao Suwen, aged 36, is the company secretary of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a diploma in business administration. She is a qualified economist. Ms. Zhao obtained the chief financial officer (CFO) advanced workshop graduation certificate from School of Continuing Education, Tsinghua University on 11 October 2008. She oversees the Group's finance and accounting functions together with Mr. Qi Xingli and is also responsible for board secretarial duties. She joined the Company in 1999. She was appointed and re-elected as a director at the Company's annual general meeting held on 1 June 2009. She has over 16 years of experience in the cotton textile industry. She previously worked at Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) as an accountant for about 5 years and as a finance manager of the Company. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 63, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a 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 1 June 2009. 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 Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠), the general manager of the Holding Company, the chairman of the Company, the chairman of Weilian Print, Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd. the chairman of Shandong Weiqiao Tekuanfu Co., Ltd. ("Tekuanfu"), the chairman of Shandong Weiqiao Garment Co., Ltd., ("Weiqiao Garment"), the chairman of Binzhou Weiqiao Aluminum Technology Co., Ltd., the chairman of Shandong Weiqiao Elite Garment Co., Ltd. ("Elite Garment") and the director of Weiqiao Bleach. He is currently the chairman of Shandong Weiqiao Dyeing Company Limited (山東位橋染織有限公司) ("Weiqiao Dyeing") (from 27 July 1994), the party secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) ("ZCSU") (from 8 March 1998), the chairman of the Holding Company (from 14 April, 1998), the chairman of Weihai Weiqiao (from 25 July 2001) and the director of Binzhou Industrial Park (from 26 November 2001). He is also the chairman of Shandong Weiqiao Hongyuan Home Textile Co., Ltd. ("Hongyuan Home Textile") (山東魏橋宏源家紡有限公司), and Weihai Xijiao Thermal Power Co., Ltd. ("Xijiao Thermal Power") (威海西郊熱電有限公司). Mr. Zhang Shiping was a representative of the Ninth and Tenth National People's Congress. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wang Zhaoting

Mr. Wang Zhaoting, aged 45, graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a diploma in financial accounting. He joined the Company in 2002. He was appointed and re-elected as a director at the Company's annual general meeting on 1 June 2009. He previously worked at No. 5 Oil and Cotton Factory and was engaged in the procurement and management of cotton. He had been the deputy head of the business division at No. 5 Oil and Cotton Factory as well as the deputy head of the cotton procurement division of the Holding Company. He is currently also head of the material procurement division of the Holding Company.

Zhao Suhua

Ms. Zhao Suhua, aged 40, graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She joined the Company in 1999. She has over 12 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 is now the standing deputy general manager of the sales department of the Company (since February 2006). Ms. Zhao Suhua is the elder sister of Ms. Zhao Suwen.

Wang Xiaoyun

Ms. Wang Xiaoyun, aged 45, graduated from the Adult Education College of Qingdao University, and obtained a professional diploma on textile engineering management. She joined the Company in 1999. She has over 15 years of management experience in the cotton textile industry. She had been a quality control officer, workshop supervisor, deputy factory head of the Company, and deputy general manager of the production district of Zouwei Garden I (from January 2004 to February 2006). She is now the head of the production technical department of the Company (since February 2006).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 55, graduated from the Waterloo University in Canada and obtained a Bachelor degree in mathematics. Mr. Chan has been the executive director of China Golden Development Holdings Limited (中國金展控股有限公司), and has been the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), executive director of HSBC Asset Management Ltd. (匯豐投資管理有限公司), member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), 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), director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), board member of Hong Kong Ocean Park (香港海洋公園董事局), chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會), and 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), 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), member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會). 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). He is also the convener of Sir Robert Black Trust Fund Investment Committee (柏立基爵士信託基金投資委員會) and members 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 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 1 June 2009, with the term of his appointment effective from 1 June 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Xu Wenying

Mr. Xu Wenying, aged 58, graduated from Tianjin Institute of Light Industry (天津輕工業學院) and obtained a diploma in light and chemical industry machinery. He is a qualified professor level senior engineer and a State registered advisory engineer who is awarded special subsidy by the State Council as a specialist. He has been the engineer, deputy workshop director, technical section chief, deputy factory director and chief engineer in Huhehaote Inner Mongolia Chemical Fibre Factory (呼和浩特內蒙古化學纖維廠), deputy section chief of the technical transformation section of the planning department of the Ministry of Textile Industry (紡織工業部) (subsequently renamed as China General Chamber of Textile (中國紡織總會)), and deputy secretary general of China National Textile and Apparel Association ("CNTAC") (中國紡織工業協會). He is currently the deputy director of the industry department of the CNTAC and an independent director of Black Peony (Group) Co. Ltd. (黑牡丹(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange). He is also the chairman of China Cotton Textile Association (中國棉紡織行業協會), chairman of China Yarn Dyed Weaving Association (中國色織行業協會), director of the Textile Products Technological Improvement Consultation Services Centre (紡織企業技術進步諮詢服務中心) and vice president of China Textiles Industry Association (中國紡織工業協會). He was appointed as an independent non-executive director at the Company's general meeting held on 27 June 2003. He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting on 1 June 2009, with the term of his appointment effective from 1 June 2009.

Wang Naixin

Mr. Wang Naixin, aged 58, graduated from Qufu Teachers College (曲阜師範學院) and obtained a diploma in politics. He is qualified as a professor. Since 1993, he has been teaching and researching on several areas, such as corporate management, sales and marketing as well as training in the textile industry. He is currently the party secretary in Binzhou Teacher's College (濱州師範專科學校) (from 8 February 2001). 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 1 June 2009.

SUPERVISORS

Liu Mingping

Mr. Liu Mingping, aged 42, graduated from Binzhou Local Vocational School (濱州地區供銷職工中專學校) and obtained a diploma in corporate management. He had been the workshop supervisor of No. 5 Oil and Cotton Factory, the factory head of the No. 3 Spinning Factory of Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠三紡), the deputy general manager of Binzhou Weiqiao Textile Company Limited (濱州魏橋紡織有限公司), the head of the equipment division and the head of the corporate management department of the Holding Company. He is currently the inspector of the corporate planning division of the Company. He was appointed as a supervisor at the Company's extraordinary general meeting held on 29 October 2002. He was appointed and re-elected as a Supervisor at the Company's annual general meeting held on 1 June 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Lu Tianfu (Independent Supervisor)

Mr. Lu Tianfu, aged 75, graduated from Shanghai Dynamic Machinery Special School (上海動力機械專科學校) specialising in diesel engine. He is a qualified senior engineer. He has been a technician in Jinan Diesel Engine Factory (濟南柴油機廠), a supervisor of Educational Research Room of Shandong Supply and Marketing Cooperation School (山東供銷合作學校教研室), a technician, an engineer, a senior engineer, a department head, a manager and a deputy supervisor of Shandong Binzhou Supply and Marketing Cooperative (山東省濱州地區供銷合作社), committee member and deputy chief of Shandong Binzhou Local Intermediate Engineer Technician Assessment Committee (山東省濱州地區中級工程技術職稱評委會) as well as consultant to general manager of Shandong Bohai Oil & Grease Industry Co. (山東渤海油脂工業公司). He was appointed as an independent supervisor at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent Supervisor at the Company's annual general meeting held on 1 June 2009. He does not currently hold any other position in the Group.

Wang Wei (Independent Supervisor)

Ms. Wang Wei, aged 69, graduated from Qingdao Weaving School (青島紡織專科學校) and obtained a diploma specialising in cotton spinning. She is a qualified senior engineer. She has been the workshop supervisor at Xinjiang Urumqi "July 1" First Cotton Weaving Plant (新疆烏魯木齊市「七一」第一棉紡織廠), workshop supervisor and engineer of Shandong Lingyi Cotton Weaving Factory (山東省臨沂棉紡織廠), engineer of Shandong Weaving Industrial Office Education Division (山東省紡織工業廳教育處), manager of Shandong Weaving Industrial Office Cotton Textile Dyeing and Printing Co. (山東省紡織工業廳棉紡織印染公司), supervisor of the coordinating office of the Shandong Weaving Industrial Office (山東省紡織工業廳協作辦), manager and senior engineer of Shandong Weaving Industrial Office Economy and Technology Development Co. (山東省紡織工業廳經濟技術開發公司), general manager and senior engineer of Shandong Weaving Industrial Office Weaving Industry Group Co. (山東省紡織工業廳紡織實業總公司) as well as head and chief engineer of the production technical division of Shandong Weaving Industrial Office (山東省紡織工業廳生產技術處). She was appointed as an independent supervisor at the Company's extraordinary general meeting held on 12 February 2003. She was appointed and re-elected as an independent Supervisor at the Company's annual general meeting on 1 June 2009. She does not currently hold any other position in the Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Wang Guoming (Deputy General Manager)

Mr. Wang Guoming, aged 38, graduated from the College of Adult Education of Qingdao University with a diploma in textile engineering management. He has over 12 years of management experience in the cotton textile industry. He had served as the Director, Deputy Factory Director and Factory Director of the woven fabrics workshop of the Company and the Deputy General Manager of Zouwei Third Production Area (from April 1996 to September 2002). He is currently also the head of materials supply division of the Company (from September 2002). On 31 August 2007, he was appointed as the deputy general manager of the Company.

Zhao Weijian (Head of Accounting)

Mr. Zhao Weijian, aged 39, graduated from Shandong University in 1992. He is currently the head of accounting of the Company (from 10 September 2004). He has been the supervisor of Economic Development Investment Company of Zouping County (鄒平縣財政局經濟開發投資公司), auditor of Shandong Binzhou Accounting Finance, Zouping Office (山東濱州會計師事務所鄒平分所) and audit officer of Zouping Jianxin Certified Public Accountants Ltd. (鄒平鑒鑫會計師事務所).

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sale and distribution of cotton yarn, grey fabric and denim. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2009.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2009 and the financial position of the Group and the Company as at 31 December 2009 are set out on pages 53 to 55 and pages 59 to 60 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.2335 (inclusive of tax) per share for the year ended 31 December 2009 (the "2009 Final Dividend"), payable to shareholders whose names appear on the register of members of the Company as at close of business on 30 April 2010 (Friday). The 2009 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 after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, general reserve fund, employee's bonus and welfare fund and enterprise expansion fund.

According to the requirements of the "Corporate Income Tax Law of the People's Republic of China" and the "Corporate Income Tax Implementation Regulations of the People's Republic of China" implemented in 2008, with effect from 1 January 2008, any distribution of dividends by a domestic enterprise of the PRC to any non-resident corporate shareholders, corporate income tax must be withheld or paid on their behalf, and the paying party shall be the liable person for such withholding or payment purpose. Pursuant to the such tax law and its relevant laws and regulations, the Company has an obligation to withhold for payment the 10% corporate income tax from the payment of the 2009 Final Dividend to shareholders who are non-resident enterprise (including HKSCC (Nominees) Limited) whose names are registered on the H-shares registers of members of the Company as of the Record Date.

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 Bank of China within five working days prior to and including 30 April 2010.

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 year ended 31 December 2005, 2006 and 2007, and from the audited consolidated financial statements of the Group for the year ended 31 December 2008 and the year ended 31 December 2009 on pages 53 to 55, is set out below:

Results

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	13,584,389	19,826,154	18,589,586	16,453,087	**14,333,088**
Cost of sales	(11,340,259)	(16,503,064)	(15,927,215)	(15,022,353)	**(13,089,531)**
Gross profit	2,244,130	3,323,090	2,662,371	1,430,734	**1,243,557**
Other income and gains	189,536	350,250	466,921	629,849	**1,109,936**
Selling and distribution costs	(344,868)	(358,816)	(410,222)	(346,116)	**(248,941)**
Administrative expenses	(151,059)	(177,341)	(196,971)	(193,173)	**(190,024)**
Write-back of unutilised welfare provision	–	–	534,362	–	**–**
Other expenses	(81,788)	(109,609)	(57,821)	(103,991)	**(201,450)**
Finance costs	(420,167)	(720,003)	(726,014)	(696,714)	**(513,678)**
Profit before tax	1,435,784	2,307,571	2,272,626	720,589	**1,199,400**
Tax	(187,390)	(616,745)	(394,521)	(124,534)	**(309,106)**
Profit for the year	1,248,394	1,690,826	1,878,105	596,055	**890,294**
Attributable to:					
Owners of the parent	1,242,473	1,685,405	1,868,471	596,212	**892,446**
Minority interests	5,921	5,421	9,634	(157)	**(2,152)**
	1,248,394	1,690,826	1,878,105	596,055	**890,294**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	24,704,766	26,140,632	26,748,676	27,296,250	**26,754,785**
Total liabilities	14,783,418	14,018,831	13,276,020	13,830,749	**12,586,695**

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 2009 are set out in Note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital during the year ended 31 December 2009 are set out in Note 32 to the financial statements.

The Company does not have any share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company has redeemed, purchased or sold any of its own listed securities during the year ended 31 December 2009, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended 31 December 2009.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2009 are set out in Note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, in accordance with the PRC Company Law and the PRC Accounting Standards and Regulations, an amount of about RMB6,673,000,000 stood to the credit of the Company's capital reserve account, and an amount of about RMB1,075,000,000 stood to the credit of the Company's statutory reserve funds. In addition, according to the Articles of Association of the Company, the Company had retained profits of about RMB4,636,000,000 for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, sales to the Group's five largest customers accounted for 12.3% of the Group's total sales for the year ended 31 December 2009, sales to its largest customer accounted for 4.0% of the Group's total sales for the year ended 31 December 2009.

During the year ended 31 December 2009, purchases from the Group's five largest suppliers accounted for 41.0% of the Group's total purchases for the year

REPORT OF THE DIRECTORS

ended 31 December 2009, purchases from the Group's largest supplier accounted for 18.3% of the Group's total purchases for the year ended 31 December 2009.

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

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.

EMOLUMENTS OF DIRECTORS

There was no arrangement under which a Director has waived or agreed to waive any emoluments. Details of emoluments of Directors are set out in Note 7 to the financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and Supervisors of the Company (excluding the independent Supervisors) has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, independent non-executive Directors and independent Supervisors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Company's Articles of Association, each Director and Supervisor 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 and Supervisors as at the date of this report and their respective term of office are as follows:

Executive Directors:

Zhang Hongxia	Until 7 June 2012
Zhang Yanhong	Until the date of annual general meeting of 2012
Qi Xingli	Until 7 June 2012
Zhao Suwen	Until 7 June 2012

Non-executive Directors:

Zhang Shiping	Until 7 June 2012
Wang Zhaoting	Until 7 June 2012
Zhao Suhua	Until the date of annual general meeting in 2010
Wang Xiaoyun	Until the date of annual general meeting in 2010

Independent non-executive Directors:

Wang Naixin	Until 7 June 2012
Xu Wenying	Until 28 June 2012
Chan Wing Yau, George	Until 7 June 2012

Supervisors:

Liu Mingping	Until 7 June 2012
Lu Tianfu *(Note)*	Until 7 June 2012
Wang Wei *(Note)*	Until 7 June 2012

Note: Independent Supervisor

REPORT OF THE DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the directors, supervisors and senior management are set out on page 19 to page 24 in this annual report.

At the annual general meeting for the year ended 31 December 2008, some Directors and Supervisors of the Company were re-elected by ordinary resolutions.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 38, headed "Related Party Transactions", to the financial statements and the section headed "Connected Transactions" below, none of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during or at the end of 2009.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 38, headed "Related Party Transactions", to the financial statements and the section headed "Connected Transactions" below, there is no contract of significance between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries) or among the controlling shareholders of the Company (or any of its subsidiaries), and there is no contract of significance for the provision of services to the Company (or any of its subsidiaries) by a controlling shareholder of the Company (or any of its subsidiaries).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, so far as known to any Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or, who were, directly or indirectly, interested in 10% or above of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

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

Name of Shareholder	**Number of Domestic Shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2009** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2009** *(%)*
Holding Company	738,895,100	94.64	61.86
Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) ("ZCSU")	738,895,100 *(Note 2)*	94.64	61.86
CITIC Trust Co., Ltd. (中信信托有限責任公司)	738,895,100 *(Note 3)*	94.64	61.86

REPORT OF THE DIRECTORS

Interests in the H Shares of the Company:

Name of Shareholder	Type of interest	Number of H Shares *(Note 4)*	Approximate percentage of total issued H share capital as at 31 December 2009 *(%)*	Approximate percentage of total issued share capital as at 31 December 2009 *(%)*
The Bank of New York Mellon Corporation	Interest of a controlled corporation	90,454,200 (long position)	21.87	7.57
		52,333,900 (lending pool) *(note 5)*	12.65	4.38
Brandes Investment Partners, L.P.	Investment manager	49,170,500 (long position) *(note 6)*	11.89	4.11
The Boston Company Asset Management LLC	Investment manager	32,932,400 (long position) *(note 7)*	7.96	2.76
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (long position) *(note 8)*	9.93	3.44
FIL Limited	Investment manager	30,485,500 (long position) *(note 9)*	7.37	2.55
FMR LLC	Investment manager	20,822,500 (long position) *(note 10)*	5.03	1.74

REPORT OF THE DIRECTORS

Notes:

1. Unlisted shares.

2. These 738,895,100 Domestic Shares in which ZCSU was deemed interested under the SFO were directly held by the Holding Company, in which ZCSU had a controlling interest.

3. These 738,895,100 Domestic Shares in which CITIC Trust Co., Ltd. was deemed interested under the SFO were directly held by the Holding Company, in which ZCSU had a controlling interest. CITIC Trust Co., Ltd. is a trustee of ZCSU.

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

5. These 90,454,200 H Shares in which The Bank of New York Mellon Corporation was deemed interested under the SFO were directly held by The Bank of New York Mellon, which was a corporation 100% controlled by The Bank of New York Mellon Corporation.

6. These 49,170,500 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

7. These 32,932,400 H Shares were held by The Boston Company Asset Management LLC in its capacity as investment manager.

8. These 41,073,100 H shares in which Mellon Financial Corporation was deemed interested under 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.

9. These 30,485,500 H Shares were held by FIL Limited in its capacity as investment manager.

10. These 20,822,500 H shares in which FMR LLC was deemed interested under SFO were directly held by Fidelity Management & Research Company, a corporation wholly controlled by FMR LLC.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2009, so far as is known to the Directors, Supervisors or chief executive of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2009, the interests of the Directors, Supervisors or chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO; or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the Domestic Shares of the Company:

	Type of interest	**Number of Domestic Shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2009** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2009** *(%)*
Zhang Hongxia *(Executive Director/Chairman)*	Beneficial	17,700,400	2.27	1.48
Qi Xingli *(Executive Director)*	Beneficial	6,042,500	0.77	0.51
Zhang Shiping *(Non-executive Director)*	Beneficial	5,200,000	0.67	0.44

Note 1: Unlisted shares

REPORT OF THE DIRECTORS

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

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital as at 31 December 2009 *(%)*
Zhang Shiping *(Non-executive Director)*	Holding Company	Beneficial	23.52
Zhang Hongxia *(Executive Director)*	Holding Company	Beneficial and spouse *(Note 1)*	5.73 *(Note 1)*
Zhang Yanhong *(Executive Director)*	Holding Company	Beneficial	1.63
Qi Xingli *(Executive Director)*	Holding Company	Beneficial	0.75
Wang Zhaoting *(Non-executive Director)*	Holding Company	Beneficial	0.25
Zhao Suwen *(Executive Director)*	Holding Company	Beneficial	0.38
Liu Mingping *(Supervisor)*	Holding Company	Beneficial	0.14

Note 1: The 48,000,000 Shares in the Holding Company were beneficially held by Ms. Zhang Hongxia, while the 43,676,000 Shares in which Ms. Zhang Hongxia is deemed to be interested under the SFO are interests directly held by Mr. Yang Congsen, the husband of Ms. Zhang Hongxia.

Save as disclosed above, as at 31 December 2009, none of the Directors, Supervisors or the chief executive of the Company had an interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code").

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or subsisted during the year ended 31 December 2009.

CONNECTED TRANSACTIONS

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

REPORT OF THE DIRECTORS

Details of the connected transactions of the Group for the year ended 31 December 2009 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules.

During the year ended 31 December 2009, certain transactions were entered into between the Group and the following connected persons of the Company:

1. The Holding Company is one of the promoters and the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. Weilian Print is a 73% owned subsidiary of Holding Company. Shandong Hengfu Knitting Co., Ltd. is a 60% owned subsidiary of Holding Company. Hongyuan Home Textile is a 60% owned subsidiary of Holding Company. Tekuanfu is a 90% owned subsidiary of Holding Company. Weiqiao Clothes is a 67.32% owned subsidiary of Holding Company. Elite Garment is a 75% owned subsidiary of Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. is a 100% owned subsidiary of the Holding Company. Xijiao Thermal Power is a 100% owned subsidiary of the Holding Company. As the above eight companies are associates of a promoter/substantial shareholder of the Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Itochu Corporation ("Itochu") is the holder of 10.2% interests in Luteng Textile and the holder of 25% interests in Binteng Textile where Luteng Textile and Binteng Textile are both 75% owned subsidiaries of the Company. As it is a substantial shareholder of the above subsidiaries of the Company, it constitutes a connected person of the Company under the Listing Rules.

Under the Listing Rules, the transactions between the Company and the above connected persons constituted connected transactions of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

Set out below is a summary of the non-exempt connected transactions under the Listing Rules ("Non-Exempt Connected Transactions"):

SUPPLY OF COTTON YARN AND GREY FABRIC 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 ("Supply Agreement"). In September 2003, Hong Kong 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 the agreement, the Supply Agreement was renewed for three years on 25 August 2006, pursuant to which the Company agreed to supply or procure its subsidiaries to supply cotton yarn and grey fabric to the Parent Group for the production of downstream cotton textile products. The prices of cotton yarn and grey fabric supplied by the Group to the Parent Group were determined by reference to the prices at which comparative types of cotton yarn and grey fabric were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of business in the PRC. An announcement regarding the above continuing connected transaction was published on 28 December 2006. The Company and the Holding Company entered into a new cotton yarn/grey fabric and denim supply agreement on 20 October 2008 with the term starting from 1 January 2009 and ending on

REPORT OF THE DIRECTORS

31 December 2011. A circular regarding the above continuing connected transaction was issued on 31 October 2008.

SUPPLY OF COTTON YARN AND GREY FABRIC BY THE GROUP TO ITOCHU

The Group supplied cotton yarn and grey fabric to Itochu on normal commercial terms in order to maintain a close business relationship with Itochu. In September 2003, Hong Kong 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 Itochu under the arrangement as disclosed in the Prospectus. The waiver was granted for a term of three financial years ended 31 December 2005. The Company entered into a raw material supply agreement with Itochu on 28 December 2006, pursuant to which both parties ratified and confirmed the supply of cotton yarn and grey fabric by the Group to Itochu since 1 January 2006, and the Company agreed to continue to supply or procure its subsidiaries to continue to supply cotton yarn and grey fabric to Itochu. The prices at which cotton yarn and grey fabric were supplied by the Group to Itochu were determined by reference to the prices at which comparable types of cotton yarn and grey fabric were sold by the Group to independent third parties under normal commercial terms in the ordinary course of its business. Pursuant to the automatic renewal terms of the agreement, the supply agreement was renewed for three years with the term starting from 1 January 2009 and ending on 31 December 2011. A circular regarding the above continuing connected transaction was issued on 31 October 2008.

SUPPLY OF ELECTRICITY AND STEAM BY THE HOLDING COMPANY TO THE GROUP

On 25 August 2003, the Company and the Holding Company entered into a supply of electricity and steam agreement pursuant to which the Holding Company agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date of the agreement. The Group was therefore able to obtain a stable supply of energy for its operations. The price at which electricity was provided to the Group by Holding Company was the lower of either RMB0.35 per kwh or the market price. The price at which steam was provided to the Group by Holding Company was the lower of either RMB60 per ton or the market price.

On 13 May 2005, the Company and Holding Company entered into a supplemental agreement for the purpose of specifying the pricing bases under the above supply of electricity and steam agreement.

During the period from 1 January 2008 to the date of the extraordinary general meeting held on 18 March 2008, as the production base of the Group at Weihai did not own any power plants, the Group continued to purchase electricity and steam from the Holding Company's thermal power plants at Weihai to satisfy the production needs of Weihai Weiqiao and Weihai Industrial Park under the Group. The agreement entered into between the Company and the Holding Company on 14 January 2008 for the acquisition of thermal power assets by the Company (including the transfer of the thermal power plant in Weihai) has been approved by independent shareholders of the Company at the independent shareholders' meeting held on 18 March 2008, the annual cap for the two financial years of 2009 and 2010 in respect of the continuing connected transactions of the Weihai thermal power plant is no longer applicable. An announcement regarding the above continuing connected transaction was published on 3 March 2008.

REPORT OF THE DIRECTORS

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 land use rights in respect of land 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 to the east of Zouping County, Zouping Economic Development Zone, 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) Land use rights lease agreement dated 27 December 2000 with the commencement date and expiry date on 27 December 2000 and 27 December 2020, respectively, at an annual rental expense of RMB454,900 for the land relating to the Weiqiao First Production Area.

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

On 9 March 2010, the leases of note (i) and (ii) above were terminated subsequent to the disposal of the assets located on these land in March 2010.

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

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

(v) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental expense of RMB2,167,000 for the land relating to the new first area in Zouping Economic Development Zone.

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

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

(viii) Land use right lease agreement dated 2 November 2005, with commencement date and expiry date on 31 October 2005 and 31 October 2025 respectively, at an annual rental expense of RMB2,699,000 for the land relating to the thermal power assets acquired from the Holding Company.

REPORT OF THE DIRECTORS

On 20 September 2008, the lease of 95,333.81 square meters of land where Weiqiao First Thermal Power Plant situated was terminated and the annual rental has been adjusted to RMB2,127,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(ix) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB1,628,000 for the land occupied by the thermal power assets of the Zouping Second Thermal Power Plant acquired from the Holding Company.

(x) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB740,500 for the land occupied by the thermal power assets of the Weihai Thermal Power Plant acquired from the Holding Company.

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 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 to the Company by the Holding Company, please refer to the section of "Related Party Transactions" in Note 38 to Financial Statements.

ESTABLISHMENT OF SHANDONG WEIQIAO CHUANGYE FINANCE COMPANY LIMITED

On 17 March 2005, the Company entered into a promoters' agreement with Binzhou Industrial Park, Weihai Weiqiao, Holding Company, Weiqiao Dyeing, and Weilian Print, to establish Shandong Weiqiao Chuangye Finance Company Limited ("SWCF"), for the purpose of providing financial services to Holding Company and its subsidiaries, subject to approval by China Banking Regulatory Commission ("CBRC").

The registered capital of SWCF would be RMB400,000,000.

The establishment of SWCF is subject to the obtaining of the relevant approval of CBRC and registration with the local administration for industry and commerce. As at the current date, SWCF has not been established yet. Upon establishment, SWCF will be owned as to 6.25% by the Company, 3.75% by Binzhou Industrial Park, 2.5% by Weihai Weiqiao, 68.75% by Holding Company, 12.5% by Weiqiao Dyeing, and 6.25% by Weilian Print.

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 from 18 March 2008 and ending on 31 December 2010 (both dates inclusive).

The price at which excess electricity is supplied to Holding Company by the Company shall be RMB0.45 per kwh or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid, whichever is higher. If any applicable mandatory price for the supply of electricity is prescribed by the government, it would be adopted instead.

The Company entered into a supplemental electricity supply agreement with Holding Company on 20 October 2008, pursuant to which, the Company was entitled to increase the price of excess electricity supplied to the Holding Company according to the coal price by giving a 10 days' prior written notice to the Holding Company, and up to a maximum price at which the relevant power grid in Shandong province would charge for the purchase of electricity. A circular regarding the supplemental agreement was published on 31 October 2008.

REPORT OF THE DIRECTORS

Further details of the Non-Exempt Connected Transactions are set out in the Prospectus and the Company's announcements dated 17 October 2003, 17 March 2005, 13 May 2005, 13 August 2005, 28 December 2006, 14 January 2008 and 3 March 2008, respectively.

FIGURES FOR THE YEAR ENDED 31 DECEMBER 2009

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2009:

	Transaction nature		**Aggregate value for the year ended 31 December 2009** *(RMB'000)*
1.	Supply of cotton yarn and cotton fabric		
	(a)	by the Group to the Parent Group	850,892
	(b)	by the Group to Itochu	–
2.	Supply of electricity and steam by Holding Company to the Group		–
3.	Lease of land use rights by Holding Company to the Group		24,849
4.	Supply of excess electricity by the Company to Holding Company		1,175,520

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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) conducted either on normal commercial terms or, if there were not 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 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 favourable than those available to or from independent third parties; and

(iv) within the relevant annual cap.

REPORT OF THE DIRECTORS

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 2.4 and Note 6 to the 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

CODE ON CORPORATE GOVERNANCE

Except for the deviation as set out in the "Corporate Governance Report" on page 43 of this annual report, the Company has applied the principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Except for the deviation from code provision A.2.1, the Company has been in compliance with all the code provisions for the year ended 31 December 2009.

Code provision A.2.1 stipulates that the duties of the Chairman and chief executive officer should be differentiated and shall not be held by the same person. Ms. Zhang Hongxia is the Chairman and chief executive officer of the Company. The Board is of the opinion that this structure would not affect the balance of power and duties between the Board and the management. Through the operations of the Board, a balance between power and duties can be maintained.

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 ("Audit Committee") in compliance with the Code of Best Practices for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three independent non-executive Directors. An Audit Committee meeting was held on 26 March 2010 to review the Group's annual report and financial statements and provide advice and recommendations to the board of directors of the Company.

INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2009. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the annual general meeting 2009.

The Company has not changed the auditors for the seven years ended 31 December 2009.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
26 March 2010

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2009, 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 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 and 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 works of the Supervisory Committees in 2009 are reported as follows:

1. Works of the Supervisory Committee

In 2009, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 27 March 2009, the 10th meeting of the 3rd 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 2008", "The Audited Financial Report for the Year Ended 31 December 2008", "The Profit Distribution Proposal for 2008" and "The Financial Report on the Final Account for 2008" were reviewed and approved; Mr. Lu Tianfu and Ms. Wang Wei were proposed to be elected as independent Supervisors of the 4th Supervisory Committee, together with Mr. Liu Mingping, who was elected by the staff, to form the 4th Supervisory Committee of the Company. The term of the Supervisors of the 4th Supervisory Committee of the Company is 3 years from the date of passing of the resolution at the annual general meeting 2008 of the Company.

2. On 4 September 2009, the 1st meeting of the 4th 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 reviewed report for the six months ended 30 June 2009 issued by Ernst & Young was discussed and approved.

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2009

1. OPERATION IN COMPLIANCE WITH LAWS

During the reporting period, the members of the Supervisory Committee participated in the discussion on material decisions of the Company by sitting in on board meetings and general meetings and carried out supervision on the Company's financial and operation positions. The Supervisory Committee is of the view that: in 2009, 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 was 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 and the rules to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

REPORT OF THE SUPERVISORY COMMITTEE

2. ***FINANCIAL ACTIVITIES OF THE COMPANY***

The Supervisory Committee had reviewed and inspected the financial position and financial management of the Group, and considered that the financial report for 2009 truly reflected the financial position and operation results of the Group, and the audit report with unqualified opinion issued by Ernst & Young 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 reporting period were conducted at arm's length with reasonable pricing and without prejudice to the interests of shareholders and the Company; there were no use of capitals for non-operational purpose by controlling shareholders and other related parties.

In 2010, the Supervisory Committee will continue to monitor and facilitate the improvement of the Company's governance structure in accordance with the 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 relationship 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 duty diligently to protect the legitimate interests of the Company and shareholders.

By order of the Supervisory Committee
Lu Tianfu
Chairman of the Supervisory Committee

Shandong, the PRC
26 March 2010

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. Save as disclosed in this annual report, the Company has complied with the provisions of the CG Code during the year 2009.

SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 to the Listing Rules.

Having made specific enquiry of all directors, the directors of the Company have confirmed that 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.

THE BOARD OF DIRECTORS

As at 31 December 2009, the Board of the Company comprised four executive directors, four non-executive directors and three independent non-executive directors.

The Board members are as follows:

Executive Directors

Ms. Zhang Hongxia *(Chairman)*
Ms. Zhang Yanhong
Mr. Qi Xingli
Ms. Zhao Suwen

Non-executive Directors

Mr. Zhang Shiping
Mr. Wang Zhaoting
Ms. Zhao Suhua
Ms. Wang Xiaoyun

Independent Non-executive Directors

Mr. Chan Wing Yau, George
Mr. Xu Wenying
Mr. Wang Naixin

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.

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

CORPORATE GOVERNANCE REPORT

The Board acknowledges its responsibility for supervising the preparation of the annual accounts.

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

The Company Secretary is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The Company Secretary also keeps the minutes of meetings of the Board and its committees. The members of the Board held four meetings during the year.

Records of attendance in Board meetings held by the Board during the year:

Board Members	**Attendance rate of Meetings held in 2009**
Ms. Zhang Hongxia	4/4
Ms. Zhang Yanhong	4/4
Mr. Qi Xingli	4/4
Ms. Zhao Suwen	4/4
Mr. Zhang Shiping	4/4
Mr. Wang Zhaoting	4/4
Ms. Zhao Suhua	4/4
Ms. Wang Xiaoyun	4/4
Mr. Chan Wing Yau, George	2/4
Mr. Xu Wenying	2/4
Mr. Wang Naixin	2/4

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

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The Chairman and chief executive officer of the Company is Ms. Zhang Hongxia.

Provision A.2.1 of the Code stipulates that the duties of the Chairman and chief executive officer should be differentiated and shall not be held by the same person. Ms. Zhang Hongxia is the Chairman and chief executive officer of the Company. The Board is of the opinion that this structure would not affect the balance of power and duties between the Board and the management. The Board of the Company comprises of highly experienced and talented members who meet on a regular basis to discuss matters that affect the operations of the Company. Through the operations of the Board, a balance between power and duties can be maintained. The Board believes that this structure facilitates the establishment of a consistent leadership and enables the Company to make and implement decisions in an efficient and effective manner. The Board believes that the appointment of Ms. Zhang Hongxia as the Chairman and chief executive officer will benefit the business development and management of the Company and improve coordination between the Board and administration and management personnel.

The responsibility of the Chairman is to manage the Board, while the responsibility of the chief executive officer is to management the business of the Company, which is set out in the Code of Corporate Governance of the Company.

CORPORATE GOVERNANCE REPORT

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

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

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.

SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee

Each committee may decide upon all matters within its terms of reference and authority.

A. AUDIT COMMITTEE

The Audit Committee was established on 9 January 2003. At present, the Audit Committee is comprised of three independent non-executive directors.

The composition of the Audit Committee

Mr. Chan Wing Yau, George
(Chairman of the Audit Committee)
Mr. Xu Wenying
Mr. Wang Naixin

The following resolutions were passed on 27 March 2009 after due consideration by members of the Audit Committee:

(1) to consider and approve the report of the international auditors;

(2) to consider and approve the audited financial statements of the Company for the year ended 31 December 2008;

(3) to consider and approve the profit distribution plan of the Company for 2008;

(4) to consider and approve the reappointment of Ernst & Young Hua Ming as the Company's domestic auditors for the year ended 31 December 2009 and Ernst & Young as the Company's international auditors for the year ended 31 December 2009;

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

(6) to consider and approve the Outline of Internal Risk Assessment of the Company and conduct internal control and risk assessment of the Company; and

(7) to consider and approve the annual report and results announcement for 2008.

On 4 September 2009, after due consideration, the following issues were reviewed by members of the Audit Committee present at the meeting:

(1) The Audit Committee reviewed the information as set out in the accounts of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 (the "Interim Accounts"), and confirmed the quality of the reviewed profit and that such materials were complete, accurate and appropriate;

CORPORATE GOVERNANCE REPORT

(2) The accounting policy adopted in the financial statement for the six months ended 30 June 2009 was the appropriate accounting policy;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2009 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 2009 have fully disclosed all the relevant issues, and such disclosure has 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 2009, and has ensured their accuracy, fairness and absence of misleading content, 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 2009, including the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such information has fairly reflected the performance and financial position of the Group and is in line with the disclosure in the financial statements for the six months ended 30 June 2009 without any misleading contents; and

(7) The Audit Committee has reviewed and confirmed that the interim financial report has been prepared in compliance with the HK GAAP and the financial reporting standards issued by HKICPA, and its principle accounting policies have been consistently implemented and the assumptions have been made on an on-going basis.

Having been reviewed by the members of the Audit Committee present at the meeting, the following resolution was passed: to approve the Interim Accounts:

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 Committee in which their opinions are clearly stated as well as the reasons for the Board's disagreement with such opinions);

CORPORATE GOVERNANCE REPORT

(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 Committee should pay special attention to the following matters:

- (i) any changes in accounting policies and practices;
- (ii) areas where significant judgement is involved;
- (iii) significant adjustments arising as a result of audit;
- (iv) any assumptions on the continuous operation of the Company and any qualified opinions;
- (v) whether the accounting standards have been complied with; and
- (vi) whether the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and other laws and regulations relating to financial reporting have been complied with;

(5) in respect of the paragraph (4) 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 Committee should meet at least once a year with the auditors of the Company; and
- (ii) The Committee should consider any significant or extraordinary items reflected or 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 own initiatives, or according to the request of the Board, in respect of findings of major investigations of internal control matters and the management's response;

CORPORATE GOVERNANCE REPORT

(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, and reviewing and monitoring the effectiveness of the internal audit function under the circumstance that an internal audit function exists;

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

(11) reviewing the external auditors' audit results and relevant communication reports, 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 feedback in this respect;

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

(13) reporting to the Board in respect of the matters set out in code provisions of the Code on Corporate Governance Practices under Appendix 14 to the Listing Rules;

(14) reviewing the following arrangements made by the Company: employees of the Company can 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 and take proper measures;

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

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

Minutes of meetings

The Audit Committee held two meetings during this year. The following is the meeting attendance record of its members for the year ended 31 December 2009:

Committee Members	Attendance of Audit Committee meetings held in the year ended 31 December 2009
Mr. Chan Wing Yau, George	2/2
Mr. Xu Wenying	2/2
Mr. Wang Naixin	2/2

The Audit Committee had meetings with the external auditors during the year to discuss the interim and annual financial statements and the auditing.

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

CORPORATE GOVERNANCE REPORT

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 February 2005. At present, the Remuneration Committee is comprised of an executive director and two independent non-executive directors.

One meeting was held by the Remuneration Committee for the year ended 31 December 2009.

The Composition of the Remuneration Committee

Ms. Zhang Hongxia
(Chairman of the Remuneration Committee)
Mr. Xu Wenying
Mr. Wang Naixin

	Attendance of the Remuneration Committee meeting held in 2009
Ms. Zhang Hongxia	1/1
Mr. Xu Wenying	1/1
Mr. Wang Naixin	1/1

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 such remuneration policy;

(2) the following duties delegated by the Board of Directors: 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 elsewhere in 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 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

CORPORATE GOVERNANCE REPORT

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

NOMINATION OF DIRECTORS

The Company currently has certain criteria upon which its directors are selected and recommended. Such criteria include professional knowledge and industry experience, personal conduct, integrity and skills, as well as an undertaking to allocate sufficient time to deal with the Company's affairs.

The list of candidates of Directors is proposed for approval at general meetings by way of resolutions. Such resolutions can be proposed by the Board of Directors, the Supervisory Committee or Shareholders individually or collectively holding 5% or more of the total voting shares of the Company.

PROPOSED GRANT OF A GENERAL MANDATE AT THE ANNUAL GENERAL MEETING 2009

A special mandate is proposed to be granted to the Board of Directors of the Company by the shareholders of the Company at the Annual General Meeting 2009 to allot and deal with not more than 20 per cent of the aggregate nominal amount of Domestic Shares or H Shares of the Company, subject to specific conditions. For details, please refer to Special Resolution 7 in the Notice of Annual General Meeting 2009 of the Company.

EXTERNAL AUDITORS

The external 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.

For the year ended 31 December 2009, the external auditors Ernst & Young and Ernst & Young Hua Ming have provided the Group with the following services:

	2009 **RMB'000**
Interim review service	1,850
Annual audit service	5,200
Other non-auditing services	200

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors is responsible for the effectiveness of the internal control system. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the Company will maintain and monitor the internal control system on a going-concern basis.

The Board of Directors has reviewed the internal control system of the Group, which covers financial, operational, compliance procedural and risk management functions.

SHAREHOLDERS' RIGHTS

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

CORPORATE GOVERNANCE REPORT

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who do not intend or 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.

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

Tel: 021-64278173
Postal Address: Room 33H, Shangshi Tower
18 Caoxi North Road, Shanghai, China
Postal code: 200030

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 despatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Hong Kong Stock Exchange. The Company also communicates and discloses its latest business development plan via road shows, 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 the public at the same time, price-sensitive information will be released in the form of official announcements in accordance with the Listing Rules.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

18th Floor
Two International Finance Center
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

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

We have audited the financial statements of Weiqiao Textile Company Limited set out on pages 53 to 145, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CONTINUING OPERATIONS			
REVENUE	5	**14,333,088**	16,453,087
Cost of sales		**(13,089,531)**	(15,022,353)
Gross profit		**1,243,557**	1,430,734
Other income and gains	5	**1,109,936**	629,849
Selling and distribution costs		**(248,941)**	(346,116)
Administrative expenses		**(190,024)**	(193,173)
Other expenses		**(201,450)**	(103,991)
Finance costs	9	**(513,678)**	(696,714)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,199,400**	720,589
Income tax expense	10	**(309,106)**	(124,534)
PROFIT FOR THE YEAR		**890,294**	596,055
TOTAL COMPREHENSIVE INCOME FOR THE YEAR*		**890,294**	596,055
Profit attributable to:			
Owners of the parent	11	**892,446**	596,212
Minority interests		**(2,152)**	(157)
		890,294	596,055
Total comprehensive income attributable to:			
Owners of the parent	11	**892,446**	596,212
Minority interests		**(2,152)**	(157)
		890,294	596,055
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted – for profit for the year	13	**RMB0.75**	RMB0.50

* During the years ended 31 December 2009 and 31 December 2008, the Group did not have any profit from discontinued operations and other comprehensive income.

Details of the dividends payable and proposed for the year are disclosed in note 12(b) to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**17,202,236**	18,449,075
Investment properties	*15*	**122,545**	125,727
Prepaid land lease payments	*16*	**120,593**	123,409
Intangible asset	*17*	**3,301**	4,501
Deferred tax assets	*31*	**173,328**	118,007
Total non-current assets		**17,622,003**	18,820,719
CURRENT ASSETS			
Inventories	*19*	**2,780,810**	3,780,115
Trade receivables	*20*	**871,475**	427,019
Due from related parties	*22*	**–**	226
Due from the immediate holding company	*22*	**51,954**	258,788
Prepayments, deposits and other receivables	*21*	**441,120**	49,436
Derivative financial instruments	*27*	**–**	292
Pledged time deposits	*23*	**186,430**	270,435
Non-pledged time deposits maturing over three months	*23*	**1,536,783**	1,045,627
Cash and cash equivalents	*23*	**3,264,210**	2,643,593
Total current assets		**9,132,782**	8,475,531
CURRENT LIABILITIES			
Trade payables	*24*	**1,700,358**	2,847,475
Bills payable	*25*	**748,300**	680,000
Due to related parties	*22*	**7,291**	9,969
Due to the immediate holding company	*22*	**–**	959
Other payables and accruals	*26*	**881,791**	1,193,006
Derivative financial instruments	*27*	**–**	1,245
Interest-bearing bank and other borrowings	*28*	**3,911,785**	3,329,350
Tax payable		**499,097**	520,236
Deferred income	*30*	**9,535**	8,982
Total current liabilities		**7,758,157**	8,591,222
NET CURRENT ASSETS/(LIABILITIES)		**1,374,625**	(115,691)
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,996,628**	18,705,028

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*28*	**4,693,672**	5,097,305
Deferred income	*30*	**129,394**	131,834
Deferred tax liabilities	*31*	**5,472**	10,388
Total non-current liabilities		**4,828,538**	5,239,527
Net assets		**14,168,090**	13,465,501
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*32*	**1,194,389**	1,194,389
Reserves	*33*	**12,600,845**	11,987,289
Proposed final dividends	*12(b)*	**278,890**	187,400
		14,074,124	13,369,078
Minority interests		**93,966**	96,423
Total equity		**14,168,090**	13,465,501

Zhang Hong Xia
Executive Director

Qi Xing Li
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the parent							
	Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	1,194,389	6,673,380	972,658	3,932,439	597,813	13,370,679	101,977	13,472,656
Final 2007 dividend declared	–	–	–	–	(597,813)	(597,813)	–	(597,813)
Transfer of interests to the parent company *(a)*	–	–	–	–	–	–	(513)	(513)
Dividend paid to minority shareholders	–	–	–	–	–	–	(4,884)	(4,884)
Total comprehensive income for the year	–	–	–	596,212	–	596,212	(157)	596,055
Proposed final 2008 dividend *(note 12(b))*	–	–	–	(187,400)	187,400	–	–	–
Transfer from retained profits	–	–	60,827	(60,827)	–	–	–	–
At 31 December 2008	1,194,389	6,673,380*(b)*	1,033,485*(b)*	4,280,424*(b)*	187,400	13,369,078	96,423	13,465,501

	Attributable to owners of the parent							
	Issued capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2009	1,194,389	6,673,380	1,033,485	4,280,424	187,400	13,369,078	96,423	13,465,501
Final 2008 dividend declared	–	–	–	–	(187,400)	(187,400)	–	(187,400)
Dividend paid to minority shareholders	–	–	–	–	–	–	(305)	(305)
Total comprehensive income for the year	–	–	–	892,446	–	892,446	(2,152)	890,294
Proposed final 2009 dividend *(note 12(b))*	–	–	–	(278,890)	278,890	–	–	–
Transfer from retained profits	–	–	95,622	(95,622)	–	–	–	–
At 31 December 2009	1,194,389	6,673,380*(b)*	1,129,107*(b)*	4,798,358*(b)*	278,890	14,074,124	93,966	14,168,090

(a) In April 2008, Mr. Liu Guangmin, the minority shareholder of Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") transferred his entire share to the Company for a consideration of RMB0.52 million, making the subsidiary wholly owned by the Company.

(b) These reserve accounts comprise the consolidated reserves of RMB12,600,845,000 (2008: RMB11,987,289,000) in the consolidated statement of financial position as at 31 December 2009.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,199,400**	720,589
Adjustments for:			
Finance costs	9	**513,678**	696,714
Bank interest income	5	**(52,084)**	(85,115)
Recognition of deferred income	5	**(9,627)**	(7,873)
(Gains)/losses on disposal of items of property, plant and equipment	6	**(415)**	30,507
Fair value (gains)/losses on derivative financial instruments	6	**(953)**	6,717
Depreciation	6	**1,265,689**	1,183,649
Foreign exchange differences, net	6	**17,825**	(158,323)
Amortisation of intangible asset	6	**1,200**	1,200
Recognition of prepaid land lease payments	6	**2,816**	2,816
Revenue on property leasing	5	**(3,000)**	(2,416)
Reversal of impairment of trade receivables	6	**(24)**	(15,212)
Impairment of property, plant and equipment and investment properties	6	**127,800**	22,899
(Reversal)/recognition of provision against inventories	6	**(5,461)**	27,396
		3,056,844	2,423,548
Decrease/(increase) in inventories		**1,004,766**	(219,720)
(Increase)/decrease in trade receivables		**(443,811)**	441,683
(Increase)/decrease in prepayments, deposits and other receivables		**(397,983)**	28,225
Decrease/(increase) in amounts due from the immediate holding company		**206,834**	(257,209)
Decrease in amounts due to the immediate holding company		**(959)**	(36,834)
Decrease/(increase) in amounts due from related parties		**226**	(225)
Decrease in amounts due to related parties		**(2,678)**	(6,913)
(Decrease)/increase in trade payables		**(1,197,521)**	305,610
Increase in bills payable		**68,300**	30,849
(Decrease)/increase in other payables and accruals		**(248,394)**	402,002
Cash generated from operations		**2,045,624**	3,111,016
Interest paid		**(520,323)**	(710,976)
PRC corporate income tax paid		**(390,482)**	(612,897)
Net cash flows from operating activities		**1,134,819**	1,787,143

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**52,550**	79,970
Purchases of items of property, plant and equipment		**(141,686)**	(2,571,441)
Receipt of government grants	30	**7,740**	16,240
Proceeds from disposal of items of property, plant and equipment		**2,616**	104,014
Acquisition of minority interests		**–**	(520)
Revenue on property leasing	5	**3,000**	2,416
(Increase)/decrease in non-pledged time deposits maturing over three months		**(491,156)**	639,061
Decrease/(increase) in pledged time deposits		**84,005**	(116,355)
Net cash flows used in investing activities		**(482,931)**	(1,846,615)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**5,915,671**	4,877,012
Repayment of bank loans		**(5,740,445)**	(5,469,432)
Dividends paid to owners of the parent		**(187,400)**	(702,036)
Dividends paid to minority shareholders		**(305)**	(4,884)
Net cash flows used in financing activities		**(12,479)**	(1,299,340)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**639,409**	(1,358,812)
Cash and cash equivalents at beginning of year		**2,643,593**	4,014,049
Effect of foreign exchange rate changes, net		**(18,792)**	(11,644)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**3,264,210**	2,643,593
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**2,264,210**	2,058,743
Non-pledged time deposits with original maturity of less than three months when acquired		**1,000,000**	584,850
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	23	**3,264,210**	2,643,593

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	13,547,118	14,558,966
Investment properties	15	122,545	125,727
Investments in subsidiaries	18	1,201,411	1,201,411
Deferred tax assets	31	78,120	45,009
Total non-current assets		14,949,194	15,931,113
CURRENT ASSETS			
Inventories	19	2,246,204	2,951,696
Trade receivables	20	784,986	407,717
Due from subsidiaries	18	517,077	762,978
Due from related parties	22	–	226
Due from the immediate holding company	22	51,954	257,211
Prepayments, deposits and other receivables	21	434,949	37,522
Derivative financial instruments	27	–	292
Pledged time deposits	23	182,470	264,515
Non-pledged time deposits maturing over three months	23	1,536,783	1,045,627
Cash and cash equivalents	23	2,737,273	2,155,365
Total current assets		8,491,696	7,883,149
CURRENT LIABILITIES			
Trade payables	24	1,498,982	2,633,305
Bills payable	25	420,000	450,000
Due to subsidiaries	18	131,945	88,469
Due to related parties	22	7,291	9,969
Other payables and accruals	26	620,680	920,783
Derivative financial instruments	27	–	1,245
Interest-bearing bank and other borrowings	28	2,637,590	2,613,401
Tax payable		437,632	466,267
Deferred income	30	1,884	1,331
Total current liabilities		5,756,004	7,184,770
NET CURRENT ASSETS		2,735,692	698,379
TOTAL ASSETS LESS CURRENT LIABILITIES		17,684,886	16,629,492

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*28*	**4,083,672**	3,802,305
Deferred income	*30*	**22,297**	17,087
Total non-current liabilities		**4,105,969**	3,819,392
Net assets		**13,578,917**	12,810,100
EQUITY			
Issued capital	*32*	**1,194,389**	1,194,389
Reserves	*33*	**12,105,638**	11,428,311
Proposed final dividends	*12(b)*	**278,890**	187,400
Total equity		**13,578,917**	12,810,100

Zhang Hong Xia
Executive Director

Qi Xing Li
Executive Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

The registered office of Weiqiao Textile Company Limited (the "Company") is located at No.34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the People's Republic of China (the "PRC" or "China").

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the manufacture and sale of cotton yarn, grey fabric and denim in the PRC and overseas.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated in full on consolidation.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 Revenue – *Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC) -Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) -Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments*: *Recognition and Measurement – Embedded Derivatives*
HK(IFRIC) -Int 13	*Customer Loyalty Programmes*
HK(IFRIC) -Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC) -Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC) -Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(b) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(c) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments:* Disclosures: Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(c) (continued)

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

- HKAS 40 *Investment Property:* Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1 January 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	*Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

The Company has unilateral control over the Group's joint ventures, Shandong Luteng Textile Company Limited ("Luteng Textile") and Shandong Binteng Textile Company Limited ("Binteng Textile") since their incorporation on 12 September 2002 and 12 March 2004, respectively.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current assets held for sale and discontinued operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and annual depreciation rates used for this purpose are as follows:

	Estimated useful life	Annual depreciation rate
Buildings	6 – 40 years	2.4% to 16.0%
Machinery and equipment	4 – 33 years	2.9% to 24.0%
Others	2 – 10 years	9.5% to 48.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Investment properties

Investment properties are interests in land and buildings held to earn rental income and for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of each building to its residual value over its estimated useful life of 40 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, due from the immediate holding company, due from related parties and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;

- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities includes trade and other payables, bills payable, amounts due to related parties and the immediate holding company, financial guarantee contracts, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current or non-current potion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

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

Cash and cash equivalents

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Revenue recognition

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

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

(b) electricity and steam income, when electricity or steam has been supplied to customers;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Pension schemes

The Group participates in pension schemes organised by the local government authorities in the PRC. After their retirement, employees holding city and township residency are entitled to a monthly pension equivalent to a fixed portion of their basic salaries at their retirement dates and the monthly pension is provided by the PRC government. The Company and its subsidiaries are required to make contributions to the pension schemes at a rate of 20% of the salaries of those employees and have no further obligation for post-retirement benefits. The contributions are charged to profit or loss of the Group as they become payable in accordance with the rules of the schemes.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of these borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.13% for 2009 and 7.20% for 2008, respectively, is applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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, are discussed below.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties (continued)

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2009 was RMB122,545,000 (2008: RMB125,727,000).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An 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 to sell and its value in use. The calculation of the fair value less costs to sell 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.

Estimation of fair value of derivatives

The Group estimates the fair value of derivatives based on financial modeling which requires various sources of information and assumptions.

Deferred tax assets

Deferred tax assets are recognised for the provision for inventories and trade receivables, the difference in depreciation for tax purposes, fair value adjustments of assets and liabilities, government grants recognised as deferred income, impairment of property, plants and equipment and all unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductable temporary differences can be utilised. Recognition primarily involves judgement regarding the future performance of the particular legal entity in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period to assess the realisation of deferred tax assets.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed and adjusted if appropriate, at least at the end of each reporting period, based on changes in circumstances.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Impairment 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.

4. OPERATING SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of cotton yarn, grey fabric and denim. An analysis by products, as summarized by the group of similar products for the years ended 31 December 2009 and 2008, is as follows:

	Year ended 31 December 2009 *RMB'000*	Year ended 31 December 2008 *RMB'000*
Cotton yarn	**6,689,279**	6,533,252
Grey fabric	**6,497,017**	8,426,382
Denim	**1,137,226**	1,458,345
Others	**9,566**	35,108
	14,333,088	16,453,087

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. The Group conducts the majority of its business activities in four geographical areas, namely, Mainland China, Hong Kong, East Asia (principally comprising Japan and South Korea) and others. All of the Group's assets are located in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by geographical segment, as determined by the location of the Group's customers for the years ended 31 December 2009 and 2008, is as follows:

Year ended 31 December 2009

	Revenue from external customers *RMB'000*	**Cost of sales** *RMB'000*	**Gross profit** *RMB'000*
Mainland China	**9,295,880**	**8,465,011**	**830,869**
Hong Kong	**1,898,101**	**1,796,668**	**101,433**
East Asia	**1,054,532**	**942,330**	**112,202**
Others	**2,084,575**	**1,885,522**	**199,053**
	14,333,088	**13,089,531**	**1,243,557**

Year ended 31 December 2008

	Revenue from external customers *RMB'000*	Cost of sales *RMB'000*	Gross profit *RMB'000*
Mainland China	9,789,055	8,781,760	1,007,295
Hong Kong	2,829,423	2,646,867	182,556
East Asia	1,775,440	1,674,912	100,528
Others	2,059,169	1,918,814	140,355
	16,453,087	15,022,353	1,430,734

The revenue information from continuing operations above is based on the location of the customers.

There is no revenue from transactions with a single external customer amounting to 10 percent or more of the Group's revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	**2009** **RMB'000**	2008 RMB'000
Revenue			
Sale of textile goods		**14,333,088**	16,453,087
Other income			
Bank interest income		**52,084**	85,115
Compensation from suppliers on supply of sub-standard goods		**55,967**	36,478
Penalty income from employees		**5,861**	6,763
Recognition of deferred income	*30*	**9,627**	7,873
Revenue on property leasing		**3,000**	2,416
One-off government subsidies		**12,812**	8,184
Others		**1,972**	10
		141,323	146,839
Gains			
Sale of electricity and steam		**3,122,389**	1,624,042
Less: cost thereon		**(2,165,152)**	(1,318,561)
Gains on sale of electricity and steam		**957,237**	305,481
Gains on sale of waste and spare parts		**10,423**	16,079
Foreign exchange differences, net		**–**	158,323
Realised gains on derivative financial instruments transactions		**–**	3,127
Net fair value gains on derivative financial instruments	*27*	**953**	–
		968,613	483,010
		1,109,936	629,849

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of goods sold		**13,088,653**	14,798,322
Staff costs (excluding directors' and supervisors' remuneration *(note 7)*):			
Wages, salaries and social security costs		**1,780,321**	2,087,197
Pension scheme contributions		**76,814**	83,269
		1,857,135	2,170,466
Depreciation	*14,15*	**1,265,689**	1,183,649
Recognition of prepaid land lease payments	*16*	**2,816**	2,816
Repairs and maintenance		**357,430**	440,982
(Gains)/losses on disposal of items of property, plant and equipment		**(415)**	30,507
Amortisation of intangible asset	*17*	**1,200**	1,200
Auditors' remuneration		**7,285**	7,285
Directors' and supervisors' remuneration	*7*	**4,602**	4,623
Foreign exchange differences, net	*5*	**17,825**	(158,323)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**3,182**	3,212
(Reversal)/recognition of provision against inventories		**(5,461)**	27,396
Reversal of impairment of trade receivables	*20*	**(24)**	(15,212)
Impairment of property, plant and equipment and investment properties	*14,15*	**127,800**	22,899
Realised losses/(gains) on derivative financial instruments transactions	*5*	**418**	(3,127)
Bank interest income		**52,084**	85,115
Net fair value (gains)/losses on derivative financial instruments	*5, 27*	**(953)**	6,717
Research and development costs included in:			
Wages, salaries, social security cost and pension scheme contribution		**17,694**	14,784
Consumables		**23,808**	21,397
		41,502	36,181
Minimum land and buildings lease payments under operating leases		**26,309**	25,481

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Fees	**4,318**	4,335
Other emoluments:		
Salaries, allowances and benefits in kind	**260**	274
Pension scheme contributions	**24**	14
	284	288
	4,602	4,623

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2008: Nil).

There was no emolument paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2008: Nil).

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2009	2008
	RMB'000	*RMB'000*
Mr. Wang Naixin	**150**	150
Mr. Xu Wenying	**150**	150
Mr. Chan Wing Yau, George	**528**	545
	828	845

There were no other emoluments and benefits payable to the independent non-executive directors during the year (2008: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2009				
Executive directors:				
Ms. Zhang Hongxia	**1,200**	**47**	**4**	**1,251**
Mr. Qi Xingli	**600**	**40**	**4**	**644**
Ms. Zhao Suwen	**600**	**30**	**4**	**634**
Ms. Zhang Yanhong	**600**	**38**	**–**	**638**
	3,000	**155**	**12**	**3,167**
Non-executive directors:				
Mr. Zhang Shiping	**100**	**–**	**–**	**100**
Mr. Wang Zhaoting	**100**	**–**	**–**	**100**
Ms. Zhao Suhua*	**100**	**37**	**4**	**141**
Ms. Wang Xiaoyun*	**100**	**34**	**4**	**138**
	400	**71**	**8**	**479**
	3,400	**226**	**20**	**3,646**
2008				
Executive directors:				
Ms. Zhang Hongxia	1,200	49	2	1,251
Mr. Qi Xingli	600	43	2	645
Ms. Zhao Suwen	600	37	2	639
Ms. Zhang Yanhong	600	34	–	634
	3,000	163	6	3,169
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Mr. Wang Zhaoting	100	–	–	100
Ms. Zhao Suhua*	100	39	2	141
Ms. Wang Xiaoyun*	100	36	2	138
	400	75	4	479
	3,400	238	10	3,648

* Ms. Zhao Suhua and Ms. Wang Xiaoyun were appointed as non-executive directors of the Company with effect from 30 May 2008.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2009				
Mr. Liu Mingping	**30**	**34**	**4**	**68**
Mr. Lu Tianfu	**30**	**–**	**–**	**30**
Ms. Wang Wei	**30**	**–**	**–**	**30**
	90	**34**	**4**	**128**
2008				
Mr. Liu Mingping	30	38	2	70
Mr. Lu Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
	90	38	2	130

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2008: five) directors, details of whose remuneration are set out in note 7 above.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Group 2009 RMB'000	Group 2008 RMB'000
Interest on bank loans wholly repayable within five years	**501,952**	687,135
Interest on a finance lease	**447**	–
Less: Interest capitalised	**–**	(1,330)
	502,399	685,805
Other finance costs: Increase in discounted amounts of trade payables	**11,279**	10,909
	513,678	696,714

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates.

	Group 2009 RMB'000	Group 2008 RMB'000
Current – Mainland China	**369,343**	167,838
Deferred *(note 31)*	**(60,237)**	(43,304)
Total tax charge for the year	**309,106**	124,534

NOTES TO FINANCIAL STATEMENTS

31 December 2009

10. INCOME TAX (continued)

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

	Group			
	2009		2008	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax from continuing operations	**1,199,400**		720,589	
Tax at PRC statutory tax rate	**299,850**	**25.0**	180,147	25.0
Expenses not deductible for tax	**8,890**	**0.8**	14,353	2.0
Tax exemption *(note (a))*	**–**	**–**	(192)	–
Tax concessions in respect of purchase of PRC-manufactured machinery and equipment *(note (b))*	**–**	**–**	(83,878)	(11.7)
Others	**366**	**–**	14,104	2.0
Tax charge at the Group's effective rate	**309,106**	**25.8**	124,534	17.3

Under the PRC income tax law, the companies comprising the Group are subject to corporate income tax ("CIT") at a rate of 25% on the taxable income as reported in their statutory accounts, which are prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP").

Notes:

(a) Being a Sino-foreign joint venture enterprise, Shandong Binteng Textile Company Limited ("Binteng Textile") is subject to a CIT rate of 25% and entitled to a full exemption for the first two years and a 50% reduction in the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. 2008 was the last year that Binteng Textile was entitled to a 50% reduction in the CIT rate.

(b) The amount represents a tax concession, approved by the local tax bureau, in respect of purchases of PRC-manufactured machinery and equipment. The tax concession is calculated at 40% of the purchase cost of PRC-manufactured machinery and equipment for prior years, and is limited to the amount of increase in income tax for the current year compared with the tax amount of the preceding year.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB956 million (2008: RMB608 million) which has been dealt with in the financial statements of the Company (note 33).

12. PROFIT APPROPRIATIONS

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

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile and Binteng Textile, are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. 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.

The directors of the respective companies resolved to appropriate 10% of the profit attributable to shareholders, determined in accordance with PRC GAAP, to the statutory reserve funds for the years ended 31 December 2009 and 2008.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

12. PROFIT APPROPRIATIONS (continued)

(b) Dividends

	2009	2008
	RMB'000	*RMB'000*
Proposed final – RMB0.2335 (2008: RMB0.1569) per share	**278,890**	187,400

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

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

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,194,389,000 (2008: 1,194,389,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculation of basic earnings per share is based on:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**892,446**	596,212

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,194,389,000**	1,194,389,000

The Company did not have any dilutive potential ordinary shares in issue.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009					
At 1 January 2009:					
Cost	6,412,746	16,752,547	84,184	50,233	23,299,710
Accumulated depreciation and impairment	(487,644)	(4,322,339)	(39,538)	(1,114)	(4,850,635)
Net carrying amount	5,925,102	12,430,208	44,646	49,119	18,449,075
At 1 January 2009, net of accumulated depreciation and impairment	5,925,102	12,430,208	44,646	49,119	18,449,075
Additions	57,355	20,186	1,929	66,199	145,669
Disposals	–	(1,650)	(551)	–	(2,201)
Impairment	(116,400)	(11,400)	–	–	(127,800)
Depreciation provided during the year	(157,007)	(1,091,213)	(14,287)	–	(1,262,507)
Transfers	24,929	10,320	–	(35,249)	–
At 31 December 2009, net of accumulated depreciation and impairment	5,733,979	11,356,451	31,737	80,069	17,202,236
At 31 December 2009:					
Cost	6,495,030	16,762,699	84,809	81,183	23,423,721
Accumulated depreciation and impairment	(761,051)	(5,406,248)	(53,072)	(1,114)	(6,221,485)
Net carrying amount	5,733,979	11,356,451	31,737	80,069	17,202,236

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008					
At 1 January 2008:					
Cost	5,297,606	14,257,120	81,097	218,252	19,854,075
Accumulated depreciation	(344,753)	(3,379,843)	(29,610)	–	(3,754,206)
Net carrying amount	4,952,853	10,877,277	51,487	218,252	16,099,869
At 1 January 2008, net of accumulated depreciation	4,952,853	10,877,277	51,487	218,252	16,099,869
Additions	1,353,214	2,522,297	6,207	222,778	4,104,496
Disposals	(218,938)	(202,587)	(1,490)	–	(423,015)
Transfer to investment properties	(130,054)	–	–	–	(130,054)
Impairment	(20,670)	–	–	(1,114)	(21,784)
Depreciation provided during the year	(145,646)	(1,023,233)	(11,558)	–	(1,180,437)
Transfers	134,343	256,454	–	(390,797)	–
At 31 December 2008, net of accumulated depreciation and impairment	5,925,102	12,430,208	44,646	49,119	18,449,075
At 31 December 2008:					
Cost	6,412,746	16,752,547	84,184	50,233	23,299,710
Accumulated depreciation and impairment	(487,644)	(4,322,339)	(39,538)	(1,114)	(4,850,635)
Net carrying amount	5,925,102	12,430,208	44,646	49,119	18,449,075

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009					
At 1 January 2009:					
Cost	5,060,743	13,055,523	73,016	2,505	18,191,787
Accumulated depreciation and impairment	(373,231)	(3,228,818)	(30,772)	–	(3,632,821)
Net carrying amount	4,687,512	9,826,705	42,244	2,505	14,558,966
At 1 January 2009, net of accumulated depreciation and impairment	4,687,512	9,826,705	42,244	2,505	14,558,966
Additions	50,876	12,795	1,678	20,261	85,610
Disposals	–	(776)	(43)	–	(819)
Impairment	(112,100)	(11,400)	–	–	(123,500)
Depreciation provided during the year	(124,588)	(836,371)	(12,180)	–	(973,139)
Transfers	12,040	6,234	–	(18,274)	–
At 31 December 2009, net of accumulated depreciation and impairment	4,513,740	8,997,187	31,699	4,492	13,547,118
At 31 December 2009:					
Cost	5,123,659	13,055,677	74,563	4,492	18,258,391
Accumulated depreciation and impairment	(609,919)	(4,058,490)	(42,864)	–	(4,711,273)
Net carrying amount	4,513,740	8,997,187	31,699	4,492	13,547,118

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008					
At 1 January 2008:					
Cost	4,158,749	10,922,883	69,204	57,779	15,208,615
Accumulated depreciation	(277,602)	(2,526,292)	(21,913)	–	(2,825,807)
Net carrying amount	3,881,147	8,396,591	47,291	57,779	12,382,808
At 1 January 2008, net of accumulated depreciation	3,881,147	8,396,591	47,291	57,779	12,382,808
Additions	1,344,538	2,515,430	11,851	71,300	3,943,119
Disposals	(335,417)	(382,275)	(7,339)	–	(725,031)
Transfer to investment properties	(130,054)	–	–	–	(130,054)
Impairment	(3,912)	–	–	–	(3,912)
Depreciation provided during the year	(115,143)	(783,262)	(9,559)	–	(907,964)
Transfers	46,353	80,221	–	(126,574)	–
At 31 December 2008, net of accumulated depreciation and impairment	4,687,512	9,826,705	42,244	2,505	14,558,966
At 31 December 2008:					
Cost	5,060,743	13,055,523	73,016	2,505	18,191,787
Accumulated depreciation and impairment	(373,231)	(3,228,818)	(30,772)	–	(3,632,821)
Net carrying amount	4,687,512	9,826,705	42,244	2,505	14,558,966

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2009, certain of the Group's buildings, machinery and equipment with a value of approximately RMB10,143 million (2008: RMB8,812 million) were pledged to secure certain of the Group's bank loans (note 28(ii)).

The carrying amount of construction in progress included no capitalised interest (2008: RMB1.3 million) in the current year (note 9) prior to being transferred to buildings, and machinery and equipment.

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31 December 2009 amounted to RMB5 million (2008: Nil).

In an effort to increase operating efficiency, in March 2010, the Group plans to dispose of the low efficiency and obsolete machinery, equipment and buildings located in Weiqiao First Production Area (the "Old Assets"). Based on the Group's estimation of the recoverable amounts of those fixed assets at the end of the reporting period, an impairment provision amounting to RMB127,800,000 has been charged to profit or loss in the year end 31 December 2009. Please refer to note 42(b) for more details.

Certain of the Group's properties, including construction in progress which have become idle since 2008, were revalued individually at the end of 2008 by Shanghai Wan Long Assets Evaluation Co,. Ltd, an independent professionally qualified valuer, at RMB378 million on a value in use basis. An impairment provision aggregating RMB21.8 million resulting from the above valuation, has been charged to profit or loss in the year ended 31 December 2008. At the end of 2009, the Group appointed the same valuer to reassess these properties by using the similar methodology and concluded that there was no significant changes of the recoverable amounts of the idle assets. Thus no further impairment or reversal of impairment was recorded as at 31 December 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

15. INVESTMENT PROPERTIES

Group and Company	**2009** *RMB'000*	2008 *RMB'000*
At 1 January:		
Cost – buildings	**133,800**	–
Accumulated depreciation and impairment	**(8,073)**	–
Net carrying amount	**125,727**	–
At 1 January, net of accumulated depreciation	**125,727**	–
Transfers from owner-occupied property, net of accumulated depreciation	**–**	130,054
Depreciation provided during the year	**(3,182)**	(3,212)
Impairment	**–**	(1,115)
At 31 December, net of accumulated depreciation and impairment	**122,545**	125,727
At 31 December:		
Cost – buildings	**133,800**	133,800
Accumulated depreciation and impairment	**(11,255)**	(8,073)
Net carrying amount	**122,545**	125,727

In the opinion of directors, the carrying amounts of the investment properties approximate to their fair value as at 31 December 2009.

As at 31 December 2008, these investment properties were revalued by Shanghai Wan Long Assets Evaluation Co., Limited, an independent professionally qualified valuer, at RMB126 million on a value in use basis. An impairment provision amounting to RMB1.1 million, resulting from the above valuation, was charged to profit or loss in the year ended 31 December 2008.

The investment properties are leased to the Holding Company under operating leases, further summary details of which are included in note 38(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

16. PREPAID LAND LEASE PAYMENTS

Group	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	126,225	129,041
Recognised during the year	(2,816)	(2,816)
Carrying amount at 31 December	123,409	126,225
Current portion included in prepayments, deposits and other receivables *(note 21)*	(2,816)	(2,816)
Non-current portion	120,593	123,409

The leasehold land is held under medium term leases and is situated in the PRC.

At 31 December 2009, certain of the Group's land use rights with a net carrying amount of approximately RMB75 million (2008: RMB114 million) were pledged to secure certain of the Group's bank loans (note 28(ii)).

17. INTANGIBLE ASSET

The intangible asset of the Group represents the technology right of US$1,450,000 (equivalent to approximately RMB12 million) injected by a minority shareholder to a subsidiary of the Company as its capital contribution in September 2002.

	2009 RMB'000	2008 RMB'000
Cost at 1 January, net of accumulated amortisation	4,501	5,701
Amortisation provided during the year	(1,200)	(1,200)
At 31 December, net of accumulated amortization	3,301	4,501
At 31 December:		
Cost	12,001	12,001
Accumulated amortisation	(8,700)	(7,500)
Net carrying amount	3,301	4,501

NOTES TO FINANCIAL STATEMENTS

31 December 2009

18. INVESTMENTS IN SUBSIDIARIES

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

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	1,201,411	1,201,411
Due from subsidiaries	517,077	762,978
Due to subsidiaries	(131,945)	(88,469)
	1,586,543	1,875,920

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

Particulars of the subsidiaries and joint ventures of the Company as at 31 December 2009 are as follows:

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
Subsidiaries					
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, the PRC 25 July 2001	Limited liability company	RMB148,000,000	87.2	Production and sale of cotton yarn and fabric
Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park")	Binzhou, the PRC 26 November 2001	Limited liability company	RMB600,000,000	98.5	Production and sale of cotton yarn and fabric
Shandong Weiqiao Mianye Company Limited	Zouping, the PRC 30 September 2003	Limited liability company	RMB5,000,000	92	Purchase, processing and sale of raw cotton, cotton seeds and lint cotton
Weihai Industrial Park	Weihai, the PRC 30 January 2004	Limited liability company	RMB260,000,000	100	Production and sale of cotton yarn and fabric

NOTES TO FINANCIAL STATEMENTS

31 December 2009

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
Joint ventures					
Luteng Textile	Zouping, the PRC 12 September 2002	Sino-foreign equity joint venture	US$9,790,000	75	Production and sale of polyester yarn and related products
Binteng Textile	Zouping, the PRC 12 March 2004	Sino-foreign equity joint venture	US$15,430,000	75	Production and sale of compact yarn and related products

19. INVENTORIES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**996,188**	535,966
Work in progress	**722,910**	671,279
Semi-finished goods	**207,268**	1,365,990
Finished goods	**695,488**	1,004,187
Consumables	**67,886**	77,855
Raw materials in transit	**91,070**	124,838
	2,780,810	3,780,115

NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INVENTORIES (continued)

	Company	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**848,791**	428,802
Work in progress	**529,938**	509,308
Semi-finished goods	**148,835**	951,995
Finished goods	**483,615**	726,124
Consumables	**48,996**	53,859
Consigned materials for processing	**94,960**	163,336
Raw materials in transit	**91,069**	118,272
	2,246,204	2,951,696

The carrying amounts of inventories were net of provision of RMB81 million (2008: RMB86 million).

20. TRADE RECEIVABLES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**879,347**	434,915
Impairment	**(7,872)**	(7,896)
	871,475	427,019

	Company	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**792,754**	415,485
Impairment	**(7,768)**	(7,768)
	784,986	407,717

NOTES TO FINANCIAL STATEMENTS

31 December 2009

20. TRADE RECEIVABLES (continued)

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. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**870,187**	420,611
3 to 6 months	**410**	2,501
6 months to 1 year	**826**	1,454
1 to 2 years	**52**	2,453
	871,475	427,019

	Company	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**784,561**	401,768
3 to 6 months	**38**	2,042
6 months to 1 year	**387**	1,454
1 to 2 years	**–**	2,453
	784,986	407,717

NOTES TO FINANCIAL STATEMENTS

31 December 2009

20. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**7,896**	23,108
Impairment losses reversed	**(24)**	(15,212)
At 31 December	**7,872**	7,896

	Company	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**7,768**	21,630
Impairment losses reversed	**–**	(13,862)
At 31 December	**7,768**	7,768

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7.9 million (2008: RMB7.9 million) with a carrying amount before provision of RMB879 million (2008: RMB435 million). The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

20. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**749,762**	357,138
Less than 2 months past due	**120,425**	63,615
More than 2 months past due	**1,288**	6,266
	871,475	427,019

	Company	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**664,338**	350,170
Less than 2 months past due	**120,223**	51,598
More than 2 months past due	**425**	5,949
	784,986	407,717

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Prepayments to suppliers	**416,631**	34,315
Prepaid land lease payments, current portion *(note 16)*	**2,816**	2,816
Interest receivables	**11,347**	11,813
Other receivables and prepayments	**10,326**	492
	441,120	49,436

	Company	
	2009	2008
	RMB'000	*RMB'000*
Prepayments to suppliers	**413,466**	25,573
Interest receivables	**11,347**	11,813
Other receivables and prepayments	**10,136**	136
	434,949	37,522

None of these assets are either past due or impaired. The financial assets included in these balances relate to receivables for which there was no recent history of default.

22. DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/RELATED PARTIES

The balances with the immediate holding company and related parties are unsecured, interest-free and have specific repayment terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

23. CASH AND CASH EQUIVALENTS, PLEDGED TIME DEPOSITS AND NON-PLEDGED TIME DEPOSITS MATURING OVER THREE MONTHS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Cash and bank balances	**2,264,210**	2,058,743
Time deposits	**2,723,213**	1,900,912
	4,987,423	3,959,655
Less: Pledged time deposits for letter of credit facilities	**(186,430)**	(270,435)
Non-pledged time deposits maturing over three months	**(1,536,783)**	(1,045,627)
Cash and cash equivalents	**3,264,210**	2,643,593

	Company	
	2009	2008
	RMB'000	*RMB'000*
Cash and bank balances	**1,737,272**	1,570,515
Time deposits	**2,719,254**	1,894,992
	4,456,526	3,465,507
Less: Pledged time deposits for letter of credit facilities	**(182,470)**	(264,515)
Non-pledged time deposits maturing over three months	**(1,536,783)**	(1,045,627)
Cash and cash equivalents	**2,737,273**	2,155,365

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to RMB4,862 million (2008: RMB3,881 million). The Renminbi is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of three months to six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

24. TRADE PAYABLES

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**1,548,426**	1,342,638
3 to 6 months	**57,240**	1,317,330
6 months to 1 year	**5,435**	24,814
Over 1 year	**89,257**	162,693
	1,700,358	2,847,475

	Company	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**1,361,304**	1,153,055
3 to 6 months	**47,208**	1,301,659
6 months to 1 year	**4,670**	18,814
Over 1 year	**85,800**	159,777
	1,498,982	2,633,305

The trade payables are non-interest-bearing and most of the balances are payable in six months.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

25. BILLS PAYABLE

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**520,000**	450,000
3 to 6 months	**228,300**	230,000
	748,300	680,000

	Company	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**420,000**	350,000
3 to 6 months	**–**	100,000
	420,000	450,000

Certain of the Group's bills payable amounting to RMB260 million as at 31 December 2009 were drawn by Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2009 (2008: RMB230 million).

Certain of the Group's bills payable amounting to RMB68 million as at 31 December 2009 were drawn by Binzhou Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2009 (2008: Nil).

Certain of the Group's bills payable amounting to RMB420 million as at 31 December 2009 were drawn by Company in favour of Binzhou Industrial Park and were discounted with banks by Binzhou Industrial Park prior to 31 December 2009 (2008: RMB450 million).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Payroll payable	**190,229**	147,740
Other taxes payable	**19,250**	465,185
Accruals	**24,602**	42,613
Other payables	**647,710**	537,468
	881,791	1,193,006

	Group	
	2009	2008
	RMB'000	*RMB'000*
Payroll payable	**139,209**	108,827
Other taxes payable	**47,083**	423,662
Accruals	**24,236**	42,058
Other payables	**410,152**	346,236
	620,680	920,783

Other payables are non-interest-bearing.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	Assets		Liabilities	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest rate swaps	**–**	292	**–**	1,245

The carrying amounts of the interest rate swaps of the Group and the Company are the same as their fair values.

During the year, the settlement of interest rate swap derivatives transactions amounting to RMB1 million was credited to profit or loss. During the prior year, the decrease in the fair value of interest rate swap derivatives amounting to RMB6.7 million was charged to profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Current						
Bank loans						
– Unsecured	(a)	2010	**918,042**	1,412,683	**838,043**	1,160,235
– Secured	(a)	2010	**1,354,023**	594,264	**584,727**	130,763
Current portion of long term bank loans						
– Unsecured	(b)	2010	**480,907**	892,403	**211,007**	892,403
– Secured	(b)	2010	**1,158,595**	430,000	**1,003,595**	430,000
Finance lease payable *(note 29)*	9.10%	2010	**218**	–	**218**	–
			3,911,785	3,329,350	**2,637,590**	2,613,401
Non-current						
Bank loans						
– Unsecured	(b)	2011-2012	**1,127,454**	740,865	**1,097,454**	470,865
– Secured	(b)	2011-2012	**3,561,727**	4,356,440	**2,981,727**	3,331,440
Finance lease payable *(note 29)*	9.10%	2011-2022	**4,491**	–	**4,491**	–
			4,693,672	5,097,305	**4,083,672**	3,802,305
			8,605,457	8,426,655	**6,721,262**	6,415,706

(a) The interest rates of these loans range from 2.9506% to 6.9030% per annum, and from six-month LIBOR plus 0.8% to six-month LIBOR plus 1.5% per annum.

(b) The interest rates of these loans range from 2.445% to 9.711% per annum, and from six-month LIBOR plus 1.4% to six-month LIBOR plus 1.8%.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**3,911,567**	3,329,350	**2,637,372**	2,613,401
In the second year	**2,487,901**	2,316,550	**1,977,900**	1,816,550
In the third to fifth years, inclusive	**2,201,280**	2,780,755	**2,101,281**	1,985,755
	8,600,748	8,426,655	**6,716,553**	6,415,706
Finance lease repayable:				
Within one year	**218**	–	**218**	–
In the second year	**238**	–	**238**	–
In the third to fifth years, inclusive	**851**	–	**851**	–
Beyond five years	**3,402**	–	**3,402**	–
	4,709	–	**4,709**	–
	8,605,457	8,426,655	**6,721,262**	6,415,706

(i) Other than certain of the Group's bank loans in the aggregate amount of US$204 million (equivalent to RMB1,395 million) as at the end of the reporting period (2008: US$343 million (equivalent to RMB2,345 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,490 million (2008: RMB5,234 million) were secured by certain of the Group's buildings, machinery and equipment, and land use rights (prepaid land lease payments) of an aggregate value of approximately RMB10,218 million (2008: RMB8,926 million) as at the end of the reporting period.

Included in the above portion of the Group's secured loans, certain of Weihai Industrial Park's bank loans amounting to approximately RMB150 million (2008: RMB200 million) were secured by certain of the Company's machinery and equipment of an aggregate value of approximately RMB1,368 million (2008: RMB1,368 million) as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(iii) Certain of the Group's bank loans up to RMB540 million (2008: RMB147 million) were secured by certain of Binzhou Industrial Park's trade receivables from the Company of approximately RMB749 million (2008: RMB188 million) as at the end of the reporting period, which has been eliminated in the consolidated statement of financial position.

(iv) Certain of the Group's bank loans up to RMB44 million (2008: Nil) were secured by certain of Weihai Weiqiao and Binzhou Industrial Park's bills of lading of approximately of RMB50 million (2008: Nil) as at the end of the reporting period.

(v) Weihai Civil Aviation Industrial Company Limited, the minority shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao of up to approximately RMB38 million (2008: RMB35 million) as at the end of the reporting period.

(vi) The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao up to approximately RMB342 million (2008: RMB405 million) as at the end of the reporting period.

Other interest rate information:

	Group			
	2009		2008	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans:				
Unsecured	**856,082**	**1,670,321**	1,024,837	2,021,114
Secured	**1,854,750**	**4,219,595**	1,083,520	4,297,184
	2,710,832	**5,889,916**	2,108,357	6,318,298

	Company			
	2009		2008	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans:				
Unsecured	**746,083**	**1,400,421**	941,889	1,581,614
Secured	**685,454**	**3,884,595**	251,519	3,640,684
	1,431,537	**5,285,016**	1,193,408	5,222,298

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**633,767**	715,756	**629,214**	709,651
Floating rate bank loans	**4,055,414**	4,381,549	**4,055,413**	4,381,549
Finance lease payable	**4,491**	–	**4,491**	–
	4,693,672	5,097,305	**4,689,118**	5,091,200

The fair value of the Company's secured bank loans (non-current portion) with a carrying amount of RMB2,982 million (2008: RMB3,331 million) was RMB2,981 million (2008: RMB3,333 million) at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

29. FINANCE LEASE PAYABLE

The Group leases certain machinery for its electricity generation. The lease is classified as a finance lease and has a remaining lease term of 13 years.

At 31 December 2009, the total future minimum lease payments under the finance lease and its present value were as follows:

Group and Company	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts payable				
Within one year	**646**	–	**218**	–
In the second year	**646**	–	**238**	–
In the third to fifth year, inclusive	**1,939**	–	**851**	–
After five years	**4,849**	–	**3,402**	–
Total minimum lease payments	**8,080**	–	**4,709**	–
Future finance charges	**(3,371)**	–		
Total net finance lease payable	**4,709**	–		
Current portion *(note 28)*	**218**	–		
Non-current portion *(note 28)*	**4,491**	–		

NOTES TO FINANCIAL STATEMENTS

31 December 2009

30. DEFERRED INCOME

Deferred income recognised in the consolidated statement of financial position, arising from the government grants received by the Company and Binzhou Industrial Park, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**140,816**	132,449	**18,418**	2,400
Additions	**7,740**	16,240	**7,740**	16,240
Recognised as income during the year	**(9,627)**	(7,873)	**(1,977)**	(222)
At 31 December	**138,929**	140,816	**24,181**	18,418
Portion classified as current liabilities	**(9,535)**	(8,982)	**(1,884)**	(1,331)
Non-current portion	**129,394**	131,834	**22,297**	17,087

Binzhou Industrial Park received government grants during prior years amounting to RMB141 million. The grants were provided by the Finance Bureau of Binzhou City for the purpose of providing support for the development of Binzhou Industrial Park and for product development. Since Binzhou Industrial Park fulfilled the conditions attaching to the government grants, which were confirmed by the Finance Bureau of Binzhou City, the Group recognised the government grants as deferred income. It is being recognised as income over the expected useful lives of the relevant fixed assets to which the grants related by equal annual instalments.

The Company received government grants during 2009 and 2008 amounting to RMB7.74 million and RMB16.24 million, respectively. The grants were provided by the Finance Bureau of Binzhou City for the purpose of providing support for the pollution prevention project of the Company. The Company has fulfilled the conditions attaching to the government grants by the end of 2009, which were confirmed by the Finance Bureau of Binzhou City, and recognised the government grants as deferred income. It is being recognised as income over the expected useful lives of the relevant fixed assets to which the grants related by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. DEFERRED TAX

The movements in the deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
At 1 January	**118,007**	70,088	**45,009**	31,747
Credited to profit or loss during the year	**55,321**	47,919	**33,111**	13,262
At 31 December	**173,328**	118,007	**78,120**	45,009
Deferred tax liabilities				
At 1 January	**10,388**	5,773	**–**	–
(Credited)/charged to profit or loss during the year	**(4,916)**	4,615	**–**	–
At 31 December	**5,472**	10,388	**–**	–
Deferred tax credited to profit or loss *(note 10)*	**60,237**	43,304	**33,111**	13,262

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. DEFERRED TAX (continued)

The principal components of the Group's and the Company's deferred tax are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
Tax deductible loss	**68,171**	49,494	**22,225**	23,852
Provision against inventories	**20,164**	21,529	**14,900**	12,725
Impairment of trade receivables	**1,968**	1,974	**1,942**	1,942
Impairment of property, plant and equipment and investment properties	**37,675**	5,725	**32,132**	1,257
Net fair value losses of derivative financial instruments	**–**	238	**–**	238
Government grants recognised as deferred income	**34,732**	35,204	**6,045**	4,605
Government grants not recognised as deferred income	**9,250**	3,000	**–**	–
Interest capitalisation on fixed assets, net of related depreciation	**(6,238)**	(6,583)	**(6,238)**	(6,583)
Difference in depreciation expenses for tax purposes	**7,606**	6,015	**7,114**	5,562
Others	**–**	1,411	**–**	1,411
At 31 December	**173,328**	118,007	**78,120**	45,009
Deferred tax liabilities				
Unrealised losses arising from intra-group sales	**254**	4,893	**–**	–
Interest capitalisation on fixed assets, net of related depreciation	**5,218**	5,495	**–**	–
At 31 December	**5,472**	10,388	**–**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

The Group has tax losses arising in the PRC of RMB273 million (2008: RMB198 million) that will expire in four to five years and are available for offsetting against future taxable profits of the companies in which the losses arose.

There was no material unrecognised deferred tax during the year.

32. SHARE CAPITAL

	2009 ***RMB'000***	2008 *RMB'000*
Shares		
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

The Company does not have any share option scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the prior and current year are presented in the consolidated statement of changes in equity on page 56 of the financial statements.

Company

	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
At 1 January 2008	6,673,379	918,201	3,415,858	597,813	11,605,251
Final 2007 dividend declared	–	–	–	(597,813)	(597,813)
Total comprehensive income for the year (note 11)	–	–	608,273	–	608,273
Transfer from retained profits	–	60,827	(60,827)	–	–
Proposed final 2008 dividend (note 12(b))	–	–	(187,400)	187,400	–
At 31 December 2008	6,673,379	979,028	3,775,904	187,400	11,615,711
Final 2008 dividend declared	–	–	–	(187,400)	(187,400)
Total comprehensive income for the year (note 11)	–	–	956,217	–	956,217
Transfer from retained profits	–	95,622	(95,622)	–	–
Proposed final 2009 dividend (note 12(b))	–	–	(278,890)	278,890	–
At 31 December 2009	6,673,379	1,074,650	4,357,609	278,890	12,384,528

NOTES TO FINANCIAL STATEMENTS

31 December 2009

34. NOTE TO THE STATEMENT OF CASH FLOWS

Major non-cash transactions

In September 2008, the Company entered into an agreement with Zouping Gaoxin Thermal Power Co., Ltd. ("Gaoxin Thermal Power"), pursuant to which the Company acquired the Gaoxin thermal power assets for an aggregate consideration of RMB1,599 million. The Company satisfied the payment of this consideration by transferring the thermal power assets making up the Weiqiao First Thermal Power Plant of the Company, with an aggregate appraised value of RMB291 million, and by setting off the balance of the consideration against the income from the sale of electricity generated by the Gaoxin thermal power assets, which is in excess of the Group's actual electricity consumption requirement, to Gaoxin Thermal Power.

In 2009, sale of electricity amounting to RMB985 million (2008: RMB323 million) was utilised to set off the aforementioned balance.

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group's and the Company's contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Letters of credit issued	**158,401**	85,926

	Company	
	2009	2008
	RMB'000	*RMB'000*
Letters of credit issued	**133,804**	85,926
Guarantees given to banks in connection with facilities granted to subsidiaries	**491,513**	604,620
	625,317	690,546

NOTES TO FINANCIAL STATEMENTS

31 December 2009

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for a term of three years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group and Company	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**2,827**	3,000
In the second to third years, inclusive	**578**	3,417
	3,405	6,417

(b) As lessee

The Group leases certain of its land and properties under operating lease arrangements, with leases negotiated for terms ranging from three to twenty years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**26,309**	26,309
In the second to fifth years, inclusive	**104,090**	102,890
After five years	**274,237**	300,050
	404,636	429,249

NOTES TO FINANCIAL STATEMENTS

31 December 2009

36. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

	Company	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**25,393**	25,393
In the second to fifth years, inclusive	**100,423**	99,223
After five years	**262,970**	287,746
	388,786	412,362

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group and the Company had the following capital commitments at the end of the reporting period, principally for construction in progress and equity investments:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for	**50,000**	50,475

	Company	
	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for	**25,000**	25,475

38. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under ZCSU and has extensive transactions and relationships with the members of ZCSU. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to entities of which ZCSU is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

In addition to the transactions and balances disclosed in note 22 to these financial statements, the Group had the following transactions with related parties during the year:

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties

Name of related party	Relationship with the Company	Nature of transactions	2009 RMB'000	2008 RMB'000
The Holding Company	The immediate holding company	Expenses on land use rights and property leasing	**24,849**	25,150
		Sale of cotton yarn	**168,051**	41,093
		Revenue on supply of electricity	**1,175,520**	1,186,925
		Revenue on properties leasing	**3,000**	2,416
		Purchase of property, plant and equipment	**–**	2,210,000
Weihai Xijiao Thermal Power Company Limited	A fellow subsidiary*	Expenses on provision of electricity and steam	**–**	24,082
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**364,814**	699,625
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of the Holding Company	Sale of cotton yarn	**2,793**	65,233
Shandong Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarn	**30,724**	67,781
Shandong Weiqiao Hongyuan Home Textile, Ltd.	A fellow subsidiary	Sale of grey fabric	**18,386**	35,764
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**236,724**	461,637
		Sale of denim	**–**	70
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**12**	48
		Sale of denim	**1,030**	333
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**24**	432
Shandong Weiqiao Jiajia Home Textile Co., Ltd.	A fellow subsidiary*	Sale of grey fabric	**28,334**	47,628

* These two companies are fully owned by the Holding Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Textile products supply agreement with the Holding Company

In preparation for the listing of the Company, the Company and the Holding Company entered into a supply agreement (the "Old Supply Agreement") on 25 August 2003, pursuant to which (i) the Company agreed to supply or procure its subsidiaries to supply cotton yarn and grey fabric to the Holding Company and its subsidiaries other than the companies now comprising the Group (collectively referred to as the "Holding Group"); and (ii) the Holding Company agreed to supply cotton to the Group and to provide, or procure its subsidiaries and/or associates to provide, cotton yarn and grey fabric downstream processing services to the Group, for a term of three years commencing from 25 August 2003.

On 28 December 2006 and 15 January 2007, the Company made an announcement and a circular, respectively, on "Continuing Connected Transactions (Supply of Cotton Yarn and Grey Fabric)". According to the announcement and the circular (collectively, the "Announcements"), the Company announced, that on 25 August 2006, it renewed the Old Supply Agreement dated 25 August 2003 on the same terms and conditions for a period of three years commencing from 25 August 2006 in accordance with the automatic renewal mechanism set out in the Old Supply Agreement (the "Renewed Supply Agreement"). According to the terms of the Old Supply Agreement, the renewal of the Old Supply Agreement applies to the supply of cotton yarn and grey fabric by the Group to the Holding Group as well as the provision of cotton yarn and grey fabric downstream processing activities by the Holding Group to the Group but does not apply to the supply of cotton (including lint cotton and tailings) by the Holding Company to the Group. In the Announcements, the Company also disclosed that it has complied with the reporting requirements but not the announcement and independent shareholders' approval requirements under the Listing Rules in respect of the transactions under the Renewed Supply Agreement. Pursuant to an ordinary resolution in an extraordinary general meeting on 2 March 2007, among others, the continuing connected transactions carried out by the Company during the year ended 31 December 2006 under the Renewed Supply Agreement with the Holding Company is on the same terms and conditions as the Old Supply Agreement and also, the estimated maximum values of the annual aggregate supply of cotton yarn and grey fabric by the Group to the Holding Group as set out in the Announcements for each of the three years ending 31 December 2008 were approved, ratified and confirmed by the independent shareholders.

On 20 October 2008, the Company and the Holding Company entered into a New Cotton Yarn, Grey Fabric and Denim Supply Agreement (the "New Supply Agreement") with a term commencing on 1 January 2009 and ending on 31 December 2011. Terms and conditions of the New Supply Agreement are basically the same as those of the Renewed Supply Agreement except for the amendments to the payment terms and the scope of products supplied. Pursuant to the New Supply Agreement, the Company will supply or will procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Holding Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Electricity and steam supply agreement with the Holding Company

In the preparation for the listing of the Company, the Company and the Holding Company entered into a supply of electricity and steam agreement on 25 August 2003. Pursuant to the agreement, the Holding Company agreed to supply electricity and steam to the Group for a term of 10 years commencing from the date thereof, at the lower of the market price or RMB0.35 per kWh (including VAT at the rate of 17%) for electricity, and at the lower of the market price or RMB60 per ton (including VAT at the rate of 13%) for steam. Pursuant to the supplemental agreement of the supply of electricity and steam dated 13 May 2005, it was agreed that if the aggregate amount of electricity and steam to be purchased by the Group from the Holding Company in any financial year of the Company were equal to or less than that purchased for the financial year ended 31 December 2004 (the "Planned Electricity and Steam Purchase"), the price for the Planned Electricity and Steam Purchase shall be either the lower of RMB0.35 per kWh (including VAT at the rate of 17%) and RMB60 per ton (including VAT at the rate of 13%) or the then prevailing market price. The price for any excess purchase shall be adjusted, but must not be higher than the then prevailing market price.

On 13 August 2005, the Company entered into an asset transfer agreement (the "First Assets Transfer Agreement") with the Holding Company to acquire the thermal power assets at an aggregate consideration of RMB3,000,000,000: RMB2,710,000,000 by way of allotment and issuance of 250,000,000 domestic shares; and RMB290,000,000 by two cash instalments payable in 2007.

After the completion of the First Assets Transfer Agreement, the Company supplied electricity and steam to itself and several subsidiaries. However, the subsidiaries of the Company, Weihai Weiqiao and Weihai Industry Park continued to purchase electricity and steam from the Holding Company.

On 2 November 2005, the Company and the Holding Company entered into a supply of excess electricity agreement (the "First Electricity Supply Agreement"), pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual consumption, to the Holding Company for a term commencing from the date of Completion and ending on 31 December 2007. The price at which the excess electricity is supplied to the Holding Company by the Group shall be RMB0.45 per kWh (including VAT at the rate of 17%) or the price then at which a power plant in Shandong Province would sell its electricity produced to the relevant power grid (the price is currently ranging from RMB0.37 per kWh to RMB0.40 per kWh), 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Electricity and steam supply agreement with the Holding Company (continued)

On 14 January 2008, the Company and the Holding Company entered into an assets transfer agreement (the "Second Assets Transfer Agreement"), pursuant to which the Company acquired the thermal power assets at an aggregate consideration of RMB2,210,000,000. The Company paid all of the consideration in cash. On 18 March 2008, the Company entered into a supply of excess electricity agreement (the "Second Electricity Supply Agreement") with the Holding Company, pursuant to which the Company has the right to supply electricity which is in excess of the Group's actual consumption, to the Holding Company for a term commencing from 18 March 2008 to 31 December 2010. The price at which the excess electricity is supplied to the Holding Company by the Company shall be RMB0.45 per kWh (including VAT at the rate of 17%) or the then price at which a power plant in Shandong Province would sell its electricity produced 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.

On 25 June 2008, the Company and the Holding Company entered into a supplemental agreement to the Second Electricity Supply Agreement. Pursuant to the supplemental agreement, the price at which the excess electricity is supplied to the Holding Company by the Company shall be increased to RMB0.50 per kWh (including VAT at the rate of 17%) commencing from 1 May 2008. Other terms and conditions remain unchanged.

Upon the completion of the Second Assets Transfer Agreement, the Group provided full supply of electricity and steam for its operational needs and ceased purchasing electricity and steam from the Holding Company.

Lease agreements with the Holding Company

As lessor

As at 31 December 2009, the Company, as lessor, has entered into two property lease agreements with the Holding Company. The significant terms of the two agreements are summarised as follows:

(i) Operating lease agreement dated on 30 October 2007, with the commencement date and expiry date on 11 November 2007 and 31 October 2010, respectively, at an annual rental of RMB1,000,000 for a building located in Zouping First Production Area.

(ii) Operating lease agreement dated 16 April 2008, with the commencement date and expiry date on 16 April 2008 and 16 April 2011, respectively, at an annual rental of RMB2,000,000 for the buildings located in Zouping First Production Area and Zouping Second Production Area.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee

As at 31 December 2009, the Group has entered into fourteen property lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the fourteen agreements are summarised as follows:

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

(ii) Land use rights lease agreement dated 10 May 2001 with the commencement date and expiry date on 10 May 2001 and 10 May 2021, respectively, at an annual rental of RMB868,000 for the land relating to Weiqiao First Production Area. Subsequent to the disposal of the Old Assets, the land lease agreement entered by the Group and the Holding Company above will be terminated on the mutual concern basis. Please refer to note 42(b) for more details.

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

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

(v) Land use rights lease agreement dated 13 September 2002 with the commencement date and expiry date on 13 September 2002 and 13 September 2022, respectively, at an annual rental of RMB60,700 for the land relating to a production plant of Luteng Textile. Subsequent to the disposal of the Old Assets, the land lease agreement entered by the Group and the Holding Company above will be terminated on the mutual concern basis. Please refer to note 42(b) for more details.

(vi) Land use rights lease agreement dated 17 October 2003 with the commencement date and expiry date on 17 October 2003 and 17 October 2023, respectively, at an annual rental of RMB2,167,000 for the land relating to the Zouping Industrial Park Area.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee *(continued)*

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

(ix) Operating lease agreement dated 31 January 2005 with the commencement date and expiry date on 1 February 2005 and 1 February 2010, respectively, at an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

(x) Land use rights lease agreement dated 2 November 2005 with the commencement date and expiry date on 31 October 2005 and 31 October 2025, respectively, at an annual rental of RMB2,699,000, which is subject to annual adjustment, for the land relating to the thermal power assets acquired from the Holding Company.

On 20 September 2008, the lease of 95,333.81 square meters of land where Weiqiao First Thermal Power Plant situated was terminated and the annual rental has been adjusted to RMB2,127,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(xi) Land use rights lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, at an annual rental of RMB7,001,000 for the land relating to the Zouping Industrial Park Area.

(xii) Land use rights lease agreement dated 24 April 2007 with the commencement date and expiry date on 24 April 2007 and 24 April 2027, respectively, at an annual rental of RMB4,164,000 for the land relating to the Zouping Industrial Park Area.

On 26 November 2008, the lease of 57,975.64 square meters of land where Zouping Third Industrial Park situated was terminated and the annual rental has been adjusted to RMB3,816,000 on a pro-rata basis. Except for these, all of the original clauses and terms remain unchanged.

(xiii) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB1,628,000 for the land relating to the Zouping Industrial Park Area.

(xiv) Land use rights lease agreement dated on 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental of RMB740,500 for the land relating to the Weihai Industrial Park Area.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties included in the consolidated statement of financial position:

	Due from related parties		Due to related parties	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**51,954**	258,788	**–**	959
Fellow subsidiaries	**–**	226	**7,291**	9,969

(c) Compensation of key management personnel of the Group:

	2009	2008
	RMB'000	*RMB'000*
Short term employee benefits	**4,761**	4,742
Post-employment benefits	**25**	16
Total compensation paid to key management personnel	**4,786**	4,758

Further details of directors' and supervisors' remuneration are included in note 7 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group				
	2009		2008		
Financial assets	**Loans and receivables RMB'000**	**Total RMB'000**	Held for trading RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables	**871,475**	**871,475**	–	427,019	427,019
Due from related parties	**–**	**–**	–	226	226
Due from the immediate holding company	**51,954**	**51,954**	–	258,788	258,788
Financial assets included in prepayments, deposits and other receivables	**21,673**	**21,673**	–	12,305	12,305
Derivative financial instruments	**–**	**–**	292	–	292
Pledged time deposits	**186,430**	**186,430**	–	270,435	270,435
Non-pledged time deposits maturing over three months	**1,536,783**	**1,536,783**	–	1,045,627	1,045,627
Cash and cash equivalents	**3,264,210**	**3,264,210**	–	2,643,593	2,643,593
	5,932,525	**5,932,525**	292	4,657,993	4,658,285

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Group				
	2009		2008		
Financial liabilities	**Financial liabilities at amortised cost** *RMB'000*	**Total** *RMB'000*	Held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	**1,590,620**	**1,590,620**	–	2,755,735	2,755,735
Bills payable	**748,300**	**748,300**	–	680,000	680,000
Due to the immediate holding company	**–**	**–**	–	959	959
Financial liabilities included in other payables and accruals	**862,541**	**862,541**	–	727,821	727,821
Derivative financial instruments	**–**	**–**	1,245	–	1,245
Interest-bearing bank and other borrowings	**8,605,457**	**8,605,457**	–	8,426,655	8,426,655
	11,806,918	**11,806,918**	1,245	12,591,170	12,592,415

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

	Company				
	2009		2008		
Financial assets	**Loans and receivables** ***RMB'000***	**Total** ***RMB'000***	Held for trading *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade receivables	**784,986**	**784,986**	–	407,717	407,717
Due from subsidiaries	**517,077**	**517,077**	–	762,978	762,978
Due from related parties	**–**	**–**	–	226	226
Due from the immediate holding company	**51,954**	**51,954**	–	257,211	257,211
Financial assets included in prepayments, deposits and other receivables	**21,483**	**21,483**	–	11,949	11,949
Derivative financial instruments	**–**	**–**	292	–	292
Pledged time deposits	**182,470**	**182,470**	–	264,515	264,515
Non-pledged time deposits maturing over three months	**1,563,783**	**1,563,783**	–	1,045,627	1,045,627
Cash and cash equivalents	**2,737,273**	**2,737,273**	–	2,155,365	2,155,365
	5,859,026	**5,859,026**	292	4,905,588	4,905,880

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Company				
	2009		2008		
	Financial liabilities at amortised cost RMB'000	Total RMB'000	Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	1,395,522	1,395,522	–	2,633,305	2,633,305
Bills payable	420,000	420,000	–	450,000	450,000
Due to subsidiaries	131,945	131,945	–	88,469	88,469
Financial liabilities included in other payables and accruals	573,597	573,597	–	497,121	497,121
Derivative financial instruments	–	–	1,245	–	1,245
Interest-bearing bank and other borrowings	6,721,262	6,721,262	–	6,415,706	6,415,706
	9,242,326	9,242,326	1,245	10,084,601	10,085,846

40. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group and Company did not hold any financial instruments measured at fair value; and during the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, a finance lease, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also entered into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. All the derivative transactions had been settled by 31 December 2009.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the Company's management periodically analyses and formulates strategies to manage the Group's exposure to financial risks. Generally, the Group introduces conservative strategies on its risk management. The Group's accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage the mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These interest rate swaps can reduce part of interest rate risk of the underlying debt obligations to some extent. All the derivative transactions had been settled by 31 December 2009. The Group currently has no plan to enter such transactions as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

	Group			Company
	Increase in basis points	Decrease in profit before tax *RMB'000*	Decrease in equity* *RMB'000*	Decrease in equity* *RMB'000*
2009				
Renminbi	**50**	**24,720**	**18,540**	**16,271**
United States dollar	**50**	**4,791**	**3,593**	**3,593**
2008				
Renminbi	50	25,455	19,091	14,981
United States dollar	50	6,136	4,602	4,602

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales, purchases and bank loans of the Group in United States dollars. Approximately 65% or US$89 million (2008: 55% or US$35 million) of the Group's trade receivables are denominated in United States dollars, whilst 64% or US$160 million (2008: 28% or US$117 million) of the Group's trade payables and 16% or US$204 million (2008: 28% or US$343 million) of bank loans are denominated in United States dollars. Since the trade receivables due from the overseas sales denominated in United States dollars usually will be settled within one month whereas purchases and bank loans denominated in United States dollars are repaid over a longer period, the Group would benefit from the appreciation of Renminbi.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2009			
If RMB strengthens against the United States dollar	**(5)**	**88,192**	**66,144**
If RMB weakens against the United States dollar	**5**	**(88,192)**	**(66,144)**
2008			
If RMB strengthens against the United States dollar	(5)	141,807	106,355
If RMB weakens against the United States dollar	5	(141,807)	(106,355)

Credit risk

Credit risk arises from the possibility that the counterparty of a transaction is unwilling or unable to fulfil its obligation and the Group thereby suffers financial loss.

The credit limits of trade receivables are determined and monitored by management on an ongoing basis. In addition, at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for unrecoverable amounts. Therefore, the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from the immediate holding company and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 35 to the financial statements.

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed. At the end of the reporting period, the Group's trade receivables from the Group's largest customer and the five largest customers, were 12% (2008: 8%) and 31% (2008: 18%) to the total trade receivables, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through bank loans. The Group's policy is that not more than 50% of borrowings should mature in any 12-month period. 45% of the Group's debts would mature in less than one year as at 31 December 2009 (2008: 40%) based on the carrying value of borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009				
	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Trade payables	1,362,447	228,173	–	–	1,590,620
Bills payable	520,000	228,300	–	–	748,300
Financial liabilities included in other payables and accruals	806,273	56,268	–	–	862,541
Interest-bearing bank loans*	1,170,739	2,747,868	4,694,349	–	8,612,956
Interest payment on bank loans	104,422	249,598	253,763	–	607,783
Finance lease payable *(note 29)*	162	484	2,585	4,849	8,080
	3,964,043	3,510,691	4,950,697	4,849	12,430,280

* The interest-bearing bank loans listed above are the nominal amounts, which do not include pertinent transaction costs of approximately RMB12 million as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	2008				
	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,827,001	948,912	–	–	2,775,913
Bills payable	230,000	450,000	–	–	680,000
Due to the immediate holding company	959	–	–	–	959
Financial liabilities included in other payables and accruals	661,034	66,787	–	–	727,821
Derivative financial instruments	1,245	–	–	–	1,245
Interest-bearing bank loans	1,719,735	1,609,614	5,097,306	–	8,426,655
Interest payment on bank loans	119,962	280,722	344,533	–	745,217
	4,559,936	3,356,035	5,441,839	–	13,357,810

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2009				
	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	1,257,241	138,281	–	–	1,395,522
Bills payable	420,000	–	–	–	420,000
Due to subsidiaries	131,945	–	–	–	131,945
Financial liabilities included in other payable and accruals	532,353	41,244	–	–	573,597
Interest-bearing bank loans*	727,389	1,917,172	4,084,349	–	6,728,910
Interest payment on bank loans	76,570	196,609	228,412	–	501,591
Finance lease payable (note 29)	162	484	2,585	4,849	8,080
	3,145,660	2,293,790	4,315,346	4,849	9,759,645

	2008				
	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	1,189,760	1,463,723	–	–	2,653,483
Bills payable	100,000	350,000	–	–	450,000
Due to subsidiaries	88,469	–	–	–	88,469
Financial liabilities included in other payable and accruals	446,099	51,022	–	–	497,121
Derivative financial instruments	1,245	–	–	–	1,245
Interest-bearing bank loans	1,390,634	1,222,767	3,802,305	–	6,415,706
Interest payment on bank loans	89,016	207,650	239,225	–	535,891
	3,305,223	3,295,162	4,041,530	–	10,641,915

* The interest-bearing bank loans listed above are the nominal amounts, which do not include pertinent transaction costs of approximately RMB12 million as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. The Group's objective is to maintain a gearing ratio between 35% to 65%. Net debt includes interest-bearing bank loans less cash and cash equivalents. The gearing ratios as at the ends of the reporting periods were as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Interest-bearing bank loans	**8,600,748**	8,426,655
Less: Cash and cash equivalents	**(3,264,210)**	(2,643,593)
Net debt	**5,336,538**	5,783,062
Total equity	**14,168,090**	13,465,501
Gearing ratio	**37.7%**	42.9%

NOTES TO FINANCIAL STATEMENTS

31 December 2009

42. EVENTS AFTER THE REPORTING PERIOD

(a) On 8 March 2010, CITIC Trust Co., Ltd. (the "Trustee"), who held a 51% equity interest in the Holding Company, as a trustee for ZCSU, entered into an equity transfer agreement with Zouping Supply and Marketing Investment Company Limited ("Zouping Investment"), pursuant to which the Trustee transferred its 51% equity interest in the Holding Company to Zouping Investment (the "Share Transfer"). Immediately after the Share Transfer, ZCSU ceased to hold any equity interest in the Holding Company. The Holding Company is the controlling shareholder of the Company and held approximately 61.86% of the shares of the Company at the end of the reporting period. So consequently, Zouping Investment became the ultimate shareholder of the Company.

(b) In an effort to increase operating efficiency, in March 2010, the Group plans to dispose of the Old Assets. The Old Assets are located in the Group's Weiqiao First Production Area in the production base of Weiqiao Town, Zouping County, Shandong. As at 31 December 2009, which is the end of the reporting period, and 28 February 2010, which is the date on which the Old Assets ceased operation, the total net book values of the Old Assets were approximately RMB167 million and RMB164 million, respectively. The Group plans to sell machinery and equipment to third parties, dismantle the buildings and terminate the lease for the land on which the buildings are located.

The disposal of the Old Assets by the Group subsequent to the end of the reporting period affected the estimation of the recoverable amounts of the fixed assets as at the end of the reporting period; as the recoverable amounts were less than the net carrying amounts, impairment losses of approximately RMB128 million (note 6, 14) were charged to other expenses in profit or loss for the year ended 31 December 2009.

Save as disclosed above, no other significant events have taken place subsequent to 31 December 2009.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 26 March 2010.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Weiqiao Textile Company Limited (the "**Company**") for the year ended 31 December 2009 will be held at 9:00 a.m. on 1 June 2010 at the conference hall on the Fourth Floor, Company Office Building, No. 1 Wei Fang Lu, Economic Development Zone, Zouping County, Shandong Province, the People's Republic of China (the "**PRC**") for the following purposes:

ORDINARY RESOLUTIONS

1. to consider and approve the Consolidated Audited Financial Statements of the Company, the Report of the Board of Directors of the Company, the Report of the Supervisory Committee of the Company, the Report of the Final Accounts of the Company and the Report of the International Auditors, for the year ended 31 December 2009;

2. to consider and approve the profit distribution proposal of the Company and the relevant declaration and payment of a final dividend for the year ended 31 December 2009;

3. to consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2010;

4. to consider and approve, the re-appointment of Ernst & Young Hua Ming as the Company's domestic auditors for the year ending 31 December 2010 and Ernst & Young as the Company's international auditors for the year ending 31 December 2010 and the granting of the authorisation to the Board of Directors of the Company to determine their remuneration;

5. to consider and approve the appointment of Mr. Zhang Jinglei as an executive director of the Company;

6. to consider and approve other business, if any.

In respect of special business, to consider and, if thought fit, to approve the following resolutions as special resolutions:

SPECIAL RESOLUTIONS

7. "THAT:

    (1) there be granted to the Board of Directors of the Company, an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares, separately or at the same time, or make or grant offers, agreements or options, subject to the following conditions:

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

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

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

            (ii) in the case of H Shares, 20 per cent of the aggregate nominal amount of H Shares of the Company in issue, in each case as of the date of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

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

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

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

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

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

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

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

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

(c) make all necessary filings and registrations with the PRC, Hong Kong and/or other relevant authorities, and take any other required actions and complete any other procedures as required.

NOTICE OF ANNUAL GENERAL MEETING

For the purposes of this Resolution:

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

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

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

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

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

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

By Order of the Board
Zhao Suwen
Executive Director and Company Secretary

Shandong, the PRC
16 April 2010

As at the date of this notice, the board of Directors of the Company comprises 11 Directors, namely Ms. Zhang Hongxia, Mr. Qi Xingli, Ms. Zhao Suwen and Ms. Zhang Yanhong as executive Directors, Mr. Zhang Shiping, Mr. Wang Zhaoting, Ms. Zhao Suhua and Ms. Wang Xiaoyun as non-executive Directors and Mr. Wang Naixin, Mr. Xu Wenying and Mr. George Chan Wing Yau as independent non-executive Directors.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

(A) The H Share register of the Company will be closed from 1 May 2010 to 1 June 2010 (both days inclusive), during which no transfer of H Shares will be effected. In order to be entitled to attend and vote at the Annual General Meeting, share transfer documents should be lodged with the Company's H Shares share registrar not later than 4:00 p.m. on 30 April 2010.

In order to qualify for the proposed final dividend, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 30 April 2010.

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

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares and Domestic Shares, who intend to attend the Annual General Meeting, must complete the reply slips for attending the Annual General Meeting and return them to the Office of the Secretary to the Board of Directors of the Company not later than 20 days before the date of the Annual General Meeting, i.e. no later than 12 May 2010.

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

First Floor
Company Office Building
No. 1 Wei Fang Lu
Economic Development Zone
Zouping County
Shandong Province
People's Republic of China
Postal Code: 256200
Tel: (86) 543 4162222
Fax: (86) 543 4162000

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting (or at any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year ended 31 December 2009.

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

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

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