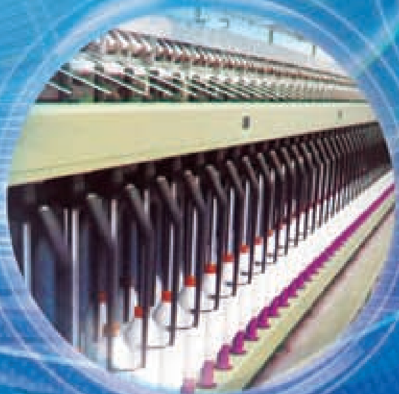
魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)



Annual Report 2010

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FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December (RMB'000)				
	2006	2007	2008	2009	**2010**
Revenue	19,826,154	18,589,586	16,453,087	14,333,088	**17,887,429**
Gross profit	3,323,090	2,662,371	1,430,734	1,243,557	**2,879,606**
Gross profit margin (%)	16.8	14.3	8.7	8.7	**16.1**
Profit before income tax	2,307,571	2,272,626	720,589	1,199,400	**2,257,304**
Net profit attributable to shareholders of the Company	1,685,405	1,868,471	596,212	892,446	**1,627,376**
Net profit margin (%)	8.5	10.1	3.6	6.2	**9.1**
Basic earnings per share (RMB)	1.43	1.56	0.50	0.75	**1.36**

Assets and liabilities

	As at 31 December (RMB'000)				
	2006	2007	2008	2009	**2010**
Total assets	26,140,632	26,748,676	27,296,250	26,754,785	**28,389,854**
Equity	12,027,739	13,370,679	13,369,078	14,074,124	**15,422,610**
Total liabilities	14,018,831	13,276,020	13,830,749	12,586,695	**12,865,444**
Return on equity* (%)	15.4	14.7	4.5	6.5	**11.0**
Current ratio (times)	1.2	1.3	1.0	1.2	**1.5**
Accounts receivable turnover (days)	13	18	9	22	**11**
Inventory turnover (days)	79	82	92	78	**143**
Accounts payable turnover (days)	15	27	63	43	**33**

Notes: * Calculated based on average equity

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Hongxia *(Chairman)*
Zhang Yanhong
Zhao Suwen
Zhang Jinglei

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

Zhang Jinglei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Zhang Hongxia *(Chairman)*
Wang Naixin
Xu Wenying

AUTHORISED REPRESENTATIVES

Zhao Suwen
Zhang Jinglei

PLACE OF BUSINESS IN HONG KONG

Room 2204
22/F., Fu Fai Commercial Centre
27 Hillier Street
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 Economic Development Zone
Zouping County, Shandong Province
The PRC

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

INTERNATIONAL AUDITOR

Ernst & Young

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.wqfz.com

STOCK CODE

2698

SHAREHOLDERS' REFERENCE

LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

LISTING DATE

24 September 2003

NUMBER OF ISSUED SHARES AS AT 31 DECEMBER 2010

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

INVESTOR RELATIONS

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IR & PR CONSULTANT

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Fax: (852) 2117 0869
Email: weiqiao@ChristensenIR.com

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date
18 March 2011

ANNUAL GENERAL MEETING

24 May 2011

DISTRIBUTION DATE OF FINAL DIVIDEND

24 June 2011

CHAIRMAN'S STATEMENT

It is my pleasure to present on behalf of the Board of Directors (the "Board") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the consolidated results of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 (the "Year" or "Period under Review").

The global economy gradually recovered in 2010. Government of various countries maintained the recovery process and effectively triggered a rebound in the finance and trading sectors by introducing a range of economic stimulus policies.

During the Period under Review, the Chinese economy continued to grow with a gradual improvement in the macro-economic environment. China continued to implement proactive fiscal policy and moderate monetary policy. Domestic demand also continued to grow. However, commodity prices continued to fluctuate due to credit control, structural adjustment of the sectors as well as monetary reform. According to the figures released by the National Bureau of Statistics of China, GDP was approximately RMB39,798.3 billion in 2010, representing an increase of approximately 10.3% in terms of comparable prices.

During the Period under Review, domestic market improved under the government's policy of "stimulating domestic demand". The textile industry showed positive signs of steady growth.

In 2010, the textile industry in China continued to accelerate its structural adjustment. The said adjustment further strengthened the potentials for development within the industry. According to the figures released by the National Bureau of Statistics of China, total import and export of China in 2010 was approximately US$2,972.8 billion, representing an increase of approximately 34.7% over the previous year. Among which, exports accounted for approximately US$1,577.9 billion, an increase of approximately 31.3% over previous year; and imports accounted for approximately US$1,394.9 billion, an increase of approximately 38.7% over previous year. Based on the statistics issued by the China's customs, accumulated export of textile products and apparel in China for 2010 amounted to approximately US$206.5 billion, representing an increase of approximately 23.6% over the previous year, as a result of increasing demand and rising prices.

CHAIRMAN'S STATEMENT

According to the figures released by the National Bureau of Statistics of China, in 2010, retail sales of apparel in China grew by approximately 24.8% over previous year, approximately 6.4 percentage points higher than the growth of the nation's total retail sales of consumer goods for the same period. During the same period, for textile enterprises whose scale exceed the standard benchmark in China, the percentage of domestic sales accounted for approximately 81.4%, being 1.5 percentage points higher than that of previous year.

During the Period under Review, due to the shortfall in the supply of cotton and the effect of speculative investment, the price of cotton fluctuated significantly during the Year. Cotton prices in China continued to increase up to November and had once exceeded RMB30,000 per tonne, which broke the highest range in recent decade. The strong fluctuation in cotton prices exerted pressure on the production of Chinese textile product manufacturers.

With an effective business strategy and a solid leading position in the industry, and under effective administration of the management, alongside with the group efforts of hundreds of thousands of staff, the Company continued to achieve satisfactory results. For the year ended 31 December 2010, the Group's revenue was approximately RMB17,887,000,000, representing an increase of approximately 24.8% as compared with 2009. Profit attributable to owners of the parent was approximately RMB1,627,000,000, representing an increase of approximately 82.4% as compared with 2009. Earnings per share were RMB1.36. The Board recommended payment of a final dividend for the year ended 31 December 2010 of RMB0.4376 per share (tax inclusive).

Looking ahead, the textile industry of China will enter a new era of development which focuses on industrialisation, acceleration of structural adjustment, further investment in technology, enhancement of innovation capabilities, brand building and increase in added value of products. However, affected by the currency and exchange rate policies, and the rising costs of raw materials, energy and labour, the future development of the textile industry in China will face more challenges. With its extensive operating experience, the Group will continue to adopt various internal control enhancement measures to accelerate product research and development, as well as the product upgrade, thus ensuring speedy response to market changes and maintaining strong competitive strengths. At the same time, we will also continue to benefit from the continuous growth in the domestic market for the textile industry in China.

CHAIRMAN'S STATEMENT

Overall, with our sound and integrated operations, solid financial position as well as rich experience in coping with global market fluctuations, we have confidence to weather market volatility and maintain the Group's leading position in the industry. Our management's foresight and staff's efforts will enable the Group to greater achieve its objectives. On behalf of the Board, I would like to express my sincere gratitude to our shareholders, investors and business partners for their trust and support, and to thank the members of the Board, management team and staff's contribution and dedication to the Group.

Chairman
Zhang Hongxia

Shandong, the People's Republic of China
18 March 2011

INDUSTRY REVIEW

In 2010, the textile industry in China revealed a steady growth momentum. Since the outbreak of financial crisis, the government's policies and measures to support the textile industry began to take effect, resulting in recovering growth of market demand, alongside with growing sales orders.

During the Period under Review, the textile and apparel trading segment in China performed well as a whole. According to the figures released by the China Customs, China's accumulated export of textile products and apparel amounted to US$206.5 billion, representing an increase of 23.6% over previous year. In particular, the accumulated export of textile products and apparel amounted to US$77.1 billion and US$129.4 billion, representing an increase of 28.5% and 20.9%, respectively.

During the Period under Review, the European Union, the US and Hong Kong remained the major export markets for China's textile products and apparel and the export volume to these three markets was back on growth track. The total export amount of textile products and apparel to the European Union, the US and Hong Kong, accounting for 45.2% of the total export amount, amounted to US$44.7 billion, US$33.7 billion and US$14.9 billion, representing an increase of 23.7%, 27.7% and 7.1% respectively. During the Year, export amounts of textile products and apparel to Japan, Southeast Asia and Africa increased by 5.2%, 35.7% and 24.1% respectively. The export amount of textile products and apparel showed a fast growing trend driven by growing demand and rising prices, particularly benefited from the preferential policies relating to the free tariff on textile products and apparel exported to 10 ASEAN textile markets. During the year, textile products and apparel tradings between China and ASEAN countries were active where the trading amount grew substantially. In 2010, the trading amount of textile products and apparel between China and ASEAN countries amounted to US$16.4 billion, representing an increase of 37.0% as compared to that in last year.

In 2010, the price of domestic cotton continued to climb. Based on the Cotton A Index in China, the average price was approximately RMB19,869 per tonne and it reached a historical record of RMB29,308 per tonne on average in November 2010, representing an increase of 91.5% as compared with that in January 2010. With respect to the international market, the average cotton price was 103.53 US cents per pound in 2010 according to the Cotlook A Index and it reached a new high of 168.22 US cents per pound on average in December 2010, representing an increase of 117.4% when compared to that in January 2010. The fluctuating cotton price and rising costs of raw materials and labour exerted pressure on the control of production cost of the textile manufacturers.

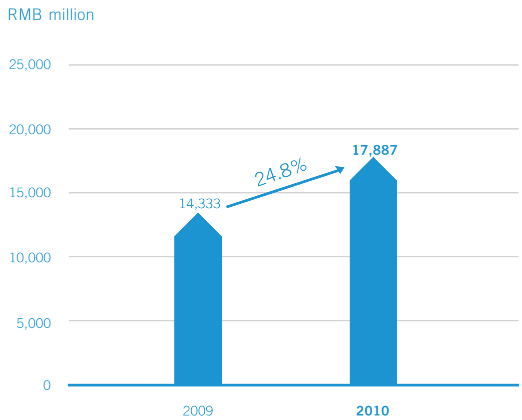
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

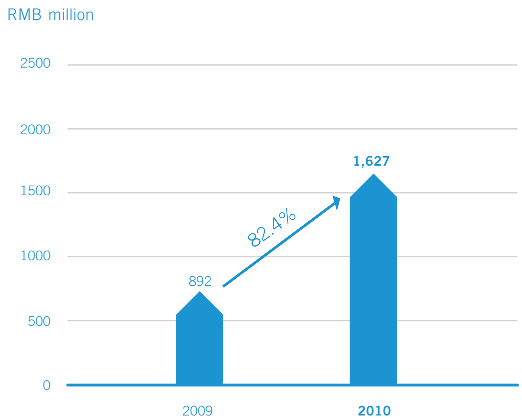
In 2010, the domestic market grew steadily upon gradual recovery of the international market. Weiqiao Textile achieved satisfactory performance with a substantial increase in gross profit. The Group continued to consolidate its business by strengthening internal management and cost control, optimising asset allocation and adjusting product mix according to market demand, increasing the investment in research and development, and developing value-added products. Given its solid customer base, the Group successfully maintained its market share.

For the year ended 31 December 2010, the revenue of the Group and profit attributable to the owners of the parent are as follows:

Revenue



Profit attributable to owners Revenue of the parent

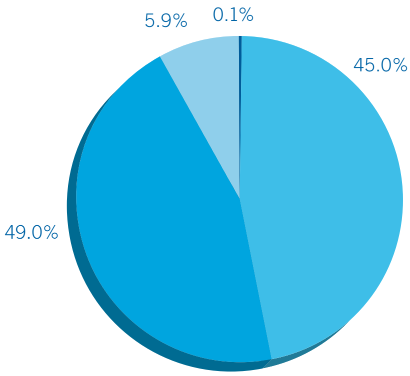


For the year ended 31 December 2010, the Group recorded a revenue of approximately RMB17,887,000,000, representing an increase of 24.8% as compared with the previous year, mainly attributable to the increase in orders of the Group driven by the demand for textile products nationwide and worldwide amid recovering global economy during the Year; and the increase in selling price of products due to substantial growth of costs of raw materials.

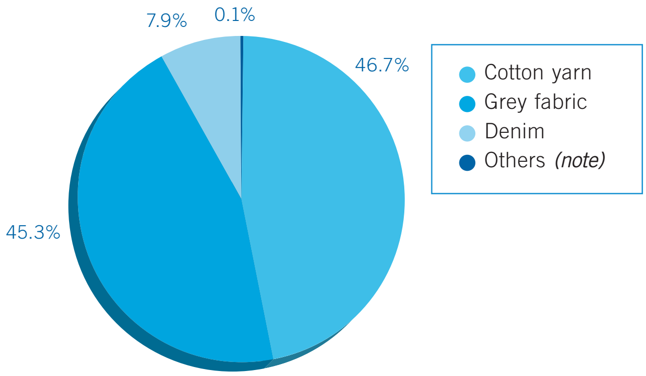
For the year ended 31 December 2010, profit attributable to owners of the parent increased by 82.4% to approximately RMB1,627,000,000 over the previous year. The increase was primarily due to the rising product price driven by the substantial growth of the price of raw materials, i.e. cotton lint, and the higher growth rate of product price resulting from the impacts of market demand.

The charts below are a comparison of the breakdown of revenue by products for the years ended 31 December 2010 and 2009:

Proportion of revenue by products



2010 (total revenue: approximately RMB17,887 million)



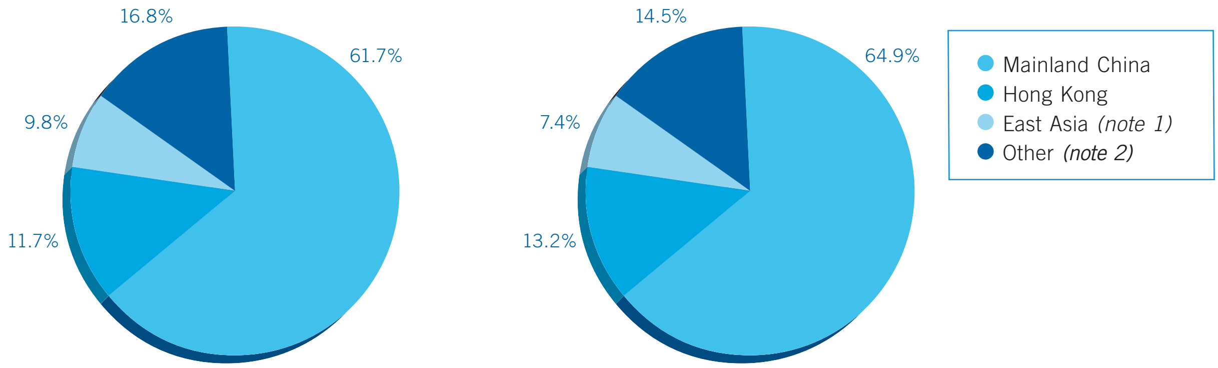
2009 (total revenue: approximately RMB14,333 million)

Note: Others include cotton seed and other by-products.

For the year ended 31 December 2010, the proportion of revenue generated from the sales of grey fabrics increased, which was primarily due to the increase in sales volume of grey fabric while the unit price of all the above three types products increased; whereas the proportion of revenue generated from the sales of denim decreased as compared with the previous year, which was mainly due to decrease in denim production volume as a result of the disposal of some low efficiency and obsolete denim production machinery and equipment in the production base located in Weiqiao Town, Zouping County, Shandong Province.

The following charts show the breakdown of the Group's revenue in terms of geographical location for the years ended 31 December 2010 and 2009:

Proportion of revenue by geographical locations



2010 (total revenue: approximately RMB17,887 million)

2009 (total revenue: approximately RMB14,333 million)

Note 1: East Asia includes Japan and South Korea;

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

For the year ended 31 December 2010, the revenue from export to all regions showed an increase as compared with that of previous year, which was mainly due to the increase in export orders of the Group driven by the increasing market demand with the recovery of the overseas textile market.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2010, the Group had four production bases in total, namely:

1. Weiqiao Production Base (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 3,087,360 sq.m.

In 2010, the production volume of cotton yarn, grey fabric and denim of the Group were approximately 720,000 tonnes, 1,307,000,000 metres and 102,000,000 metres respectively, of which cotton yarn and grey fabric grew by 11.1% and 10.2% respectively over previous year. Such increase was primarily due to the increase in sales orders of the Group driven by booming demand in the textile market during the Year and the Group's expansion of production quantity through enhancing the efficiency of equipment. Denim production decreased by 2.9% over previous year was mainly attributable to the disposal of some of the low efficiency and obsolete denim production machinery and equipment in the production base located in Weiqiao Town, Zouping County Shandong Province by the Group.

During the Period under Review, the Group continued to actively expand its market share and to consolidate its customer base. For the year ended 31 December 2010, the Group had a total of 9,000 domestic customers and over 900 overseas customers, representing a growth of approximately 5.9% and 8.4% respectively over previous year. The Group continued to maintain sound sales network and good relationship with customers.

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 2010 and 2009:

	For the year ended 31 December					
	2010			2009		
Product	Revenue *RMB'000*	Gross profit *RMB'000*	Gross profit margin *%*	Revenue *RMB'000*	Gross profit *RMB'000*	Gross profit margin *%*
Cotton yarn	8,063,398	1,713,540	21.3	6,689,279	534,732	8.0
Grey fabric	8,764,460	993,699	11.3	6,497,017	560,971	8.6
Denim	1,051,103	172,330	16.4	1,137,226	147,784	13.0
Others	8,468	37	0.4	9,566	70	0.7
Total	17,887,429	2,879,606	16.1	14,333,088	1,243,557	8.7

For the year ended 31 December 2010, the gross profit margin of the Group increased to 16.1% as compared with 8.7% in last year. Such increase was mainly attributable to the greater increase in the price of the Group's principal textile products than that of the raw materials driven by the global demand for textile products. Besides the cost control, the Group made timely adjustment to the product mix, developed value-added products and implemented flexible and effective sales strategies according to market demand so as to increase the gross profit margin of the products, and take the "maximisation of integrated benefits" as its development objective.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased by 15.3% to approximately RMB287,000,000 for the year ended 31 December 2010 from approximately RMB249,000,000 of the previous year. In particular, transportation cost increased by 8.2% to approximately RMB211,000,000 from approximately RMB195,000,000 in 2009. This was mainly due to a slight increase in the unit price of transportation fee as the market conditions improved during the Year. Sales commission was approximately RMB32,000,000, an increase of approximately 88.2% as compared with approximately RMB17,000,000 of the previous year. The increase in sales commission was primarily due to the increase in export sales of the Group.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for the year ended 31 December 2010 amounted to approximately RMB202,000,000, representing an increase of approximately 6.3% as compared with approximately RMB190,000,000 of the previous year. It was primarily due to the upward adjustment of wages by the Group and the corresponding increase in the salary expenses of administration and management staff during the Year.

OTHER EXPENSES

For the year ended 31 December 2010, the other expenses of the Group amounted to approximately RMB74,000,000, a decrease of 63.2% from approximately RMB201,000,000 in the previous year. This was mainly due to disposal of certain low efficiency and obsolete production facilities of the Group in the production base in Weiqiao Town, Zouping County, Shandong Province and its impairment loss was fully recognised in 2009.

FINANCE COSTS

For the year ended 31 December 2010, finance costs of the Group were approximately RMB493,000,000, representing a decrease of 4.1% as compared with RMB514,000,000 of 2009. This was mainly due to the corresponding decrease in interest expenses of the Group as a result of the decrease in the related interest rate during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, cash and cash equivalents of the Group were approximately RMB2,413,000,000, representing a decrease of 26.1% as compared with that of approximately RMB3,264,000,000 as at 31 December 2009. It was mainly due to the decrease in cash inflow generated from operations at the end of the year since the market demand for cotton textiles products was deterred by fluctuating prices of raw materials.

The Group principally satisfies its demand for operating capital with cash inflow from operation. For the year ended 31 December 2010, the Group had a net cash outflow from investing activities of approximately RMB675,000,000, a net cash outflow from financing activities of approximately RMB42,000,000 and a net cash outflow from operating activities of approximately RMB110,000,000. 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 2010, the capital expenditures of the Group amounted to approximately RMB784,000,000, mainly attributable to technological improvement of equipment in order to improve the value of products and construct certain high-tech production lines.

For the year ended 31 December 2010, inventory turnover of the Group as at the end of the Year increased from 78 days last year to 143 days due to the decrease of product sales as cotton price fell at the end of the Year, which affected the sales of textile products. The inventory of the Group increased as a result. At the same time, average trade receivables turnover decreased from 22 days last year to 11 days due to the decrease in product sales, which resulted in a corresponding decrease in trade receivables.

For the year ended 31 December 2010, the Group did not have financial derivative instruments.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT AND EARNINGS PER SHARE

Profit attributable to owners of the parent was approximately RMB1,627,000,000 for the year ended 31 December 2010, representing an increase of 82.4% as compared with approximately RMB892,000,000 in last year.

For the year ended 31 December 2010, earnings per share of the Company were RMB1.36.

CAPITAL STRUCTURE

The major objective of the Group's capital management is to ensure the ongoing operations, and maintain optimized capital ratio of the Group. 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 2010, the debts of the Group were mainly bank borrowings totaling approximately RMB8,797,000,000. Cash and cash equivalents were approximately RMB2,413,000,000. The gearing ratio was 41.1% (2009: 37.7%) (Net debt (including interest-bearing bank borrowings after deducting cash and cash equivalents) divided by total equity).

The Group maintained a balanced portfolio of loans at fixed interest rate and variable rates to manage interest expenses. As at 31 December 2010, 25.5% of the Group's bank borrowings were subject to fixed interest rates while the remaining 74.5% were subject to floating interest rates.

The Group kept a balance between the continuity and flexibility of funds through bank loans. In any 12-month period, the loans due will not exceed 50% of the total loans. As at 31 December 2010, approximately 41.0% of the liabilities will become due within one year.

As at 31 December 2010, the Group's borrowings were denominated in Renminbi and US dollars, and 17.5% of the Group's borrowings were denominated in US dollars. Cash and cash equivalents were mainly held in Renminbi and US dollars of which 8.4% of the cash and cash equivalents was held in US dollars.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of approximately 113,000 employees, representing an increase of approximately 16,000 employees as compared with last year. Such increase in the number of staff was due to the recruitment of some new staff as replenishment and reserve to meet the needs of the Group's production. Total staff costs amounted to approximately RMB2,659,000,000 during the Year, representing approximately 14.9% of its turnover, which was increased by 1.9 percentage points as compared to 13.0% in last year. Such increase was mainly due to the increase of the salary by the Group during the Year in order to maintain the stability in production and operation. 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 its staff according to their respective job duties and skills requirements, such as training sessions on safety and skills.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group adopted a prudent policy in managing its foreign 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. For the year ended 31 December 2010, 38.3% of the Group's revenue and approximately 31.5% of the costs of purchase of cotton are denominated in US dollars. For the year ended 31 December 2010, the Group recorded exchange gain of approximately RMB25,000,000. The Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in foreign exchange rates during the Year. The Directors believe that the Group will have sufficient foreign currency to meet its requirements.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group's contingent liabilities which were not provided for in the financial statements were undue letter of credit issued, which totaled approximately RMB200,000,000 (2009: approximately RMB158,000,000).

TAXATION

Taxation of the Group increased by 101.3% from approximately RMB309,000,000 for 2009 to approximately RMB622,000,000 for 2010. This was primarily due to the increase of the Group's profit before tax during the Period under Review.

ASSETS DISPOSAL

In March 2010, the Company disposed 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 sold 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 relocated other usable equipment from this production area to the Group's production base located in Zouping Economic Development Zone, and introduced more advanced production facilities.

The Company recognised the impairment losses of Disposed Assets during 2009 amounting to approximately RMB128,000,000. Details of such assets disposal were disclosed as price sensitive information in the announcement of the Company dated 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 ceased 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, under the background of gradual global economic recovery, growing inflation pressure and liquidity overflow, the textile industry will face a more complicated and changing environment both internally and externally along with increasing uncertainties and more difficult operating landscape. The Group will closely monitor the changes in the economic environment and policies and keep a close eye on the overall conditions of the industry chain and trends of production and sales by fully utilising the domestic demand, expanding emerging markets, developing new and differentiated materials and facilitating structural adjustment and product improvement to further consolidate the solid image of "Weiqiao" brand and enhance the domestic and overseas sales capabilities of the Group.

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 39, 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 professional 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 16 years of management 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 Huibin Dyeing Company Limited (山東慧濱棉紡漂染有限公司) ("Huibin Dyeing"). 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 Hong Kong General Chamber of Textiles Limited. Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her younger sister.

Zhang Yanhong

Ms. Zhang Yanhong, aged 35, 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 Company's annual general meeting held on 1 June 2009. Ms. Zhang has over 10 years of management experience in the cotton textile industry. Ms. Zhang has been the general manager of Weihai Weiqiao 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 elder sister of Ms. Zhang, respectively.

Zhao Suwen

Ms. Zhao Suwen, aged 37, is the chief financial officer of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a professional diploma in business administration. She is a qualified economist. Ms. Zhao obtained the chief financial officer (CFO) advanced study graduation certificate from School of Continuing Education, Tsinghua University on 11 October 2008. She oversees the Group's finance and accounting affairs. She joined the Company in 1999. She was appointed and re-elected as a director at the Company's annual general meeting held on 1 June 2009. She has over 17 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.

Zhang Jinglei

Mr. Zhang Jinglei, aged 34, is the company secretary and an executive director of the Company. He graduated from Xi'an Engineering College (西安工程學院) and obtained the junior college diploma in proximate analysis in July 1997. He joined the Company (including its precedessor) in October 1997, and worked in the sales department of the Company from September 1998 to September 2000. He has successively worked at the securities office, production technology section and the securities department since October 2000. He has engaged in corporate governance of the Company for years and participated in relevant trainings provided by securities regulatory authorities at home and abroad. He was appointed as a director of the Company at the Company's annual general meeting held on 1 June 2010. He is currently a non-executive director of China Hongqiao Group Limited (中國宏橋集團有限公司) (stock code: 1378.HK).

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 64, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a professional diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. He was appointed and re-elected as a director at the Company's annual general meeting held on 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, the chairman of Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd., the chairman of Shandong Weiqiao Tekuanfu 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"), the director of Huibin Dyeing, the director of Binzhou Industrial Park (from 26 November 2001 to May 2010), the chairman of Weihai Weiqiao (from 25 July 2001 to May 2010). He is currently also the chairman of Shandong Hongqiao New Material Co., Ltd. ("Shandong Hongqiao") (山東宏橋新型材料有限公司) (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), chairman of Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司), chairman of China Hongqiao Holdings Limited (中國宏橋控股有限公司), a chairman of Profit Long Investment Limited (保恆俐投資有限公司) and chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (魏橋創業(香港)進出口有限公司), chairman and an executive director of China Hongqiao Group Limited (stock code: 1378.HK). 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.

Wang Zhaoting

Mr. Wang Zhaoting, aged 46, graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a professional 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 41, 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 13 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 46, 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 16 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 56, 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). Mr. Chan is also the independent non-executive director of Infinity Chemical Holdings Company Limited (stock code: 640.HK). He was appointed as an independent non-executive director at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting held on 1 June 2009, with the term of his appointment effective from 1 June 2009.

Xu Wenying

Mr. Xu Wenying, aged 59, graduated from Tianjin Institute of Light Industry (天津輕工業學院) and obtained a professional 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), the deputy director of the industry department of the CNTAC, an independent director of Black Peony (Group) Co. Ltd. (黑牡丹（集團）股份有限公司) (stock code: 600510.SH), the chairman of China Yarn Dyed Weaving Association (中國色織行業協會) and the chairman of China Cotton Textile Association (中國棉紡織行業協會). He is currently the vice-chairman of CNTAC, the honorary chairman of China Cotton Textile Association and director of the Textile Products Technological Improvement Consultation Services Centre (紡織企業技術進步諮詢服務中心). He is also the independent director of Jiangsu Lianfa Textile

Co., Ltd. (江蘇聯發紡織股份有限公司) (stock code: 002394.SZ), Huafu Top Dyed Melange Yarn Co., Ltd. (華孚色紡股份有限公司) (stock code: 002042.SZ) and Jingwei Textile Machinery Co., Ltd. (經緯紡織機械股份有限公司) (stock code: 000666.SZ). 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 59, graduated from Qufu Teachers College (曲阜師範學院) and obtained a professional 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 43, graduated from Binzhou Local Vocational School (濱州地區供銷職工中專學校) and obtained a professional 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.

Lu Tianfu (Independent Supervisor)

Mr. Lu Tianfu, aged 76, graduated from Shanghai Dynamic Machinery Special School (上海動力機械專科學校) specializing 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 70, graduated from Qingdao Weaving School (青島紡織專科學校) and obtained a professional diploma specializing 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.

SENIOR MANAGEMENT

Wang Guoming (Deputy General Manager)

Mr. Wang Guoming, aged 39, graduated from the College of Adult Education of Qingdao University with a professional diploma in textile engineering management. He has over 13 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 40, 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 2010.

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 2010.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2010 and the financial position of the Group and the Company as at 31 December 2010 are set out on pages 51 to 53 and pages 57 to 58 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.4376 (inclusive of tax) per share (the "2010 Final Dividend"), payable to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 21 April 2011 (Thursday). The 2010 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 "Enterprise Income Tax Law of the People's Republic of China", which took effect on 1 January 2008, and its implementation rules, when a company distributes the final dividends to non-resident enterprise shareholders whose names appear on the H-share register of the company, the company is required to withhold and pay on behalf of such shareholders an enterprise income tax at the rate of 10%. Any shares registered in the name of a non-person shareholder, including Hong Kong Securities Clearing Company Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that he or she is entitled to are subject to the enterprise income tax.

Any natural person investors whose H shares are registered under the name of any such non-individual shareholders and who do not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and lodge all transfer documents together with the relevant H share certificates with the H share registrar of the Company for transfer.

For non-resident enterprise shareholders holding the Company's shares through overseas companies, please provide Computershare Hong Kong Investor Services Limited with the proof of qualification for being non-resident enterprise shareholders on or before Thursday, 21 April 2011.

The Company will strictly comply with the laws and the requirements of relevant government departments, and will withhold and pay the enterprise income tax on behalf of its shareholders whose names appear on the H-share register of the Company on the record date. The Company will take no responsibility and will reject any requests from shareholders whose identity cannot be confirmed within the specified time or cannot be confirmed at all nor will the Company handle any disputes arising from the arrangement of withholding tax. However, the Company may provide assistance to the extent of its ability.

For the distribution of dividends, dividends for holders of Domestic Shares will be distributed and paid in RMB, while dividends for H Shares will be declared in RMB but paid in Hong Kong dollars ("HK$") (conversion of RMB into HK$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK$ announced by the People's Bank of China within five working days prior to and including 21 April 2011.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the years ended 31 December 2006, 2007 and 2008, and from the audited consolidated financial statements of the Group for the year ended 31 December 2009 and the year ended 31 December 2010 on pages 51 to 53, is set out below:

Results

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	19,826,154	18,589,586	16,453,087	14,333,088	**17,887,429**
Cost of sales	(16,503,064)	(15,927,215)	(15,022,353)	(13,089,531)	**(15,007,823)**
Gross profit	3,323,090	2,662,371	1,430,734	1,243,557	**2,879,606**
Other income and gains	350,250	466,921	629,849	1,109,936	**435,198**
Selling and distribution costs	(358,816)	(410,222)	(346,116)	(248,941)	**(287,298)**
Administrative expenses	(177,341)	(196,971)	(193,173)	(190,024)	**(202,325)**
Write-back of unutilized welfare provision	–	534,362	–	–	**–**
Other expenses	(109,609)	(57,821)	(103,991)	(201,450)	**(74,421)**
Finance costs	(720,003)	(726,014)	(696,714)	(513,678)	**(493,456)**
Profit before tax	2,307,571	2,272,626	720,589	1,199,400	**2,257,304**
Tax	(616,745)	(394,521)	(124,534)	(309,106)	**(621,939)**
Profit for the year	1,690,826	1,878,105	596,055	890,294	**1,635,365**
Attributable to:					
Owners of the parent	1,685,405	1,868,471	596,212	892,446	**1,627,376**
Minority interests	5,421	9,634	(157)	(2,152)	**7,989**
	1,690,826	1,878,105	596,055	890,294	**1,635,365**

Assets and liabilities

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	26,140,632	26,748,676	27,296,250	26,754,785	**28,389,854**
Total liabilities	14,018,831	13,276,020	13,830,749	12,586,695	**12,865,444**

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 2010 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 2010 are set out in Note 31 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 2010, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended 31 December 2010.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2010 are set out in Note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, 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 RMB1,209,000,000 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 RMB5,567,000,000 for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2010, sales to the Group's five largest customers accounted for 11.1% of the Group's total sales for the year ended 31 December 2010, sales to its largest customer accounted for 3.5% of the Group's total sales for the year ended 31 December 2010.

During the year ended 31 December 2010, purchases from the Group's five largest suppliers accounted for 27.4% of the Group's total purchases for the year ended 31 December 2010, purchases from the Group's largest supplier accounted for 11.9% of the Group's total purchases for the year ended 31 December 2010.

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
Zhao Suwen	Until 7 June 2012
Zhang Jinglei	Until 1 June 2013

Non-executive Directors:

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the directors, supervisors and senior management are set out on page 20 to page 24 in this annual report.

At the annual general meeting for the year ended 31 December 2009, some Directors of the Company were re-elected by ordinary resolutions.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 37, 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 2010.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 37, 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 2010, 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 2010 *(%)*	Approximate percentage of total issued share capital as at 31 December 2010 *(%)*
Holding Company	738,895,100	94.64	61.86
Zouping Supply and Marketing Investment Company Limited ("Zouping Investment")	738,895,100 *(Note 2)*	94.64	61.86

Interests in the H Shares of the Company:

Name of Shareholder	Type of interest	Number of H Shares *(Note 3)*	Approximate percentage of total issued H share capital as at 31 December 2010 *(%)*	Approximate percentage of total issued share capital as at 31 December 2010 *(%)*
The Bank of New York Mellon Corporation	Interest of a controlled corporation	59,868,632 (Long position)	14.47	5.01
		36,831,632 (Lending pool) *(Note 4)*	8.90	3.08
Brandes Investment Partners, L.P.	Investment manager	53,561,877 (Long position) *(Note 5)*	12.95	4.48
The Boston Company Asset Management LLC	Investment manager	23,750,600 (Long position) *(Note 6)*	5.74	1.99
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 7)*	9.93	3.44

Notes:

1. Unlisted shares.

2. Zouping Investment holds 51% equity interests in Holding Company.

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

4. These 59,868,632 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.

5. These 53,561,877 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

6. These 23,750,600 H Shares were held by The Boston Company Asset Management LLC in its capacity as investment manager.

7. 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.

Save as disclosed above, so far as known to the directors, supervisors and the chief executive of the Company, as at 31 December 2010, there was no other person (not being a director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2010, 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 2010** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2010** *(%)*
Zhang Hongxia *(Executive Director/Chairman)*	Beneficial	17,700,400	2.27	1.48
Zhang Shiping *(Non-executive Director)*	Beneficial	5,200,000	0.67	0.44

Note 1: Unlisted shares

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 2010 *(%)*
Zhang Shiping *(Non-executive Director)*	Holding Company	Beneficial	33.72
Zhang Hongxia *(Executive Director)*	Holding Company	Beneficial and spouse *(Note 1)*	5.73 *(Note 1)*
Zhang Yanhong *(Executive Director)*	Holding Company	Beneficial	1.63
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
Zhao Suhua *(Non-executive director)*	Holding Company	Beneficial and spouse *(Note 2)*	3.09 *(Note 2)*
Wang Xiaoyun *(Non-executive director)*	Holding Company	Beneficial	0.25

Note 1: These 48,000,000 shares of the Holding Company will be beneficially owned by Ms. Zhang Hongxia, who is deemed to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen under the SFO.

Note 2: These 4,500,000 shares of the Holding Company will be beneficially owned by Ms. Zhao Suhua, who is deemed to be interested in the 44,911,000 shares directly held by her husband, Mr. Wei Yingzhao under the SFO.

Save as disclosed above, as at 31 December 2010, 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 (the "Model Code").

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or subsisted during the year ended 31 December 2010.

CONNECTED TRANSACTIONS

The "Related Party Transactions" as set out in Note 37 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.

Details of the connected transactions of the Group for the year ended 31 December 2010 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules.

During the year ended 31 December 2010, certain transactions were entered into between the Group and the following connected persons of the Company:

1. The Holding Company is 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 99% owned subsidiary of Holding Company. Weiqiao Clothes is a 67.18% owned subsidiary of Holding Company. Elite Garment is a 75% owned subsidiary of Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. 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 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 Weihai Thermal Power Plant 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 Weihai 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 Weihai Thermal Power Plant is no longer applicable. An announcement regarding the above continuing connected transaction was published on 3 March 2008.

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 lands 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 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 rights 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.

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 37 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, Shandong Hongqiao, 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 Shandong Hongqiao, 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 parties to the Old Supply of Excess Electricity Agreement have agreed to renew the transaction and on 4 November 2010, the Company entered into the Supply of Excess Electricity Agreement with Holding Company for a period of three years commencing on 1 January 2011 to 31 December 2013 pursuant to which the Group will supply excess electricity to Parent Group. Terms and conditions under the Supply of Excess Electricity Agreement are basically the same as the conditions under the Old Supply of Excess Electricity Agreement.

The price at which excess electricity is supplied to Parent Group by the Group shall be RMB0.50 per kwh (inclusive of value-added tax at 17%) or the price at which a power plant in Shandong Province would from time to time 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 is entitled to increase the price of excess electricity supplied to Parent Group according to the coal price by giving a 10 days' prior written notice to Holding

Company, and up to a maximum price at which the relevant power grid in Shandong province would charge for the sale of electricity to such companies. A circular regarding the supply of excess electricity was published on 8 November 2010.

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, 3 March 2008, 20 October 2008 and 4 November 2010, respectively.

FIGURES FOR THE YEAR ENDED 31 DECEMBER 2010

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2010:

Transaction nature	**Aggregate value for the year ended 31 December 2010** *(RMB'000)*
1. Supply of cotton yarn and cotton fabric	
(a) by the Group to the Parent Group	739,122
(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	23,724
4. Supply of excess electricity by the Company to Holding Company	969,465

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 favorable than those available to or from independent third parties; and

(iv) within the relevant annual cap.

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 42 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 2010.

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 view 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 18 March 2011 to review the Company's annual report and financial statements.

INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2010. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the annual general meeting 2010.

The Company has not changed the auditors for the eight years ended 31 December 2010.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
18 March 2011

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2010, 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 2010 are reported as follows:

1. Works of the Supervisory Committee

In 2010, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 26 March 2010, the 2nd 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 Working Report of the Supervisory Committee for 2009", "The Audited Financial Report for the Year Ended 31 December 2009", "The Profit Distribution Proposal for 2009" and "The Financial Report on the Final Account for 2009" were reviewed and approved.

2. On 20 August 2010, the 3rd 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 2010 issued by Ernst & Young was discussed and approved.

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2010

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 2010, 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.

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 2010 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 2011, 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
18 March 2011

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 Code of Corporate Governance Practices during the year 2010.

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 2010, 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
Ms. Zhao Suwen
Mr. Zhang Jinglei

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.

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 and the Board.

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 five meetings during the year.

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

Board Members	**Attendance of Meetings held in 2010**
Ms. Zhang Hongxia	5/5
Ms. Zhang Yanhong	5/5
Ms. Zhao Suwen	5/5
Mr. Zhang Jinglei	4/5
Mr. Zhang Shiping	5/5
Mr. Wang Zhaoting	5/5
Ms. Zhao Suhua	5/5
Ms. Wang Xiaoyun	5/5
Mr. Chan Wing Yau, George	3/5
Mr. Xu Wenying	3/5
Mr. Wang Naixin	3/5

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.

Code 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 manage the business of the Company. The Chairman and chief executive officer shall have clearly defined roles and duties, which are set out in the Code of Corporate Governance of the Company.

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

Each of the non-executive directors, independent non-executive directors and independent supervisors 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 26 March 2010 after due consideration by members of the Audit Committee:

(1) to consider and approve the Report of the Directors and Report of the International Auditors for 2009;

(2) to consider and approve the consolidated audited financial statements of the Company for the year ended 31 December 2009;

(3) to consider and approve the profit distribution plan and financial budget report of the Company for 2009;

(4) to consider and approve the reappointment of Ernst & Young Hua Ming as the Company's domestic auditors for the year ended 31 December 2010 and Ernst & Young as the Company's international auditors for the year ended 31 December 2010;

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

(6) to consider and approve the annual report and results announcement for 2009.

On 20 August 2010, after due consideration, the following issues were reviewed by members of the Audit Committee:

(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 2010 (the "Interim Accounts"), and confirmed the quality of the reviewed profit and that such materials were complete, accurate and appropriate;

(2) The accounting policies adopted in the financial statement for the six months ended 30 June 2010 were the appropriate accounting policies;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2010 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 2010 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 2010, 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 2010, including the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such materials have fairly reflected the performance and financial position of the Group and are in line with the disclosure in the financial statements for the six months ended 30 June 2010 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 ongoing basis.

Having been reviewed by the members of the Audit Committee, the following resolutions were passed at the meeting:

1. The unaudited financial report as of 30 June 2010;

2. Interim Review Report.

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);

(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 judgment is involved;

(iii) significant adjustments arising as a result of audit;

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

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

(vi) whether the 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 upon request of the Board, in respect of the findings of major investigations relating to internal control matters and the management's response;

(9) ensuring co-ordination between the internal auditing department and external auditors, and ensuring that the internal auditing department is adequately resourced and has appropriate standing, 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 feedbacks in this respect;

(12) ensuring the Board's timely response to the matters as 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 may raise concerns in strict confidence on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made to enable the Company to conduct a fair and independent investigation and take proper measures;

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

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

Minutes of meetings

The Audit Committee held two meetings during the year. The following is the attendance record of members of the Audit Committee for the year ended 31 December 2010:

Committee Members	Attendance of Audit Committee Meetings held in the year ended 31 December 2010
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 audit matters.

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, analyses and supporting documents, so as to ensure that Audit Committee members are completely satisfied and provide appropriate recommendations to the Board.

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 February 2005. 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 2010.

The Composition of the Remuneration Committee

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

Committee Members	Attendance of Remuneration Committee Meeting held in 2010
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 of other positions within the Group and the desirability of performance-based remuneration;

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

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

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

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

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 AND ISSUE OF MEDIUM-TERM NOTES AT THE ANNUAL GENERAL MEETING 2010

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 2010 to allot and deal with not more than 20% of the aggregate nominal amount of domestic shares or H shares of the Company, subject to specific conditions. For details, please refer to Special Resolution 8 in the Notice of Annual General Meeting 2010 of the Company.

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 2010 to issue medium-term notes, subject to specific conditions. For details, please refer to Special Resolution No.9 in the notice of Annual General Meeting 2010 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 2010, the external auditors Ernst & Young and Ernst & Young Hua Ming have provided the Group with the following services:

	2010 RMB'000
Interim review service	1,850
Annual audit service	5,200
Other non-auditing services	300

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.

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: 86-543-416 2222
Postal Address: No. 1, Weifang Road,
Zouping Development Area, Zouping County,
Shandong Province, the PRC
Postal code: 256200

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 through roadshows and seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to 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
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Hong Kong
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To the shareholders of Weiqiao Textile Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Weiqiao Textile Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 130, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
18 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**17,887,429**	14,333,088
Cost of sales		**(15,007,823)**	(13,089,531)
Gross profit		**2,879,606**	1,243,557
Other income and gains	5	**435,198**	1,109,936
Selling and distribution costs		**(287,298)**	(248,941)
Administrative expenses		**(202,325)**	(190,024)
Other expenses		**(74,421)**	(201,450)
Finance costs	9	**(493,456)**	(513,678)
PROFIT BEFORE TAX	6	**2,257,304**	1,199,400
Income tax expense	10	**(621,939)**	(309,106)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,635,365**	890,294
Profit and total comprehensive income attributable to:			
Owners of the parent	11	**1,627,376**	892,446
Non-controlling interests		**7,989**	(2,152)
		1,635,365	890,294
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	13	**RMB1.36**	RMB0.75

During the years ended 31 December 2010 and 31 December 2009, the Group did not have any 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 2010

	Notes	**2010** **RMB'000**	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**16,680,090**	17,202,236
Investment properties	*15*	**39,902**	122,545
Prepaid land lease payments	*16*	**200,167**	120,593
Other intangible assets	17	**3,528**	3,301
Deferred tax assets	30	**101,825**	173,328
Total non-current assets		**17,025,512**	17,622,003
CURRENT ASSETS			
Inventories	*19*	**5,871,114**	2,780,810
Trade receivables	*20*	**521,086**	871,475
Due from the immediate holding company	*22*	**46,040**	51,954
Prepayments, deposits and other receivables	*21*	**752,005**	441,120
Pledged time deposits	*23*	**167,014**	186,430
Non-pledged time deposits maturing over three months	*23*	**1,594,500**	1,536,783
Cash and cash equivalents	*23*	**2,412,583**	3,264,210
Total current assets		**11,364,342**	9,132,782
CURRENT LIABILITIES			
Trade payables	*24*	**1,601,224**	1,700,358
Bills payable	*25*	**580,000**	748,300
Due to related parties	*22*	**9,740**	7,291
Other payables and accruals	*26*	**998,452**	881,791
Interest-bearing bank and other borrowings	*27*	**3,610,289**	3,911,785
Tax payable		**684,115**	499,097
Deferred income	*29*	**8,927**	9,535
Total current liabilities		**7,492,747**	7,758,157
NET CURRENT ASSETS		**3,871,595**	1,374,625
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,897,107**	18,996,628

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*27*	**5,190,910**	4,693,672
Deferred income	*29*	**175,663**	129,394
Deferred tax liabilities	*30*	**6,124**	5,472
Total non-current liabilities		**5,372,697**	4,828,538
Net assets		**15,524,410**	14,168,090
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**1,194,389**	1,194,389
Reserves	*32*	**13,705,556**	12,600,845
Proposed final dividend	*12(b)*	**522,665**	278,890
		15,422,610	14,074,124
Non-controlling interests		**101,800**	93,966
Total equity		**15,524,410**	14,168,090

Zhang Hong Xia
Executive Director

Zhao Su Wen
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	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*	Non-controlling 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 non-controlling 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*	1,129,107*	4,798,358*	278,890	14,074,124	93,966	14,168,090

	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***	**Non-controlling interests** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2010	**1,194,389**	**6,673,380**	**1,129,107**	**4,798,358**	**278,890**	**14,074,124**	**93,966**	**14,168,090**
Final 2009 dividend declared	**–**	**–**	**–**	**–**	**(278,890)**	**(278,890)**	**–**	**(278,890)**
Dividend paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(155)**	**(155)**
Total comprehensive income for the year	**–**	**–**	**–**	**1,627,376**	**–**	**1,627,376**	**7,989**	**1,635,365**
Proposed final 2010 dividend *(note 12(b))*	**–**	**–**	**–**	**(522,665)**	**522,665**	**–**	**–**	**–**
Transfer from retained profits	**–**	**–**	**134,370**	**(134,370)**	**–**	**–**	**–**	**–**
At 31 December 2010	**1,194,389**	**6,673,380***	**1,263,477***	**5,768,699***	**522,665**	**15,422,610**	**101,800**	**15,524,410**

* These reserve accounts comprise the consolidated reserves of RMB13,705,556,000 (2009: RMB12,600,845,000) in the consolidated statement of financial position as at 31 December 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,257,304**	1,199,400
Adjustments for:			
Finance costs	9	**493,456**	513,678
Bank interest income	5	**(58,517)**	(52,084)
Recognition of deferred income	5	**(9,079)**	(9,627)
Losses on stocktaking		**90**	–
Losses/(gains) on disposal of items of property, plant and equipment	6	**19,717**	(415)
Fair value gains on derivative financial instruments	6	**–**	(953)
Depreciation	6	**1,315,726**	1,265,689
Foreign exchange differences, net	6	**(25,460)**	17,825
Amortisation of intangible assets	6	**1,359**	1,200
Recognition of prepaid land lease payments	6	**2,969**	2,816
Revenue on property leasing	5	**(2,042)**	(3,000)
Reversal of impairment of trade receivables	6	**–**	(24)
Impairment of property, plant and equipment	6	**–**	127,800
Reversal of provision against inventories	6	**(2,364)**	(5,461)
		3,993,159	3,056,844
(Increase)/decrease in inventories		**(3,088,030)**	1,004,766
Decrease/(increase) in trade receivables		**332,598**	(443,811)
Increase in prepayments, deposits and other receivables		**(253,474)**	(397,983)
Decrease in amounts due from the immediate holding company		**5,914**	206,834
Decrease in amounts due to the immediate holding company		**–**	(959)
Decrease in amounts due from related parties		**–**	226
Increase/(decrease) in amounts due to related parties		**2,449**	(2,678)
Decrease in trade payables		**(247,486)**	(1,197,521)
(Decrease)/increase in bills payables		**(168,300)**	68,300
Increase/(decrease) in other payables and accruals		**160,582**	(248,394)
Cash generated from operations		**737,412**	2,045,624
Interest paid		**(482,667)**	(520,323)
PRC corporate income tax paid		**(364,766)**	(390,482)
Net cash flows (used in)/from operating activities		**(110,021)**	1,134,819

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**58,162**	52,550
Purchases of items of property, plant and equipment		**(718,473)**	(141,686)
Additions to prepaid land lease payments		**(2,453)**	–
Receipt of government grants		**17,740**	7,740
Proceeds from disposal of items of property, plant and equipment		**51,256**	2,616
Investment in a jointly-controlled entity		**(45,000)**	–
Revenue on property leasing	5	**2,042**	3,000
Increase in non-pledged time deposits maturing over three months		**(57,717)**	(491,156)
Decrease in pledged time deposits		**19,416**	84,005
Net cash flows used in investing activities		**(675,027)**	(482,931)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**6,716,697**	5,915,671
Repayment of bank loans		**(6,479,845)**	(5,740,445)
Dividends paid to owners of the parent		**(278,890)**	(187,400)
Dividends paid to non-controlling shareholders		**(155)**	(305)
Net cash flows used in financing activities		**(42,193)**	(12,479)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(827,241)**	639,409
Cash and cash equivalents at beginning of year		**3,264,210**	2,643,593
Effect of foreign exchange rate changes, net		**(24,386)**	(18,792)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**2,412,583**	3,264,210
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,412,583**	2,264,210
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	1,000,000
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	23	**2,412,583**	3,264,210

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**12,928,424**	13,547,118
Investment properties	15	**47,382**	122,545
Other intangible assets	17	**1,427**	–
Investments in subsidiaries	18	**1,701,411**	1,201,411
Deferred tax assets	30	**22,861**	78,120
Total non-current assets		**14,701,505**	14,949,194
CURRENT ASSETS			
Inventories	19	**4,705,245**	2,246,204
Trade receivables	20	**481,308**	784,986
Due from subsidiaries	18	**823,591**	517,077
Due from the immediate holding company	22	**46,040**	51,954
Prepayments, deposits and other receivables	21	**426,324**	434,949
Pledged time deposits	23	**154,581**	182,470
Non-pledged time deposits maturing over three months	23	**1,594,500**	1,536,783
Cash and cash equivalents	23	**1,565,086**	2,737,273
Total current assets		**9,796,675**	8,491,696
CURRENT LIABILITIES			
Trade payables	24	**1,406,924**	1,498,982
Bills payable	25	**320,000**	420,000
Due to subsidiaries	18	**325,703**	131,945
Due to related parties	22	**9,740**	7,291
Other payables and accruals	26	**615,460**	620,680
Interest-bearing bank and other borrowings	27	**2,210,304**	2,637,590
Tax payable		**542,562**	437,632
Deferred income	29	**1,276**	1,884
Total current liabilities		**5,431,969**	5,756,004
NET CURRENT ASSETS		**4,364,706**	2,735,692
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,066,211**	17,684,886

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	4,401,010	4,083,672
Deferred income	29	21,478	22,297
Total non-current liabilities		4,422,488	4,105,969
Net assets		14,643,723	13,578,917
EQUITY			
Issued capital	31	1,194,389	1,194,389
Reserves	32	12,926,669	12,105,638
Proposed final dividend	12(b)	522,665	278,890
Total equity		14,643,723	13,578,917

Zhang Hong Xia
Executive Director

Zhao Su Wen
Executive Director

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") and Zouping Supply and Marketing Investment Company Limited ("Zouping Investment"), both of which are limited liability companies established in the PRC.

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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of the amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As the Group does not have any leases in Hong Kong, no reclassification is required after the adoption of the amendments, and thus no retrospective application of the amendments is required either.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a signifiacnt impact on the Group's results of the operations and financial position.

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/Company has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the Group/Company 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/Company 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

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	3 – 10 years	9.5% to 32.0%

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 buildings under construction and machinery under installation, 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 other intangible assets when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, including prepaid land lease payments under 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments, 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.

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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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.

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 by 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; or

- 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing bank and other 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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 5.66% for 2010 and 6.13% for 2009, respectively, is applied to the expenditure on the individual assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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.

The principal assumptions for the Group's estimation of the fair value include recent prices of similar properties in the same location and condition and the estimated costs of disposal. The carrying amount of investment properties at 31 December 2010 was RMB39,902,000 (2009: RMB122,545,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was RMB28,721,000 (2009: RMB68,171,000). The amount of unrecognised tax losses at 31 December 2010 was RMB150,077,000 (2009: Nil). Further details are contained in note 30 to the financial statements.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

Change in accounting estimates

The Group changed the useful lives for certain buildings used for the thermal power plants from 40 years to 20 years since April 2010, after considering their physical conditions. The effect of this change of accounting estimate is recognised prospectively according to HKAS 8 and the profit before tax for the year ended 31 December 2010 was reduced by RMB66 million.

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 summarised by the group of similar products for the years ended 31 December 2010 and 2009, is as follows:

	2010	2009
	RMB'000	RMB'000
Cotton yarn	**8,063,398**	6,689,279
Grey fabric	**8,764,460**	6,497,017
Denim	**1,051,103**	1,137,226
Others	**8,468**	9,566
	17,887,429	14,333,088

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.

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 2010 and 2009, is as follows:

	2010		
	Revenue from external customers *RMB'000*	Cost of sales *RMB'000*	Gross profit *RMB'000*
Mainland China	**11,039,456**	**9,159,954**	**1,879,502**
Hong Kong	**2,099,888**	**1,658,116**	**441,772**
East Asia	**1,752,198**	**1,598,693**	**153,505**
Others	**2,995,887**	**2,591,060**	**404,827**
	17,887,429	**15,007,823**	**2,879,606**

	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

The revenue information 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.

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 is as follows:

	Note	2010 RMB'000	2009 RMB'000
Revenue			
Sale of textile goods		17,887,429	14,333,088
Other income			
Bank interest income		58,517	52,084
Compensation from suppliers on supply of sub-standard goods and service		41,786	55,967
Penalty income from employees		8,024	5,861
Recognition of deferred income	29	9,079	9,627
Gross rental income		2,042	3,000
One-off government subsidies		16,259	12,812
Others		2,455	1,972
		138,162	141,323
Gains			
Sale of electricity and steam		2,539,411	3,122,389
Less: cost thereon		(2,289,633)	(2,165,152)
Gains on sale of electricity and steam		249,778	957,237
Gains on sale of waste and spare parts		21,798	10,423
Foreign exchange differences, net		25,460	–
Net fair value gains on derivative financial instruments		–	953
		297,036	968,613
		435,198	1,109,936

6. PROFIT BEFORE TAX

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

	Notes	2010 *RMB'000*	2009 *RMB'000*
Cost of goods sold		**14,979,468**	13,088,653
Staff costs (excluding directors' and supervisors' remuneration (note7)):			
Wages, salaries and social security costs		**2,554,831**	1,780,321
Pension scheme contributions		**99,336**	76,814
		2,654,167	1,857,135
Depreciation	*14, 15*	**1,315,726**	1,265,689
Amortisation of land lease payment	*16*	**2,969**	2,816
Amortisation of other intangible assets	*17*	**1,359**	1,200
Impairment of property, plant and equipment	*14*	**–**	127,800
Repairs and maintenance		**421,851**	357,430
Losses/(gains) on disposal of items of property, plant and equipment		**19,717**	(415)
Auditors' remuneration		**7,375**	7,285
Directors' and supervisors' remuneration	*7*	**4,334**	4,602
Foreign exchange differences, net	*5*	**(25,460)**	17,825
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**2,119**	3,182
Reversal of provision against inventories		**(2,364)**	(5,461)
Reversal of impairment of trade receivables	*20*	**–**	(24)
Realised losses on derivative financial instruments transactions		**–**	418
Bank interest income	*5*	**(58,517)**	(52,084)
Net fair value gains on derivative financial instruments	*5*	**–**	(953)
Research and development costs included in:			
Wages and salaries		**28,187**	17,694
Consumables		**14,039**	23,808
		42,226	41,502
Minimum land and buildings lease payments under operating leases		**25,185**	26,309

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	
	2010	2009
	RMB'000	*RMB'000*
Fees	**4,006**	4,318
Other emoluments:		
Salaries, allowances and benefits in kind	**304**	260
Pension scheme contributions	**24**	24
	328	284
	4,334	4,602

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2009: 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 (2009: Nil).

(a) Independent non-executive directors

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

	2010	2009
	RMB'000	*RMB'000*
Mr. Wang Naixin	**150**	150
Mr. Xu Wenying	**150**	150
Mr. Chan Wing Yau, George	**516**	528
	816	828

There were no other emoluments and benefits payable to the independent non-executive directors during the year (2009: Nil).

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*
2010				
Executive directors:				
Ms. Zhang Hongxia	1,200	54	4	1,258
Ms. Zhao Suwen	600	42	4	646
Ms. Zhang Yanhong	600	43	–	643
Mr. Zhang Jinglei*	300	39	4	343
	2,700	178	12	2,890
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Mr. Wang Zhaoting	100	–	–	100
Ms. Zhao Suhua	100	42	4	146
Ms. Wang Xiaoyun	100	41	4	145
	400	83	8	491
	3,100	261	20	3,381
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

* Mr. Zhang Jinglei was appointed as an executive director of the Company with effect from June 2010.

** Mr. Qi Xingli resigned from the Company with effect from June 2010 and his remuneration for the year ended 31 December 2010 was Nil.

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*
2010				
Mr. Liu Mingping	**30**	**43**	**4**	**77**
Mr. Lu Tianfu	**30**	**–**	**–**	**30**
Ms. Wang Wei	**30**	**–**	**–**	**30**
	90	**43**	**4**	**137**
2009				
Mr. Liu Mingping	30	34	4	68
Mr. Lu Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
	90	34	4	128

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2009: five) directors, details of whose remuneration are set out in note 7 above.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2010 *RMB'000*	2009 *RMB'000*
Interest on bank loans wholly repayable within five years	**493,028**	501,952
Interest on a finance lease	**428**	447
	493,456	502,399
Other finance costs:		
Increase in discounted amounts of trade payables	**–**	11,279
	493,456	513,678

No interest was capitalised in 2010 (2009: Nil).

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	
	2010	2009
	RMB'000	*RMB'000*
Current – Mainland China	**549,784**	369,343
Deferred (note 30)	**72,155**	(60,237)
Total tax charge for the year	**621,939**	309,106

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			
	2010		2009	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax	**2,257,304**		1,199,400	
Tax at PRC statutory tax rate	**564,326**	**25.0**	299,850	25.0
Expenses not deductible for tax	**21,348**	**1.0**	8,890	0.8
Tax losses not recognised	**37,519**	**1.7**	–	–
Others	**(1,254)**	**(0.1)**	366	–
Tax charge at the Group's effective rate	**621,939**	**27.6**	309,106	25.8

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").

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB1,344 million (2009: RMB956 million) which has been dealt with in the financial statements of the Company (note 32).

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 2010 and 2009.

(ii) General reserve fund, employees' 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 employees' 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.

12. PROFIT APPROPRIATIONS (continued)

(b) Dividends

	2010 RMB'000	2009 RMB'000
Proposed final – RMB0.4376 (2009: RMB0.2335) per share	**522,665**	278,890

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 of RMB1,627,376,000 (2009: RMB892,446,000), and on 1,194,389,000 (2009: 1,194,389,000) ordinary shares in issue during the Year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

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 2010					
At 1 January 2010:					
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
At 1 January 2010, net of accumulated depreciation and impairment	5,733,979	11,356,451	31,737	80,069	17,202,236
Additions	34,480	164,072	2,925	582,207	783,684
Disposals	(42,616)	(27,862)	(683)	–	(71,161)
Depreciation provided during the year	(222,577)	(1,079,013)	(12,017)	–	(1,313,607)
Transfers	132,775	35,250	–	(89,087)	78,938
At 31 December 2010, net of accumulated depreciation and impairment	5,636,041	10,448,898	21,962	573,189	16,680,090
At 31 December 2010:					
Cost	6,485,361	16,659,502	86,723	573,189	23,804,775
Accumulated depreciation and impairment	(849,320)	(6,210,604)	(64,761)	–	(7,124,685)
Net carrying amount	5,636,041	10,448,898	21,962	573,189	16,680,090

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 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

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 2010					
At 1 January 2010:					
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
At 1 January 2010, net of accumulated depreciation and impairment	4,513,740	8,997,187	31,699	4,492	13,547,118
Additions	32,858	156,453	1,739	186,805	377,855
Disposals	(28,210)	(22,451)	–	–	(50,661)
Depreciation provided during the year	(190,365)	(817,704)	(9,122)	–	(1,017,191)
Transfers	96,673	(81,632)	–	56,262	71,303
At 31 December 2010, net of accumulated depreciation and impairment	4,424,696	8,231,853	24,316	247,559	12,928,424
At 31 December 2010:					
Cost	5,094,902	12,838,567	76,302	247,559	18,257,330
Accumulated depreciation and impairment	(670,206)	(4,606,714)	(51,986)	–	(5,328,906)
Net carrying amount	4,424,696	8,231,853	24,316	247,559	12,928,424

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2010, certain of the Group's buildings, machinery and equipment with a value of approximately RMB9,055 million (2009: RMB10,143 million) were pledged to secure certain of the Group's bank loans (note 27(ii)).

The carrying amount of construction in progress does not include any capitalised interest (2009: Nil) in the current year (note 9).

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of machinery and equipment at 31 December 2010 amounted to RMB4 million (2009: RMB5 million).

The impairment at 31 December 2010 was related to certain idle buildings of the Group. It was accrued at 31 December 2008 based on the valuation report provided by Shanghai Wan Long Assets Evaluation Co., Ltd, an independent professionally qualified valuer. The idle buildings were revalued individually at the end of the reporting period by the same independent professionally qualified valuer based on the fair value less costs to sell basis. Based on the valuation report, no further impairment or reversal of impairment was recorded in 2010 (2009: Nil).

15. INVESTMENT PROPERTIES

	Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January:		
Cost – buildings	**133,800**	133,800
Accumulated depreciation and impairment	**(11,255)**	(8,073)
Net carrying amount	**122,545**	125,727
At 1 January, net of accumulated depreciation	**122,545**	125,727
Transfers to owner-occupied property, net of accumulated depreciation and impairment	**(80,524)**	–
Depreciation provided during the year	**(2,119)**	(3,182)
At 31 December, net of accumulated depreciation and impairment	**39,902**	122,545
At 31 December:		
Cost – buildings	**44,600**	133,800
Accumulated depreciation and impairment	**(4,698)**	(11,255)
Net carrying amount	**39,902**	122,545

15. INVESTMENT PROPERTIES (continued)

	Company 2010 RMB'000	2009 RMB'000
At 1 January:		
Cost – buildings	**133,800**	133,800
Accumulated depreciation and impairment	**(11,255)**	(8,073)
Net carrying amount	**122,545**	125,727
At 1 January, net of accumulated depreciation	**122,545**	125,727
Transfers to owner-occupied property, net of accumulated depreciation and impairment	**(72,889)**	–
Depreciation provided during the year	**(2,274)**	(3,182)
At 31 December, net of accumulated depreciation and impairment	**47,382**	122,545
At 31 December:		
Cost – buildings	**53,033**	133,800
Accumulated depreciation and impairment	**(5,651)**	(11,255)
Net carrying amount	**47,382**	122,545

The Group's investment properties were revalued on 31 December 2010 by Shanghai Wan Long Assets Evaluation Co., Limited, an independent professionally qualified valuer, at RMB41 million on the fair value less costs to sell basis. The investment properties of the Group are leased to the Holding Company under operating leases, further summary details of which are included in note 37(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	Group 2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	**123,409**	126,225
Additions	**84,227**	–
Recognised during the year	**(2,969)**	(2,816)
Carrying amount at 31 December	**204,667**	123,409
Current portion included in prepayments, deposits and other receivables *(note 21)*	**(4,500)**	(2,816)
Non-current portion	**200,167**	120,593

The leasehold land is situated in Mainland China and is held under medium term leases.

At 31 December 2010, certain of the Group's land use rights with a net carrying amount of approximately RMB75 million (2009: RMB75 million) were pledged to secure certain of the Group's bank loans (note 27(ii)).

17. OTHER INTANGIBLE ASSETS

	Group 2010 RMB'000	2009 RMB'000
Software and a technology right		
Cost at 1 January, net of accumulated amortisation	3,301	4,501
Transfers from construction in progress	1,586	–
Amortisation provided during the year	(1,359)	(1,200)
At 31 December, net of accumulated amortisation	3,528	3,301
At 31 December:		
Cost	13,588	12,001
Accumulated amortisation	(10,060)	(8,700)
Net carrying amount	3,528	3,301

	Company 2010 RMB'000	2009 RMB'000
Software		
Cost at 1 January, net of accumulated amortisation	–	–
Transfers from construction in progress	1,586	–
Amortisation provided during the year	(159)	–
At 31 December, net of accumulated amortisation	1,427	–
At 31 December:		
Cost	1,586	–
Accumulated amortisation	(159)	–
Net carrying amount	1,427	–

18. INVESTMENTS IN SUBSIDIARIES

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

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	**1,701,411**	1,201,411
Due from subsidiaries	**823,591**	517,077
Due to subsidiaries	**(325,703)**	(131,945)
	2,199,299	1,586,543

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 2010 are as follows:

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered share 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 Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park")	Weihai, the PRC 30 January 2004	Limited liability company	RMB760,000,000	100	Production and sale of cotton yarn and fabric

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered share 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	
	2010	2009
	RMB'000	*RMB'000*
Raw materials	**1,200,503**	996,188
Work in progress	**1,004,661**	722,910
Semi-finished goods	**2,057,278**	207,268
Finished goods	**1,251,783**	695,488
Consumables	**104,533**	67,886
Raw materials in transit	**252,356**	91,070
	5,871,114	2,780,810

19. INVENTORIES (continued)

	Company 2010 RMB'000	2009 RMB'000
Raw materials	**1,046,901**	848,791
Work in progress	**711,840**	529,938
Semi-finished goods	**1,576,292**	148,835
Finished goods	**968,526**	483,615
Consumables	**73,934**	48,996
Consigned materials for processing	**122,721**	94,960
Raw materials in transit	**205,031**	91,069
	4,705,245	2,246,204

At 31 December 2010, the carrying amounts of inventories were net of provision of RMB78 million (2009: RMB81 million).

20. TRADE RECEIVABLES

	Group 2010 RMB'000	2009 RMB'000
Trade receivables	**528,958**	879,347
Impairment	**(7,872)**	(7,872)
	521,086	871,475

	Company 2010 RMB'000	2009 RMB'000
Trade receivables	**489,076**	792,754
Impairment	**(7,768)**	(7,768)
	481,308	784,986

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.

20. TRADE RECEIVABLES (continued)

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	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**516,529**	870,187
3 to 6 months	**464**	410
6 months to 1 year	**2,354**	826
1 to 2 years	**1,739**	52
	521,086	871,475

	Company	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**476,751**	784,561
3 to 6 months	**464**	38
6 months to 1 year	**2,354**	387
1 to 2 years	**1,739**	–
	481,308	784,986

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**7,872**	7,896
Impairment losses reversed	**–**	(24)
At 31 December	**7,872**	7,872

	Company	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**7,768**	7,768
Impairment losses reversed	**–**	–
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 (2009: RMB7.9 million) with a carrying amount before provision of RMB7.9 million (2009: RMB7.9 million). The Group does not hold any collateral or other credit enhancements over these balances.

20. TRADE RECEIVABLES (continued)

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**383.343**	749,762
Less than two months past due	**133.186**	120,425
More than two months past due	**4,557**	1,288
	521,086	871,475

	Company	
	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**360,035**	664,338
Less than two months past due	**116,716**	120,223
More than two months past due	**4,557**	425
	481,308	784,986

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. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2010	2009
	RMB'000	*RMB'000*
Prepayments to suppliers	**266,231**	416,631
Prepaid land lease payments, current portion *(note 16)*	**4,500**	2,816
Interest receivables	**11,702**	11,347
Other tax recoverables	**394,230**	–
Other receivables and prepayments	**75,342**	10,326
	752,005	441,120

	Company	
	2010	2009
	RMB'000	*RMB'000*
Prepayments to suppliers	**146,958**	413,466
Interest receivables	**11,702**	11,347
Other tax recoverables	**237,527**	–
Other receivables and prepayments	**30,137**	10,136
	426,324	434,949

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.

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

	Group	
	2010	2009
	RMB'000	*RMB'000*
Cash and bank balances	**2,412,583**	2,264,210
Time deposits	**1,761,514**	2,723,213
	4,174,097	4,987,423
Less: Pledged time deposits for letter of credit facilities	**(167,014)**	(186,430)
Non-pledged time deposits maturing over three months	**(1,594,500)**	(1,536,783)
Cash and cash equivalents	**2,412,583**	3,264,210

	Company	
	2010	2009
	RMB'000	*RMB'000*
Cash and bank balances	**1,565,086**	1,737,272
Time deposits	**1,749,081**	2,719,254
	3,314,167	4,456,526
Less: Pledged time deposits for letter of credit facilities	**(154,581)**	(182,470)
Non-pledged time deposits maturing over three months	**(1,594,500)**	(1,536,783)
Cash and cash equivalents	**1,565,086**	2,737,273

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to RMB3,970 million (2009: RMB4,862 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 twelve 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.

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	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**1,287,700**	1,548,426
3 to 6 months	**206,366**	57,240
6 months to 1 year	**14,414**	5,435
Over 1 year	**92,744**	89,257
	1,601,224	1,700,358

	Company	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**1,127,165**	1,361,304
3 to 6 months	**179,163**	47,208
6 months to 1 year	**8,824**	4,670
Over 1 year	**91,772**	85,800
	1,406,924	1,498,982

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

25. BILLS PAYABLE

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**160,000**	520,000
3 to 6 months	**420,000**	228,300
	580,000	748,300

	Company	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**–**	420,000
3 to 6 months	**320,000**	–
	320,000	420,000

25. BILLS PAYABLE (continued)

Certain of the Group's bills payable amounting to RMB260 million as at 31 December 2010 were drawn by Weihai Industrial Park in favour of the Company and were discounted with banks by the Company prior to 31 December 2010 (2009: RMB260 million).

Certain of the Group's bills payable amounting to RMB320 million as at 31 December 2010 were drawn by the Company in favour of Binzhou Industrial Park and were discounted with banks by Binzhou Industrial Park prior to 31 December 2010 (2009: RMB420 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. There was no such balance as at 31 December 2010.

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2010	2009
	RMB'000	*RMB'000*
Payroll payable	**263,110**	190,229
Other taxes payable	**16,586**	19,250
Accruals	**27,567**	24,602
Other payables	**691,189**	647,710
	998,452	881,791

	Company	
	2010	2009
	RMB'000	*RMB'000*
Payroll payable	**191,948**	139,209
Other taxes payable	**2,836**	47,083
Accruals	**27,503**	24,236
Other payables	**393,173**	410,152
	615,460	620,680

Other payables are non-interest-bearing.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Current						
Bank loans						
– Unsecured	(a)	2011	1,362,003	918,042	1,069,003	838,043
– Secured	(a)	2011	1,272,985	1,354,023	366,000	584,727
Current portion of long term bank loans						
– Unsecured	(b)	2011	590,063	480,907	590,063	211,007
– Secured	(b)	2011	385,000	1,158,595	185,000	1,003,595
Finance lease payable *(note 28)*	9.10%	2011	238	218	238	218
			3,610,289	3,911,785	2,210,304	2,637,590
Non-current						
Bank loans						
– Unsecured	(b)	2012-2013	1,064,257	1,127,454	794,357	1,097,454
– Secured	(b)	2012-2015	4,122,400	3,561,727	3,602,400	2,981,727
Finance lease payable *(note 28)*	9.10%	2012-2022	4,253	4,491	4,253	4,491
			5,190,910	4,693,672	4,401,010	4,083,672
			8,801,199	8,605,457	6,611,314	6,721,262

(a) The interest rates of these loans range from 3.4391% to 6.9720% per annum, and from six-month LIBOR plus 2.2000% to six-month LIBOR plus 3.5000% per annum.

(b) The interest rates of these loans range from 3.1126% to 8.1000% per annum, and from six-month LIBOR plus 1.5000% to six-month LIBOR plus 1.8000%.

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

	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**3,610,051**	3,911,567	**2,210,066**	2,637,372
In the second year	**1,839,357**	2,487,901	**1,769,357**	1,977,900
In the third to fifth years, inclusive	**3,347,300**	2,201,280	**2,627,400**	2,101,281
	8,796,708	8,600,748	**6,606,823**	6,716,553
Finance lease repayable:				
Within one year	**238**	218	**238**	218
In the second year	**259**	238	**259**	238
In the third to fifth years, inclusive	**928**	851	**928**	851
Beyond five years	**3,066**	3,402	**3,066**	3,402
	4,491	4,709	**4,491**	4,709
	8,801,199	8,605,457	**6,611,314**	6,721,262

(i) Other than certain of the Group's bank loans in the aggregate amount of US$232 million (equivalent to RMB1,536 million) as at the end of the reporting period (2009: US$204 million (equivalent to RMB1,395 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,245 million (2009: RMB5,490 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 RMB9,130 million (2009: RMB10,218 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 RMB185 million (2009: RMB150 million) were secured by certain of the Company's machinery and equipment of an aggregate value of approximately RMB1,378 million (2009: RMB1,368 million) as at the end of the reporting period.

(iii) Certain of the Group's bank loans up to RMB488 million (2009: RMB540 million) were secured by certain of Binzhou Industrial Park's trade receivables from the Company of approximately RMB679 million (2009: RMB749 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 RMB47 million (2009: RMB44 million) were secured by certain of Weihai Weiqiao and Binzhou Industrial Park's bills of lading of approximately of RMB53 million (2009: RMB50 million) as at the end of the reporting period.

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

(v) Weihai Civil Aviation Industrial Company Limited, the non-controlling shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao of up to approximately RMB32 million (2009: RMB38 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 RMB448 million (2009: RMB342 million) as at the end of the reporting period.

Other interest rate information:

	Group			
	2010		2009	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans:				
Unsecured	**1,267,686**	**1,748,637**	856,082	1,670,321
Secured	**973,485**	**4,806,900**	1,854,750	4,219,595
	2,241,171	**6,555,537**	2,710,832	5,889,916

	Company			
	2010		2009	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans:				
Unsecured	**1,117,686**	**1,335,737**	746,083	1,400,421
Secured	**166,000**	**3,987,400**	685,454	3,884,595
	1,283,686	**5,323,137**	1,431,537	5,285,016

28. 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 12 years.

At 31 December 2010, the total future minimum lease payments under the finance lease and its present value were as follows:

Group and Company	Minimum lease payments 2010 RMB'000	Minimum lease payments 2009 RMB'000	Present value of minimum lease payments 2010 RMB'000	Present value of minimum lease payments 2009 RMB'000
Amounts payable				
Within one year	646	646	238	218
In the second year	646	646	259	238
In the third to fifth years, inclusive	1,939	1,939	928	851
After five years	4,203	4,849	3,066	3,402
Total minimum lease payments	7,434	8,080	4,491	4,709
Future finance charges	(2,943)	(3,371)		
Total net finance lease payable	4,491	4,709		
Current portion *(note 27)*	(238)	(218)		
Non-current portion *(note 27)*	4,253	4,491		

29. 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	
	2010 ***RMB'000***	2009 *RMB'000*	**2010** ***RMB'000***	2009 *RMB'000*
At 1 January	**138,929**	140,816	**24,181**	18,418
Additions	**54,740**	7,740	**–**	7,740
Recognised as income during the year	**(9,079)**	(9,627)	**(1,427)**	(1,977)
At 31 December	**184,590**	138,929	**22,754**	24,181
Portion classified as current liabilities	**(8,927)**	(9,535)	**(1,276)**	(1,884)
Non-current portion	**175,663**	129,394	**21,478**	22,297

The government grants were provided by the Finance Bureau of Binzhou City for the purposes of providing support for product development and a pollution prevention project. The deferred income is recognised as income over the expected useful lives of the relevant fixed assets to which the grants related by equal annual instalments.

30. DEFERRED TAX

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

	Group		Company	
	2010 ***RMB'000***	2009 *RMB'000*	**2010** ***RMB'000***	2009 *RMB'000*
Deferred tax assets				
At 1 January	**173,328**	118,007	**78,120**	45,009
(Charged)/credited to profit or loss during the year	**(71,503)**	55,321	**(55,259)**	33,111
At 31 December	**101,825**	173,328	**22,861**	78,120
Deferred tax liabilities				
At 1 January	**5,472**	10,388	**–**	–
Charged/(credited) to profit or loss during the year	**652**	(4,916)	**–**	–
At 31 December	**6,124**	5,472	**–**	–
Deferred tax (charged)/credited to profit or loss *(note 10)*	**(72,155)**	60,237	**(55,259)**	33,111

30. DEFERRED TAX (continued)

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
Tax deductible loss	**28,721**	68,171	**–**	22,225
Provision against inventories	**19,573**	20,164	**15,200**	14,900
Impairment of trade receivables	**1,968**	1,968	**1,942**	1,942
Impairment of property, plant and equipment and investment properties	**5,725**	37,675	**1,257**	32,132
Government grants recognised as deferred income	**46,148**	34,732	**5,688**	6,045
Government grants not recognised as deferred income	**–**	9,250	**–**	–
Interest capitalisation on fixed assets, net of related depreciation	**(5,893)**	(6,238)	**(5,893)**	(6,238)
Difference in depreciation expenses for tax purposes	**5,583**	7,606	**4,667**	7,114
At 31 December	**101,825**	173,328	**22,861**	78,120
Deferred tax liabilities				
Unrealised losses arising from intra-group sales	**1,184**	254	**–**	–
Interest capitalisation on fixed assets, net of related depreciation	**4,940**	5,218	**–**	–
At 31 December	**6,124**	5,472	**–**	–

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 RMB265 million (2009: RMB273 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.

Deferred tax assets have not been recognised in respect of tax losses of RMB150 million (2009: Nil), as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. SHARE CAPITAL

	2010 RMB'000	2009 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.

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 54 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 2009	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
Final 2009 dividend declared	–	–	–	(278,890)	(278,890)
Total comprehensive income for the year *(note 11)*	–	–	1,343,696	–	1,343,696
Transfer from retained profits	–	134,370	(134,370)	–	–
Proposed final 2010 dividend *(note 12(b))*	–	–	(522,665)	522,665	–
At 31 December 2010	6,673,379	1,209,020	5,044,270	522,665	13,449,334

33. NOTE TO THE STATEMENT OF CASH FLOWS

Major non-cash transactions

There was no major non-cash transaction during 2010. In 2009, sale of electricity amounting to RMB985 million was utilised to set off the balance due to a third party resulted from an asset swap transaction, and this balance had been fully settled by the end of 2009.

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Letters of credit issued	**200,374**	158,401

	Company	
	2010	2009
	RMB'000	RMB'000
Letters of credit issued	**149,234**	133,804
Guarantees given to banks in connection with facilities granted to subsidiaries	**632,913**	491,513
	782,147	625,317

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from three to twenty years.

At 31 December 2010, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	Group	
	2010 *RMB'000*	2009 *RMB'000*
Within one year	292	2,827
In the second to third years, inclusive	–	578
	292	3,405

	Company	
	2010 *RMB'000*	2009 *RMB'000*
Within one year	500	2,827
In the second to fifth years, inclusive	832	578
After five years	2,963	–
	4,295	3,405

35. OPERATING LEASE ARRANGEMENTS (continued)

(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 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Within one year	**24,926**	26,309
In the second to fifth years, inclusive	**97,956**	104,090
After five years	**241,218**	274,237
	364,100	404,636

	Company	
	2010	2009
	RMB'000	*RMB'000*
Within one year	**24,070**	25,393
In the second to fifth years, inclusive	**94,532**	100,423
After five years	**231,274**	262,970
	349,876	388,786

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(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	
	2010	2009
	RMB'000	*RMB'000*
Contracted, but not provided for	**151,594**	50,000

	Company	
	2010	2009
	RMB'000	*RMB'000*
Contracted, but not provided for	**26,114**	25,000

37. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under Zouping Investment and has extensive transactions and relationships with the members of Zouping Investment. 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 Zouping Investment is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

(a) Transactions with related parties

Name of related party	Relationship with the Company	Nature of transactions	2010 RMB'000	2009 RMB'000
The Holding Company	The immediate holding company	Expenses on land use rights and property leasing	**23,724**	24,849
		Sale of cotton yarn	**58,957**	168,051
		Revenue on supply of electricity	**969,465**	1,175,520
		Revenue on properties leasing	**2,042**	3,000
Weihai Xijiao Thermal Power Co., Ltd.	A fellow subsidiary*	Expenses on land use right leasing	**–**	370
Shandong Weilian Printing and Dyeing Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**431,187**	364,814
Shandong Weiqiao Bleaching-Dyeing Co., Ltd.	An associate of the Holding Company	Sale of cotton yarn	**–**	2,793
Shandong Hengfu Knitting Co., Ltd.	A fellow subsidiary	Sale of cotton yarn	**42,267**	30,724
		Sale of grey fabric	**155**	–
Shandong Weiqiao Hongyuan Home Textile Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**4,137**	18,386
Shandong Weiqiao Tekuanfu Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**108,792**	236,724
Shandong Weiqiao Clothes Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**8**	12
		Sale of denim	**44,177**	1,030
Shandong Weiqiao Elite Garment Co., Ltd.	A fellow subsidiary	Sale of grey fabric	**–**	24
Shandong Weiqiao Jiajia Home Textile Co., Ltd.	A fellow subsidiary*	Sale of grey fabric	**38,314**	28,334
Shandong Huibin Cotton Textile & Bleaching-Dyeing Co., Ltd.	A company controlled by the key management personnel **	Sale of cotton yarn	**11,128**	–

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

** This company, formerly known as Shandong Weiqiao Bleaching-Dyeing Co. Ltd, became a related party since February 2010 following the change of its shareholders. Shandong Weiqiao Bleaching-Dyeing Co. Ltd. had been a related party, as an associate of the Holding Company until May 2009 before the Holding Company disposed of its equity interests to a third party.

37. 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.

37. 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, 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.

37. 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 now generates all of the electricity and steam required for its operational needs and has ceased purchasing electricity and steam from the Holding Company.

Lease agreements with the Holding Company

As lessor

In the year ended 31 December 2010, the Company, as lessor, 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 Second Production Area. The agreement was not extended after its expiry on 31 October 2010.

(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 RMB1,000,000 for two buildings each, which are located in Zouping First Production Area and Zouping Second Production Area, respectively. The lease of the building in Zouping First Production Area was terminated on 17 March 2010 by mutual consent of both parties.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee

In the year ended 31 December 2010, the Group 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. The agreement was terminated on 9 March 2010 by mutual consent of both parties.

(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. The agreement was terminated on 9 March 2010 by mutual consent of both parties.

(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. The agreement was terminated on 9 March 2010 by mutual consent of both parties.

(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.

37. 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.

The agreement was extended after its expiry on 1 February 2010. The new agreement was dated 31 January 2010 with the commencement date and expiry date on 1 February 2010 and 1 February 2013, respectively, at an annual rental of RMB600,000.

(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 the Weiqiao First Thermal Power Plant is 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 the Zouping Third Industrial Park is 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.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee (continued)

(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.

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

	Due from related parties		Due to related parties	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**46,040**	51,954	**–**	–
Fellow subsidiaries	**–**	–	**9,740**	7,291

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

	2010	2009
	RMB'000	*RMB'000*
Short term employee benefits	**4,451**	4,761
Post-employment benefits	**30**	25
Total compensation paid to key management personnel	**4,481**	4,786

Further details of directors' and supervisors' emoluments 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.

38. 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			
	2010		2009	
Financial assets	**Loans and receivables** *RMB'000*	**Total** *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade receivables	**521,086**	**521,086**	871,475	871,475
Due from the immediate holding company	**46,040**	**46,040**	51,954	51,954
Financial assets included in prepayments, deposits and other receivables	**87,044**	**87,044**	21,673	21,673
Pledged time deposits	**167,014**	**167,014**	186,430	186,430
Non-pledged time deposits maturing over three months	**1,594,500**	**1,594,500**	1,536,783	1,536,783
Cash and cash equivalents	**2,412,583**	**2,412,583**	3,264,210	3,264,210
	4,828,267	**4,828,267**	5,932,525	5,932,525

	2010		2009	
Financial liabilities	**Financial liabilities at amortised cost** *RMB'000*	**Total** *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	**1,435,646**	**1,435,646**	1,590,620	1,590,620
Bills payable	**580,000**	**580,000**	748,300	748,300
Financial liabilities included in other payables and accruals	**981,866**	**981,866**	862,541	862,541
Finance lease payable	**4,491**	**4,491**	4,709	4,709
Interest-bearing bank loans	**8,796,708**	**8,796,708**	8,600,748	8,600,748
	11,798,711	**11,798,711**	11,806,918	11,806,918

38. 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

Financial assets	2010		2009	
	Loans and receivables	**Total**	Loans and receivables	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade receivables	**481,308**	**481,308**	784,986	784,986
Due from subsidiaries	**579,029**	**579,029**	517,077	517,077
Due from the immediate holding company	**46,040**	**46,040**	51,954	51,954
Financial assets included in prepayments, deposits and other receivables	**41,839**	**41,839**	21,483	21,483
Pledged time deposits	**154,581**	**154,581**	182,470	182,470
Non-pledged time deposits maturing over three months	**1,594,500**	**1,594,500**	1,563,783	1,563,783
Cash and cash equivalents	**1,565,086**	**1,565,086**	2,737,273	2,737,273
	4,462,383	**4,462,383**	5,859,026	5,859,026

Financial liabilities	2010		2009	
	Financial liabilities at amortised cost	**Total**	Financial liabilities at amortised cost	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade payables	**1.249.956**	**1,249,956**	1,395,522	1,395,522
Bills payable	**320,000**	**320,000**	420,000	420,000
Due to subsidiaries	**325,703**	**325,703**	131,945	131,945
Financial liabilities included in other payables and accruals	**612,624**	**612,624**	573,597	573,597
Finance lease payable	**4,491**	**4,491**	4,709	4,709
Interest-bearing bank loans	**6,606,823**	**6,606,823**	6,716,553	6,716,553
	9.119.597	**9,119,597**	9,242,326	9,242,326

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Financial assets				
Trade receivables	521,086	871,475	521,086	871,475
Due from the immediate holding company	46,040	51,954	46,040	51,954
Financial assets included in prepayments, deposits and other receivables	87,044	21,673	87,044	21,673
Pledged time deposits	167,014	186,430	167,014	186,430
Non-pledged time deposits maturing over three months	1,594,500	1,536,783	1,594,500	1,536,783
Cash and cash equivalents	2,412,583	3,264,210	2,412,583	3,264,210
	4,828,267	5,932,525	4,828,267	5,932,525
Financial liabilities				
Trade payables	1,435,646	1,590,620	1,435,646	1,590,620
Bills payable	580.000	748,300	580,000	748,300
Financial liabilities included in other payables and accruals	981,866	862,541	981,866	862,541
Finance lease payable	4,491	4,709	4,491	4,709
Interest-bearing bank loans	8,796,708	8,600,748	8,793,134	8,596,194
	11,798,711	11,806,918	11,795,137	11,802,364

39. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Trade receivables	**481,308**	784,986	**481,308**	784,986
Due from subsidiaries	**579,029**	517,077	**579,029**	517,077
Due from the immediate holding company	**46,040**	51,954	**46,040**	51,954
Financial assets included in prepayments, deposits and other receivables	**41,839**	21,483	**41,839**	21,483
Pledged time deposits	**154,581**	182,470	**154,581**	182,470
Non-pledged time deposits maturing over three months	**1,594,500**	1,563,783	**1,594,500**	1,563,783
Cash and cash equivalents	**1,565,086**	2,737,273	**1,565,086**	2,737,273
	4,462,383	5,859,026	**4,462,383**	5,859,026
Financial liabilities				
Trade payables	**1,249,956**	1,395,522	**1,249,956**	1,395,522
Bills payable	**320,000**	420,000	**320,000**	420,000
Due to subsidiaries	**325,703**	131,945	**325,703**	131,945
Financial liabilities included in other payables and accruals	**612,624**	573,597	**612,624**	573,597
Finance lease payable	**4,491**	4,709	**4,491**	4,709
Interest-bearing bank loans	**6,606,823**	6,716,553	**6,606,611**	6,711,999
	9,119,597	9,242,326	**9,119,385**	9,237,772

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, non-pledged time deposits maturing over three months, pledged deposits, trade receivables, trade and bills payables, finance lease payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, and amounts due from the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms and remaining maturities.

39. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and Company did not have any financial instruments measured at fair value as at 31 December 2010 and 31 December 2009; and during the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments 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.

In prior years, the Group entered into derivative transactions, principally interest rate swaps. The purpose was 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's 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, in prior years, the Group entered into interest rate swaps, in which the Group agreed 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 into such transactions as at the end of the reporting period.

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*
2010				
Renminbi	**50**	**28,849**	**21,637**	**17,015**
United States dollar	**50**	**3,954**	**2,966**	**2,966**
2009				
Renminbi	50	24,720	18,540	16,271
United States dollar	50	4,791	3,593	3,593

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 82% or US$65 million (2009: 65% or US$89 million) of the Group's trade receivables were denominated in United States dollars, whilst approximately 45% or US$108 million (2009: 64% or US$160 million) of the Group's trade payables and 18% or US$232 million (2009: 16% or US$204 million) of bank loans were denominated in United States dollars.

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) and equity.

	Increase/ (decrease) in US$ rate *%*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2010			
If RMB strengthens against the United States dollar	**(5)**	**81,411**	**61,059**
If RMB weakens against the United States dollar	**5**	**(81,411)**	**(61,059)**
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)

Credit risk

Credit risk arises from the possibility that the counterparty of a transaction is unwilling or unable to fulfill 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 34 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 7% (2009: 12%) and 25% (2009: 31%) of the total trade receivables, respectively.

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. 41% of the Group's debts would mature in less than one year as at 31 December 2010 (2009: 45%) 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:

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	2010				
	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	996,467	439,179	–	–	1,435,646
Bills payable	160,000	420,000	–	–	580,000
Financial liabilities included in other payables and accruals	849,230	132,636	–	–	981,866
Interest-bearing bank loans*	1,276,310	2,337,734	5,187,676	–	8,801,720
Interest payment on bank loans	105,873	244,882	358,987	–	709,742
Finance lease payable *(note 28)*	162	484	2,585	4,203	7,434
	3,388,042	3,574,915	5,549,248	4,203	12,516,408

	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 28)*	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 RMB5 million (2009: RMB12 million) as at the end of the reporting period.

40. 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

	2010				
	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	824,206	425,750	–	–	1,249,956
Bills payable	–	320,000	–	–	320,000
Due to subsidiaries	325,703	–	–	–	325,703
Financial liabilities included in other payables and accruals	573,470	39,154	–	–	612,624
Interest-bearing bank loans*	552,269	1,661,790	4,397,775	–	6,611,834
Interest payment on bank loans	78,462	199,060	309,310	–	586,832
Finance lease payable *(note 28)*	162	484	2,585	4,203	7,434
	2,354,272	2,646,238	4,709,670	4,203	9,714,383

	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 payables 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 28)*	162	484	2,585	4,849	8,080
	3,145,660	2,293,790	4,315,346	4,849	9,759,645

* The interest-bearing bank loans listed above are the nominal amounts, which do not include pertinent transaction costs of approximately RMB5 million (2009: RMB12 million) as at the end of the reporting period.

40. 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 and the risk characteristics of the underlying assets. 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, policies or processes for managing capital during the years ended 31 December 2010 or 31 December 2009.

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% and 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:

	2010 *RMB'000*	2009 *RMB'000*
Interest-bearing bank loans	8,796,708	8,600,748
Less: Cash and cash equivalents	(2,412,583)	(3,264,210)
Net debt	6,384,125	5,336,538
Total equity	15,524,410	14,168,090
Gearing ratio	41.1%	37.7%

41. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2011, Weihai Industrial Park, together with several third parties, set up Weihai Huancui District Hongyuan Microfinance Co., Ltd. ("Hongyuan"), a limited liability company registered in Huancui District, Weihai City, Shandong Province, China. The principal activity of Hongyuan is to provide finance and financial consultation services to small enterprises within Huancui District, Weihai City. Weihai Industrial Park holds a 30% interest in Hongyuan and shares control with other investors.

Save as disclosed above, no other significant events have taken place subsequent to 31 December 2010.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 18 March 2011.

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 2010 will be held at 9:00 a.m. on 24 May 2011 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 2010;

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 2010;

3. to consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2011;

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 2011 and Ernst & Young as the Company's international auditors for the year ending 31 December 2011 and the granting of the authorisation to the Board of Directors of the Company to determine their remuneration;

5. to consider and approve the re-election of Ms. Zhao Suhua ("Ms. Zhao") (Details of Ms. Zhao are disclosed in Note(H)) as a non-executive director of the Company with a term commencing from the date for convening the annual general meeting for 2010 to the date for convening the annual general meeting for the year ending 31 December 2013;

6. to consider and approve the re-election of Ms. Wang Xiaoyun ("Ms. Wang") (Details of Ms. Wang are disclosed in Note(I)) as a non-executive director of the Company with a term commencing from the date for convening the annual general meeting for 2010 to the date for convening the annual general meeting for the year ending 31 December 2013;

7. 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

8. **"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

(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.

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."

9. **"THAT**:

(1) Depending on the bond market conditions in China, the Company be authorised to issue the medium-term notes pursuant to the following principal terms:

Issuer:	the Company
Place of issue:	China
Issue size:	an aggregate principal amount of no more than RMB3.0 billion and will be issued in one or more batches according to the actual funding needs
Term:	7 years from the date of issue
Rate:	to be determined with the underwriter upon issue after taking into consideration of the prevailing market conditions and subject to approval by the relevant regulatory authorities in China (if required)
Target investors:	all financial market institutional investors in China
Use of proceeds:	include but not limited to replenish the working capital of the Company and its subsidiaries and finance other funding needs

Precedent conditions to the issue:

(i) shareholders' approval at the general meeting of the Company by way of special resolution to approve the issue of medium-term notes; and

(ii) National Association of Financial Market Institutional Investors' acceptance of the application for registration of medium-term notes of the Company or completion of relevant procedures required by the PRC laws.

(2) the committee comprising of any two executive Directors of the Company be authorised generally and unconditionally to deal with all matters relating to the proposed issue of medium-term notes, including but not limited to the following:

(i) to determine the details of the issue of medium-term notes and formulate and adopt specific plans for the issue of medium-term notes, including but not limited to issue size of no more than RMB3.0 billion, batch issue of medium-term notes, amount and term of each batch, repayment term and method for principal and interests, rate of medium-term notes or its pricing mechanism, provision of guarantee, specific arrangements based on the actual use of the above proceeds and use of proceeds and selection of qualified professional parties to participate in the issue of medium-term notes;

(ii) to engage in all negotiations in connection with the issue of medium-term notes, sign on behalf of the Company and execute all the relevant agreements and other documents, and comply with information disclosure procedures in accordance with the requirements of the regulatory authorities and the Listing Rules (if necessary);

(iii) to apply for approval from the relevant regulatory authorities for the issue of medium-term notes, and make adjustment as appropriate regarding the specific issue plans and terms of medium-term notes based on the advice given by the relevant regulatory authorities (if any); and

(iv) to take all necessary actions that are in the interest of the Company, and make decision and arrangements in connection with all matters relating to the issue of medium-term notes.

the committee comprising of any two executive Directors of the Company be authorised to deal with the above matters for a period of 24 months from the date on which the relevant resolutions are considered and approved at the annual general meeting."

By Order of the Board
Zhang Jinglei
Executive Director and Company Secretary

Shandong, the PRC
8 April 2011

As at the date of this notice, the board of Directors of the Company comprises 11 Directors, namely Ms. Zhang Hongxia, Ms. Zhao Suwen, Ms. Zhang Yanhong Mr. Zhang Jinglei 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 25 April 2011 to 24 May 2011 (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 21 April 2011.

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 21 April 2011.

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 4 May 2011.

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

Fourth 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 2010.

(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) Details of Ms. Zhao Suhua, the non-executive Director of the Company to be re-elected are as follows:

Ms. Zhao Suhua ("Ms. Zhao"), aged 41, 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 13 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).

Save as disclosed above, Ms. Zhao has not held any other directorship in any other listed public companies in the last three years. Ms. Zhao is the elder sister of Ms. Zhao Suwen, an executive director of the Company. Other than that, Ms. Zhao does not have any relationship with any directors, the senior management, substantial shareholders or controlling shareholders of the Company. Ms. Zhao holds 3.09% of the interests in Shandong Weiqiao Chuangye Group Company Limited (the "Holding Company") (an associated corporation (interpretation in Division XV of the Securities and Future Ordinance) of the Company), including 0.28% of beneficial interests and 2.81% of spouse interests (being held by Mr. Wei Yingzhao, the husband of Ms. Zhao). Save as the aforesaid, Ms. Zhao does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance or other information required to be disclosed in relation to Ms. Zhao in accordance with Rule 13.51(2) of the Listing Rules. Should the resolutions for her appointment been duly passed, during the term of appointment, Ms. Zhao will be paid RMB100,000 upon appointment as annual remuneration. Such remuneration is the same as the remuneration level of the other current non-executive directors of the Company. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders of the Company.

(I) Details of Ms. Wang Xiaoyun, the non-executive Director of the Company to be re-elected are as follows:

Ms. Wang Xiaoyun ("Ms. Wang"), aged 46, 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 16 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).

Save as disclosed above, Ms. Wang has not held any other directorship in any other listed public companies in the last three years. Ms. Wang does not have any relationship with any directors, the senior management or substantial or controlling shareholders of the Company. Ms. Wang holds 0.25% of the interests in the Holding Company (an associated corporation (interpretation in Division XV of the Securities and Future Ordinance) of the Company). Save as the aforesaid, Ms. Wang does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance or other information required to be disclosed in relation to Ms. Wang in accordance with Rule 13.51(2) of the Listing Rules. Should the resolutions for her appointment been passed, during the term of appointment, Ms. Wang will be paid RMB100,000 upon appointment as remuneration. Such remuneration is the same as the remuneration level of the other current non-executive directors of the Company. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders of the Company.

(J) 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.

* *For identification purpose only*