魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

2012
Annual Report

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December (RMB'000)				
	2008	2009	2010	2011	**2012**
Revenue	16,453,087	14,333,088	17,887,429	15,232,034	**15,247,956**
Gross profit	1,430,734	1,243,557	2,879,606	278,489	**1,037,207**
Gross profit margin (%)	8.7	8.7	16.1	1.8	**6.8**
Profit before income tax	720,589	1,199,400	2,257,304	254,555	**663,741**
Profit attributable to owners of the parent	596,212	892,446	1,627,376	245,584	**481,880**
Net profit margin (%)	3.6	6.2	9.1	1.6	**3.2**
Basic earnings per share (RMB)	0.50	0.75	1.36	0.21	**0.40**

Assets and liabilities

	As at 31 December (RMB'000)				
	2008	2009	2010	2011	**2012**
Total assets	27,296,250	26,754,785	28,389,854	29,356,819	**28,373,669**
Equity	13,369,078	14,074,124	15,422,610	15,238,312	**15,643,874**
Total liabilities	13,830,749	12,586,695	12,865,444	14,118,507	**12,729,795**
Return on equity* (%)	4.5	6.5	11.0	1.6	**3.1**
Current ratio (times)	1.0	1.2	1.5	1.4	**1.8**
Accounts receivable turnover (days)	9	22	11	8	**13**
Inventory turnover (days)	92	78	143	245	**149**
Accounts payable turnover (days)	63	43	33	84	**50**

Note: * Calculated based on average equity

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Zhang Shiping
Zhao Suhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin
Xu Wenying
Chan Wing Yau, George

SUPERVISORS

Lu Tianfu
Wang Wei
Wang Xiaoyun

COMPANY SECRETARY

Zhang Jinglei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Wang Naixin *(Chairman)*
Zhang Hongxia
Xu Wenying

NOMINATION COMMITTEE

Zhang Hongxia *(Chairman)*
Wang Naixin
Xu Wenying

AUTHORISED REPRESENTATIVES

Zhao Suwen
Zhang Jinglei

PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADDRESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Weifang Road
Zouping 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 2012

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

INVESTOR RELATIONS

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IR & PR CONSULTANT

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Email: weiqiao@ChristensenIR.com

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

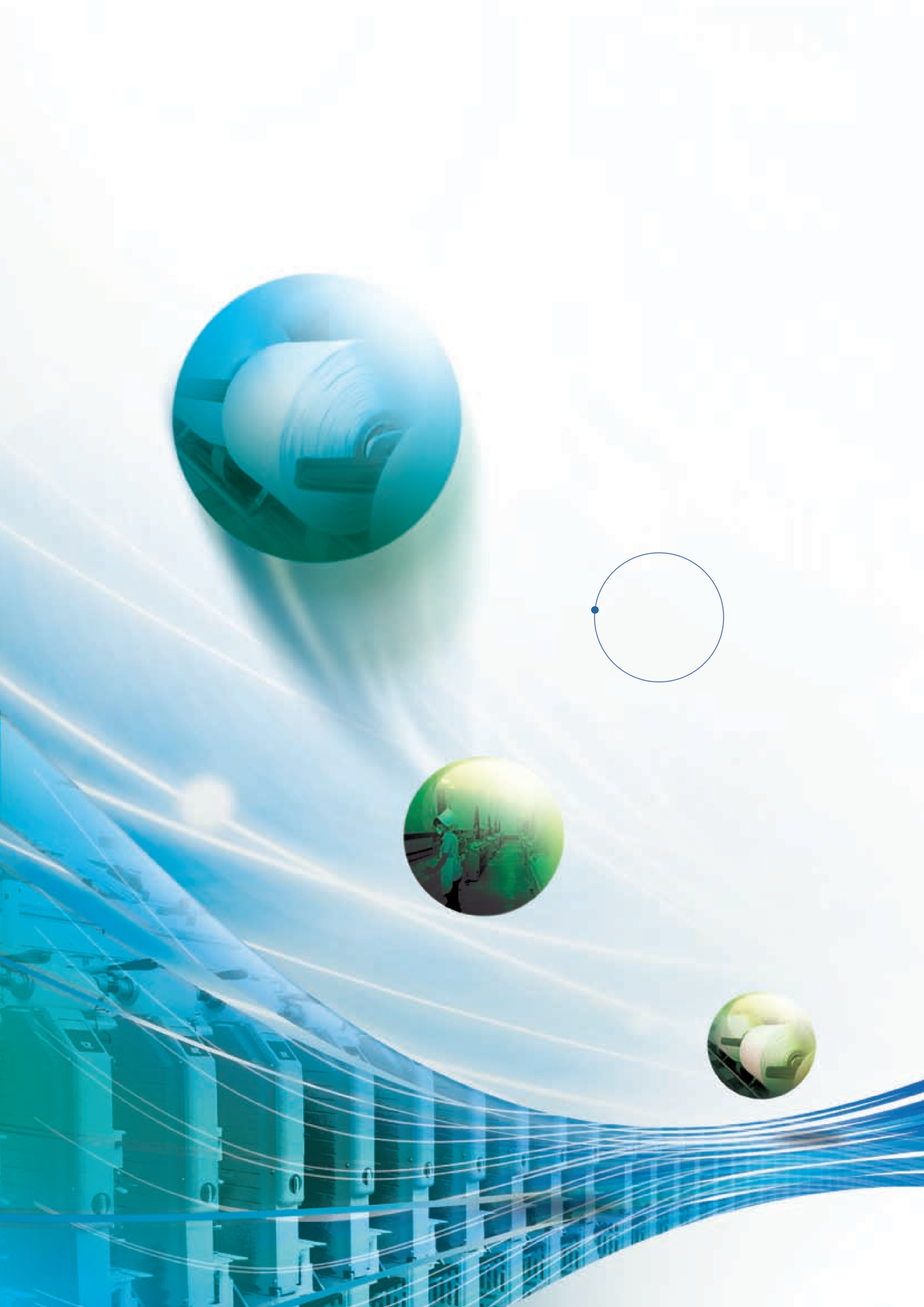
Annual Results Announcement Date
15 March 2013

DATE OF ANNUAL GENERAL MEETING

13 May 2013

DISTRIBUTION DATE OF FINAL DIVIDEND

28 June 2013



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 and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Year" or "Year under Review").

Since the beginning of 2012, the textile industry in China has faced a very complex and volatile environment both domestically and overseas. A variety of adverse factors such as weak demand in overseas markets, slowing demand in domestic markets, widening gaps between domestic and overseas cotton prices, and increasing production costs, had resulted in a notable slowdown in China's textile industry. Specifically, the growth rates of the textile industry including production, export and investment declined as compared with that of last year, and the profitability of the industry decreased significantly. However, growth rates of the textile industry's major economic indicators have picked up slightly since September of 2012 due to stable growth in domestic demand, adjustments made by enterprises in commodity inventory levels, and lower comparable basis of last year; while the gap between domestic and overseas cotton prices continued to widen, and the demand of international markets remained sluggish, leaving the prospect for industry recovery on a shaky ground.

CHAIRMAN'S STATEMENT

During the Year, the international market for textile products and apparel remained sluggish due to the adverse effects of the weak recovery in the global economy and the sovereign debt crisis in Europe, while competition became more intense. According to figures released by the Administration of China Customs, China's total exports of textile products and apparel from January to December 2012 increased by 2.8% from 2011 to approximately US$255 billion, representing a decrease in growth rate by 17.3 percentage points from that of the previous year. In addition, the situation of ultimate demand from international markets was unoptimistic, as part of export orders for textile products and apparel began shifting from China to neighboring countries with lower production costs, thereby further intensifying the international competitions.

During the Year under Review, the domestic market was an important support for sustainable and healthy development of China's textile industry. The domestic market maintained a fairly stable growth rate. According to statistics released by the National Bureau of Statistics of China, from January to December 2012, sales of apparel, footwear, headwear and knitwear by companies in China with an annual revenue of over RMB20 million grew by approximately 18.0% as compared with that of 2011, which represents a decrease of approximately 6.2 percentage points in the growth rate from that of 2011.

CHAIRMAN'S STATEMENT

During the year of 2012, domestic cotton prices remained stable while overseas cotton prices declined continuously, making overseas cotton much cheaper than domestic cotton. As a result, the cotton costs of textile companies in China remained high, which adversely affected the competitiveness of Chinese companies in the global market.

During 2012, when the market condition of textile industry was grim, the Group recorded revenue of approximately RMB15,248 million, which was at about the same level as compared with that in 2011. Net profit attributable to owners of the parent was approximately RMB482 million, representing an increase of approximately 95.9% as compared with that of 2011. Earnings per share were RMB0.40. The Board recommended the payment of a final dividend of RMB0.1246 per share (tax inclusive) for the year ended 31 December 2012.

Looking forward, given that the issue of higher price of domestic cotton as opposed to overseas cotton will persist in the short term, coupled with the effects of factors such as increasing labor costs, the operation of China's textile industry will remain under pressure. However, from the view of domestic environment in China, it is expected that the domestic textile products and apparel market will continue to grow at a steady pace with the gradual stabilization of the domestic economy. From the view of global environment, despite the uncertainty in the global economy, the possibility of significant deterioration remains relatively remote, and the demand in the overseas market is expected to touch the bottom level. From the view of favourable policies for China's economic development, further advance of urbanization will provide a broad market space for the growth in domestic demand. With increasing personal income, demand for various middle-and-high end textile products and apparel is expected to grow. Overall, the operating environment for China's textile enterprises will remain challenging in 2013, and is expected to show a stable but slow growth.

CHAIRMAN'S STATEMENT

As the world's largest cotton textile enterprise, we have highly automated production facilities and are supported by an innovative research and development team. While proactively expanding our market and reducing inventory levels, we will continue to increase production efficiency and reduce the labour used per 10,000 spindles through optimizing operating process coupled with technical innovations and upgrades. We intend to maintain our strategy of focusing on high-end products, developing emerging market and expanding market share by taking advantage of industry consolidation. We will also proactively update our products, adjust and optimize our product mix by leveraging our solid financial resources and market position. We will continue to lower our raw material costs to the maximum extent by leveraging our cotton import quota advantages. Our timely monitoring of the market changes will allow us to better grasp the opportunities generated from the market transition, to mitigate the impacts of the market's current volatility and maintain our leading position in the global cotton textile industry.

The management team of Weiqiao Textile and I will continue to work diligently to maximize shareholders' value. It is the trust and support of our shareholders, together with the efforts of our staff, that will enable us to better achieve our goals. I would like to express my sincere gratitude to our shareholders, investors and business partners for their trust and support. I would also like to thank the members of the Board, the entire management team and our employees, for their dedication and hard work for the Group.

Chairman
Zhang Hongxia

Shandong, People's Republic of China
15 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Since the beginning of 2012, the overall textile industry in China has been under great pressure due to weak demand from overseas markets, the higher price of domestic cotton as opposed to overseas cotton and rising labor costs, which led to a significant slowdown in the growth rate of the textile industry in China.

During the Year under Review, the growth in the domestic market remained stable, but the growth rate slowed down. According to the statistics released by China National Textile and Apparel Council Statistics Center, sales of apparel from January to December of 2012 by distribution companies in China with over RMB20 million in annual revenues grew by 18.0% year-over-year, which represents a decrease of 6.2 percentage points in the growth rate from that of the corresponding period of last year. The proportion of domestic sales of large textile companies increased to approximately 84.3% as compared to approximately 82.9% for the corresponding period of last year.

During the Year, China's exports of textile products grew at a slow rate, with a significant decrease in growth rate. According to the statistics released by the Administration of China Customs, China's export of textile products in 2012 totaled approximately US$95.8 billion, which rose by approximately 1.2% compared with that of the corresponding period of last year. The growth rate decreased by approximately 21.7 percentage points from approximately 22.9% of the corresponding period of 2011. During the Year, exports of textile products and apparel to the below countries and regions were as follows:

– United States: approximately US$38.9 billion, representing an increase of approximately 3.3% from the corresponding period of last year, while the growth rate decreased by 8.4 percentage points.

– Japan: approximately US$27.2 billion, representing an increase of approximately 0.5%, while the growth rate decreased by 20.3 percentage points.

– Hong Kong: approximately US$16.3 billion, representing an increase of approximately 5.8%, while the growth rate increased by 2.8 percentage points.

– European Union: approximately US$47.1 billion, representing a decrease of approximately 11.9%, while the growth rate decreased by 31.6 percentage points.

The export of textile products and apparel to emerging markets such as ASEAN, the Middle East, and Africa, increased by approximately 34.2%, 15.8% and 14.7%, respectively.

During the Year under Review, the average price of cotton according to the Cotton A Index in China was approximately RMB20,035 per ton, representing a decrease of approximately 20.8% as compared to that of the corresponding period of last year; while the average price of cotton according to the Cotlook A Index was approximately 89.24 US cents per pound, which represents a decrease of approximately 40.7% as compared with that of the corresponding period of last year. Due to a much higher domestic cotton price over overseas cotton, textile companies in China bore higher production costs than their overseas peers, weakening the competitiveness of Chinese companies and leading to the substantial decrease in the growth rate of exports.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year under Review, the Group's financial results were affected by weak demand from overseas market, a slowdown in demand from the domestic market, and by the large cotton price gap between domestic and overseas markets. Despite the challenging market conditions, the Group continued to strengthen its business development capabilities, internal management and cost controls, as well as optimizing its allocation of resources. The Group also continued to further optimize its product portfolio to cater to market demand. It also took a more flexible sales strategy to reduce inventory level of finished products, increased the proportion of medium-and-high-end products, and made other improvements across its value chain from research and development to procurement, production and marketing and sales, so as to ensure its stable operation. The Group is confident that it will overcome the current challenges it faces and take advantage of the opportunities arising from market consolidation to further enhance its dominant position in the industry.

For the year ended 31 December 2012, the Group had four production bases, all of which are located in Shandong Province of China, namely:

1. Weiqiao Production Base (currently has two production areas);

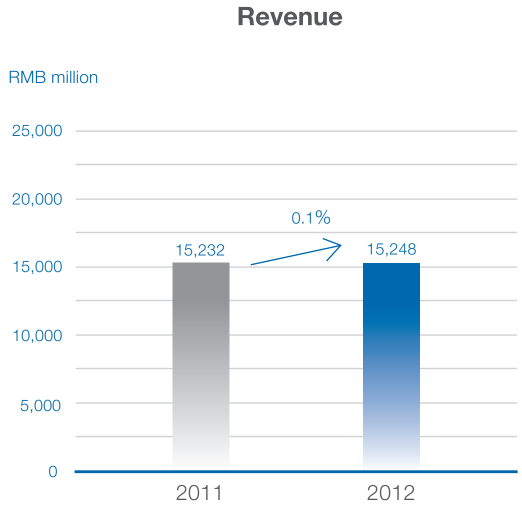
2. Binzhou Production Base (the First Production Area and the Second Production Area of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"));

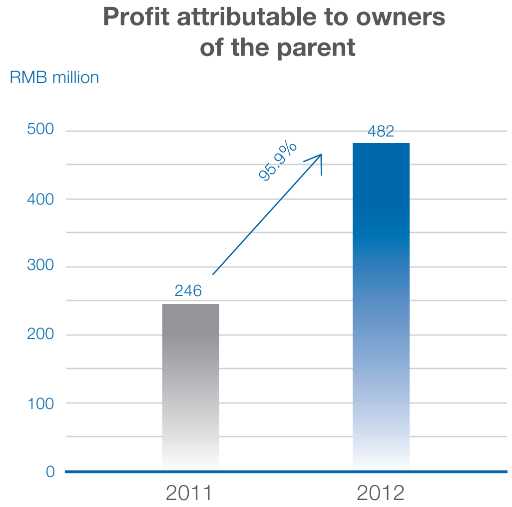
3. Weihai Production Base (Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weiwei Industrial Park")); and

4. Zouping Production Base (the First Industrial Park of Zouping, the Second Industrial Park of Zouping and the Third Industrial Park of Zouping).

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended 31 December 2012 and 2011, the revenue of the Group and profit attributable to owners of the parent were as follows:



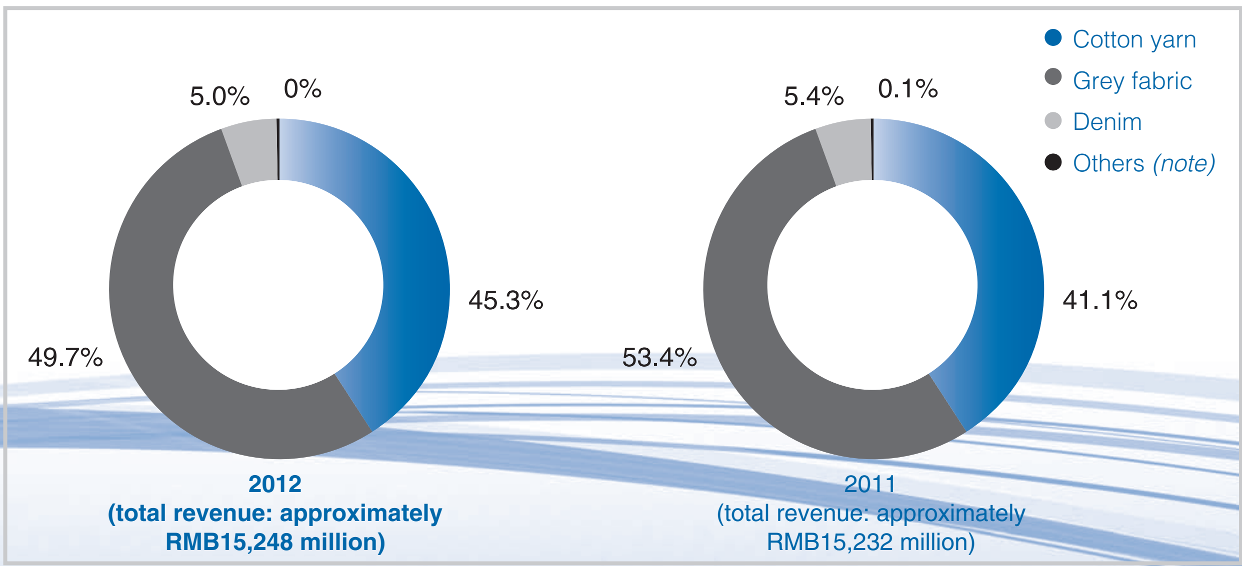


For the year ended 31 December 2012, the Group recorded revenue of approximately RMB15,248 million, which remained at about the same level as compared with that of the same period of last year. It was primarily due to the flexible approach taken by the Group to its sales strategy to reduce inventory levels and increase sales volume under the condition of significant decrease in selling prices as compared with that of last year.

For the year ended 31 December 2012, profit attributable to owners of the parent accounted to approximately RMB482 million, representing an increase of approximately 95.9% over last year. The increase in profit was primarily due to the increase in gross profit and increase in profit generated from sales of electricity and steam as a result of the decrease in coal price during the Year.

The charts below compares the breakdown of revenue by product for the years ended 31 December 2012 and 2011:

Proportion of revenue by product



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

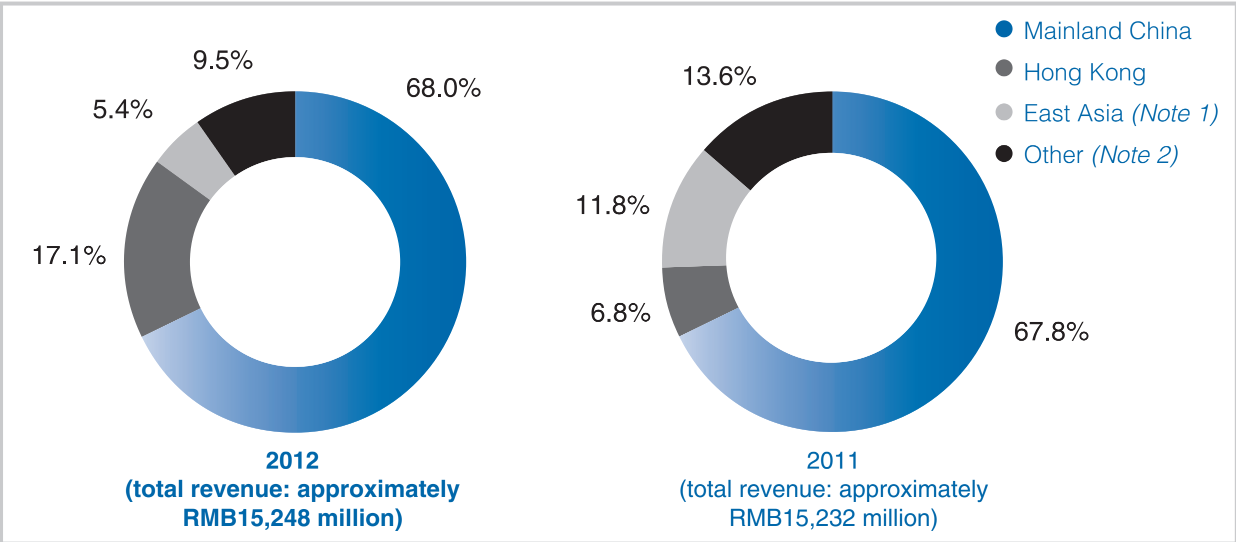
MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2012, the proportion of the Group's revenue contributed by cotton yarn increased compared with that of the corresponding period of last year, while the proportion of revenue contributed by grey fabric decreased. It was mainly because the Group adopted a flexible sales strategy to reduce cotton yarn inventory according to the changes in market demand, which led to an increase in revenue generated from cotton yarn. The proportion of revenue contributed by denim remained at about the same level as compared with that of the corresponding period of last year.

During the Year, the Group's production volume of cotton yarn, grey fabric and denim were approximately 450,000 tonnes, 1,045 million meters and 89 million meters, respectively. The production volume of cotton yarn, grey fabric and denim decreased by approximately 27.2%, 10.3% and 12.7%, respectively, over last year. The decrease was mainly because of the competition in the industry intensified during the Year under Review as a result of the weak demand in the textile products market and large cotton price gap between domestic and overseas markets; in the meantime, the Group adjusted its production plan to reduce production volume with a view to reduce its inventory level.

The following charts show the breakdown of the Group's revenue in terms of geographical location for the years ended 31 December 2012 and 2011:

Proportion of revenue by geographical location



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 2012, the proportion of the Group's revenue contributed from overseas markets to its total revenue was approximately 32.0%, which was essentially flat as compared with that of the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to its major products for the years ended 31 December 2012 and 2011:

	For the year ended 31 December					
	2012			2011		
Product	**Revenue**	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	**%**	*RMB'000*	*RMB'000*	*%*
Cotton yarn	**6,902,721**	**585,622**	**8.5**	6,252,705	382,538	6.1
Grey fabric	**7,583,270**	**456,328**	**6.0**	8,138,605	(171,939)	(2.1)
Denim	**761,482**	**(4,755)**	**(0.6)**	820,658	66,716	8.1
Others	**483**	**12**	**2.5**	20,066	1,174	5.9
Total	**15,247,956**	**1,037,207**	**6.8**	15,232,034	278,489	1.8

For the year ended 31 December 2012, the gross profit margin of the Group increased to 6.8% from 1.8% of the corresponding period of last year. This was mainly attributable to the increase in the proportion of imported cotton used by the Group during the Year, as the price of imported cotton was lower than domestic cotton, leading to the decrease in production costs, which in turn increased the profitability of the Group.

OTHER INCOME AND GAINS

For the year ended 31 December 2012, other income and gains of the Group was approximately RMB794 million, representing a decrease of approximately 14.4% as compared with approximately RMB928 million of the corresponding period of last year. Such decrease was mainly due to the one-off gain on disposal of properties of approximately RMB516 million by the Company during last year. Meanwhile, gains generated from the sales of electricity and steam amounted to approximately RMB552 million, representing an increase of approximately 121.7% over the corresponding period of last year, primarily due to the decrease in coal price during the Year, which resulted in the decrease in unit production cost of electricity.

For the year ended 31 December 2012, the Group's sales of electricity and steam amounted to approximately RMB2,832 million, representing a decrease of approximately 12.2% as compared with approximately RMB3,227 million for the corresponding period of last year, mainly attributable to the decrease in sales of electricity due to the Group's disposal of certain thermal power assets during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by approximately 14.4% to approximately RMB206 million for the year ended 31 December 2012 from approximately RMB180 million for the corresponding period of last year. In particular, transportation costs increased by approximately 15.4% to approximately RMB150 million from approximately RMB130 million in 2011, which was mainly due to the increased sales volume of the Group's products during the Year, which increased transportation costs accordingly. Salary of the sales staff was approximately RMB28 million, representing an increase of approximately 64.7% as compared with approximately RMB17 million for the corresponding period of last year, which was primarily due to the increase in the sales amount of the Group's domestic sales during the Year, which resulted in the increase in sales staff's salary accordingly. Sales commission was approximately RMB10 million, representing a decrease of approximately 47.4% as compared with approximately RMB19 million of the corresponding period of last year, which was primarily due to a decrease in the Group's overseas sales through intermediate traders during the Year, which resulted in a decrease in the commission paid accordingly.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for the year ended 31 December 2012 amounted to approximately RMB252 million, representing an increase of approximately 9.1% as compared with approximately RMB231 million of the corresponding period of last year. It was primarily due to the upward adjustment of the salary of the staff by the Group, leading to the increase in the salary expenses of administrative management staff.

FINANCE COSTS

For the year ended 31 December 2012, finance costs of the Group were approximately RMB629 million, representing an increase of approximately 34.4% as compared with approximately RMB468 million of last year, among which, the interest expenses amounted to approximately RMB599 million, representing an increase of approximately 5.3% as compared with approximately RMB569 million of last year, which was mainly attributable to the increase in the interest rates of bank borrowings during the Year; and the exchange loss amounted to approximately RMB30 million for holding a large amount of balances of payables and loans denominated in US dollar, which was affected by the temporary depreciation of Renminbi; while an exchange gain of approximately RMB102 million was recorded last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, cash and cash equivalents of the Group were approximately RMB7,350 million, representing an increase of approximately 257.1% as compared with approximately RMB2,058 million as at 31 December 2011. It was mainly due to the reduction of certain inventory during the Year, which resulted in the substantial increase in cash and cash equivalents.

MANAGEMENT DISCUSSION AND ANALYSIS

The working capital of the Group is mainly financed by cash inflow from operating activities. For the year ended 31 December 2012, the Group had a net cash inflow from operating activities of approximately RMB4,437 million, a net cash inflow from investing activities of approximately RMB995 million and a net cash outflow from financing activities of approximately RMB111 million. As at the end of the Year, the cash and cash equivalents increased by approximately RMB5,292 million. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs and will continue to maintain sound financial status.

For the year ended 31 December 2012, the inventory turnover days of the Group decreased by 96 days to 149 days as compared with that of the corresponding period of last year. The decrease in inventory turnover days was due to the Group's increased sales efforts during the Year, which resulted in an increase in the sales volume and a decrease in the inventory level. The average turnover days of the Group's account receivables increased to 13 days from 8 days of last year, which was mainly due to the corresponding increase in the settlement by way of letters of credit as a result of the increased volume of exports at the end of the Year.

For the year ended 31 December 2012, the Group used financial instruments, i,e. a forward currency contract, to reduce exposure to exchange rate fluctuation. As at 31 December 2012, the derivative financial liability from the above forward currency contract was approximately RMB3 million.

NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT AND EARNINGS PER SHARE

Net profit attributable to owners of the parent was approximately RMB482 million for the year ended 31 December 2012, representing an increase of approximately 95.9% as compared with approximately RMB246 million of last year.

For the year ended 31 December 2012, earnings per share of the Company were RMB0.40.

CAPITAL STRUCTURE

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximise shareholders' interests. The Group continued to emphasize on an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2012, the debts of the Group were mainly bank borrowings totalling approximately RMB9,066 million. Cash and cash equivalents were approximately RMB7,350 million. The gearing ratio was 11.0% as at 31 December 2012 (2011: 46.2%) (net debt (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 rates and variable rates to manage interest expenses. As at 31 December 2012, 39.8% of the Group's bank loans were subject to fixed interest rates, while the remaining 60.2% were subject to floating interest rates.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group aimed to keep the balance between the continuity and flexibility of funds through bank loans. At any time, the borrowings due within the upcoming 12-month period will not exceed 50.0% of the total borrowings. As at 31 December 2012, approximately 49.2% of the loans will become due within one year.

As at 31 December 2012, the Group's loans were denominated in Renminbi and US dollars, among which borrowings in US dollars represented approximately 12.0% of the total borrowings, while cash and cash equivalents were mainly denominated in Renminbi and US dollars, among which cash and cash equivalents denominated in US dollars represented approximately 4.7% of the total amount.

DETAILS OF PLEDGED ASSETS OF THE GROUP

Details are set out in note 14,16 and 28 to the financial statements.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2012, the Group had a total of approximately 82,000 employees, representing a decrease of 20,000 employees as compared with that of last year. Such decrease in the number of staff was mainly due to the Group's adjustment of production plans during the Year according to market demands, which led to the decrease in production volume and reserve of new staff. Meanwhile, the Group raised the level of equipment automatization, optimized operating process, and reduced the use of manpower per unit. Total staff costs amounted to approximately RMB2,311 million during the Year, representing 15.2% of the turnover of the Group. Employee remuneration is determined based on their performance, experience and the prevailing industry practice. The Group's remuneration policies and packages were also reviewed periodically by the management of the Group. In addition, bonuses and rewards were granted to the staff based on their performance appraisal to encourage and drive the staff to strive for better performance. During the Year, the Group provided appropriate training to its staff according to the skills requirements for their respective positions, such as training sessions on safety and skills.

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group adopted a prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars, and a portion of bank deposits and bank borrowings are denominated in US dollars. 32.0% of the Group's revenue and 76.5% of the costs of purchase of cotton were denominated in US dollars for the year ended 31 December 2012. For the year ended 31 December 2012, the Group recorded exchange loss of approximately RMB30 million for holding a large amount of balances of payables and borrowings denominated in US Dollars due to temporary depreciation of Renminbi. During the Year, the Group did not experience any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group will have sufficient foreign currency to meet its requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any contingent liabilities.

TAXATION

For the year ended 31 December 2012, the tax of the Group increased from approximately RMB15 million in 2011 to approximately RMB185 million in 2012, representing an increase of approximately 1,133.3%. Such increase in tax was mainly attributable to the substantial increase in the Group's profit during the Year, while a tax concession of approximately RMB49 million was received by Binzhou Industrial Park, a subsidiary of the Company, for the purchase of domestic-manufactured equipment during last year.

ASSETS TRANSFER

With rapid urbanization in Binzhou City of Shandong Province, relevant authorities planned to improve urban planning to further facilitate steady development of the Development Zone in Binzhou City. On 15 June 2012, the Company and Binzhou Industrial Park entered into an asset transfer agreement (the "Asset Transfer Agreement") with an independent third party. Pursuant to the Asset Transfer Agreement, the Company and Binzhou Industrial Park agreed to transfer to the independent third party the assets located at the Economic Development Zone in Binzhou City, mainly comprising thermal power assets with an installed capacity of 180 MW and a land use right of Binzhou Industrial Park. For details, please refer to the announcement of the Company dated 15 June 2012. Meanwhile, the Company terminated the lease of the land occupied by such transferred assets. The disposal of such assets was completed in 2012, and the Group recorded gain of approximately RMB7.3 million for such disposal.

DISPOSAL OF EQUITY INTEREST

For commercial purpose, the Group entered into an equity transfer agreement with an independent third party on 25 December 2012, pursuant to which, the Company sold its 92% equity interest in Shandong Weiqiao Mianye Company Limited ("Weiqiao Mianye") (a non-wholly owned subsidiary) to the independent third party for a consideration of approximately RMB28 million. The relevant transfer was completed in 2012. Upon completion of the equity transfer, the Company no longer held any equity interest in Weiqiao Mianye.

OUTLOOK

Looking into 2013, the recovery of the global economy still holds many uncertainties. To this end, Weiqiao Textile will continue to improve its product mix, encourage innovation, strengthen its brand image, and further enhance its profitability.

In the meantime, by leveraging the Group's competitive advantages, which include global cotton procurement channels, self-generated electricity and steam supplies, Weiqiao Textile will continue its efforts to reasonably control costs and maintain, or even increase, its market share under the condition of market turbulence through proactive sales strategies and flexible pricing policies. The Group's management believes that its operating efficiency and strategy will soon be benefited once the market recovers.

DIRECTORS AND SUPERVISORS

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 41, 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 29 May 2012. She has over 18 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"), director and general manager of Shandong Huibin Dyeing Company Limited (山東慧濱棉紡漂染有限公司) ("Huibin Dyeing") and director and general manager of Shandong Weiqiao Mianye Company Limited (山東魏橋棉業有限公司) ("Weiqiao Mianye") (from 30 September 2003 to 25 December 2012). 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), 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), the chairman of Weihai Industrial Park (from 30 January 2004) as well as the chairman and executive director of Weiqiao Textile (Hong Kong) Trading Company Limited (魏橋紡織（香港）貿易有限公司) ("Weiqiao (Hong Kong)") (from 12 October 2011). 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 37, graduated from Shandong University and obtained a professional diploma in computer and application. She further obtained a professional diploma in computer application from Renmin University of China in 1996, a senior diploma in Innovative Management MIA from senior research class in Tsinghua University in 2006 and a master degree in business administration for senior management from Dalian Polytechnic in July 2006. She was appointed and re-elected as a director at the Company's annual general meeting held on 29 May 2012. Ms. Zhang has over 12 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.

DIRECTORS AND SUPERVISORS

Zhao Suwen

Ms. Zhao Suwen, aged 39, 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 29 May 2012. She has over 19 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 36, 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 a 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 and re-elected as a director of the Company at the Company's annual general meeting held on 29 May 2012. 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).

DIRECTORS AND SUPERVISORS

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 66, 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 29 May 2012. 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) and the chairman of Profit Long Investment Limited (保恒俐投資有限公司). 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 Shandong Weiqiao Investment Holdings Company Limited (previously known as Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司)), chairman of China Hongqiao Holdings Limited (中國宏橋控股有限公司), chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (魏橋創業(香港)進出口有限公司), and chairman and executive director of China Hongqiao Group Limited (stock code: 1378.HK). Mr. Zhang Shiping was a representative of the Ninth, Tenth and Twelfth National People's Congress. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

Zhao Suhua

Ms. Zhao Suhua, aged 43, graduated from Adult Education College of Qingdao University, and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She has over 15 years of management experience in the cotton textile industry. She had been 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.

DIRECTORS AND SUPERVISORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 58, graduated from 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 (星謙化工控股有限公司) (stock code: 640.HK). He was appointed as an independent non-executive director at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent non-executive director at the Company's annual general meeting held on 29 May 2012, with the term of his appointment effective from 29 May 2012.

Xu Wenying

Mr. Xu Wenying, aged 61, 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, deputy 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, the chairman of China Yarn Dyed Weaving Association (中國色織行業協會), the chairman of China Cotton Textile Association (中國棉紡織行業協會), director of the Textile Products Technological Improvement Consultation Services Centre (紡織企業技術進步諮詢服務中心), an independent director of Black Peony (Group) Co. Ltd. (黑牡丹（集團）股份有限公司) (stock code: 600510.SH) and an independent director of Huafu Top Dyed Melange Yarn Co., Ltd. (華浮色紡股份有限公司) (stock code: 002042.SZ). He is currently the vice-chairman of CNTAC, the honorary chairman of China Cotton Textile Association, Chairman of China Filament Weaving Association, 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) and the independent director of 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 held on 29 May 2012, with the term of his appointment effective from 29 May 2012.

Wang Naixin

Mr. Wang Naixin, aged 61, 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 29 May 2012, with the term of his appointment effective from 29 May 2012.

SUPERVISORS

Lu Tianfu (Independent Supervisor)

Mr. Lu Tianfu, aged 78, 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 29 May 2012. He does not currently hold any other position in the Group.

DIRECTORS AND SUPERVISORS

Wang Wei (Independent Supervisor)

Ms. Wang Wei, aged 72, 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 29 May 2012. She does not currently hold any other position in the Group.

Wang Xiaoyun

Ms. Wang Xiaoyun, aged 48, graduated from Adult Education College of Qingdao University, and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She has over 18 years of management experience in the cotton textile industry. She had successively served as quality control officer, workshop supervisor, deputy factory head and factory head of the Company, deputy general manager of the production district of Zouwei Garden I (from January 2004 to February 2006) and the non-executive director of the Company (from 30 May 2008 to 29 May 2012). She was appointed as a supervisor at the Company's annual general meeting held on 29 May 2012. She is now the head of the production technical department of the Company (since February 2006).

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 2012.

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 2012.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2012 and the financial position of the Group and the Company as at 31 December 2012 are set out on pages 60 to 62 and pages 66 to 67 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.1246 (inclusive of tax) per share (the "2012 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 7 June 2013 (Friday). The 2012 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, its implementation rules and the relevant interpretation by tax authorities in the PRC, when a company distributes the final dividends to non-resident enterprise shareholders and natural person shareholders whose names appear on the H-share register of a company, such company is required to withhold and pay on behalf of such shareholders an enterprise income tax at the rate of 10% in general (except as required otherwise by the laws, regulations and tax treaties regarding the tax revenue). Any shares registered in the name of a non-person shareholder, including Hong Kong Securities Clearing Company Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that he or she is entitled to are subject to the enterprise income tax.

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

For the distribution of dividends, dividends for holders of Domestic Shares will be distributed and paid in RMB, while dividends for H Shares will be declared in RMB but paid in Hong Kong dollars ("HK$") (conversion of RMB into HK$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK$ announced by the People's Bank of China within five working days prior to and including 31 May 2013).

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 2008, 2009 and 2010, and from the audited consolidated financial statements of the Group for the year ended 31 December 2011 and the year ended 31 December 2012 on pages 60 to 62 is set out below:

Results

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	16,453,087	14,333,088	17,887,429	15,232,034	**15,247,956**
Cost of sales	(15,022,353)	(13,089,531)	(15,007,823)	(14,953,545)	**14,210,749**
Gross profit	1,430,734	1,243,557	2,879,606	278,489	**1,037,207**
Other income and gains	629,849	1,109,936	435,198	927,998	**794,410**
Selling and distribution expenses	(346,116)	(248,941)	(287,298)	(180,418)	**(206,211)**
Administrative expenses	(193,173)	(190,024)	(202,325)	(230,650)	**(252,398)**
Write-back of unutilized welfare provision	–	–	–	–	**–**
Other expenses	(103,991)	(201,450)	(74,421)	(75,353)	**(84,216)**
Finance costs	(696,714)	(513,678)	(493,456)	(467,743)	**(628,886)**
Share of profit of an associate	–	–	–	2,232	**3,835**
Profit before tax	720,589	1,199,400	2,257,304	254,555	**663,741**
Tax	(124,534)	(309,106)	(621,939)	(15,230)	**(184,752)**
Profit and total comprehensive income for the year	596,055	890,294	1,635,365	239,325	**478,989**
Profit and total comprehensive income attributable to:					
Owners of the parent	596,212	892,446	1,627,376	245,584	**481,880**
Non-controlling interests	(157)	(2,152)	7,989	(6,259)	**(2,891)**
	596,055	890,294	1,635,365	239,325	**478,989**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	27,296,250	26,754,785	28,389,854	29,356,819	**28,373,669**
Total liabilities	13,830,749	12,586,695	12,865,444	14,118,507	**12,729,795**

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 2012 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 2012 are set out in Note 32 to the financial statements.

The Company does not have any share option scheme.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

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

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 2012, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended 31 December 2012.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in Note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2012, in accordance with the PRC Company Law and the PRC Accounting Standards and Regulations, an amount of about RMB6,673 million stood to the credit of the Company's capital reserve account, and an amount of about RMB1,309 million stood to the credit of the Company's statutory reserve funds. In addition, according to the Articles of Association, the Company had retained profits of about RMB5,873 million for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, sales to the Group's five largest customers accounted for approximately 11.5% of the Group's total sales for the year ended 31 December 2012, sales to its largest customer accounted for approximately 3.7% of the Group's total sales for the year ended 31 December 2012.

During the year ended 31 December 2012, purchases from the Group's five largest suppliers accounted for approximately 41.2% of the Group's total purchases for the year ended 31 December 2012, purchases from the Group's largest supplier accounted for approximately 14.0% of the Group's total purchases for the year ended 31 December 2012.

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.

Save as those disclosed above, at no time during the year ended 31 December 2012, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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 Articles of Association, each Director and Supervisor is eligible for re-election and consecutive appointment upon expiration of his/her term of office.

REPORT OF THE DIRECTORS

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 the date of annual general meeting of 2014
Zhang Yanhong	Until the date of annual general meeting of 2014
Zhao Suwen	Until the date of annual general meeting of 2014
Zhang Jinglei	Until the date of annual general meeting of 2014

Non-executive Directors:

Zhang Shiping	Until the date of annual general meeting of 2014
Zhao Suhua	Until the date of annual general meeting of 2014

Independent non-executive Directors:

Wang Naixin	Until the date of annual general meeting of 2014
Xu Wenying	Until the date of annual general meeting of 2014
Chan Wing Yau, George	Until the date of annual general meeting of 2014

Supervisors:

Lu Tianfu *(Note)*	Until the date of annual general meeting of 2014
Wang Wei *(Note)*	Until the date of annual general meeting of 2014
Wang Xiaoyun	Until the date of annual general meeting of 2014

Note: Independent Supervisor

DIRECTORS AND SUPERVISORS

The biographies of each of the Directors and Supervisors are set out on page 20 to page 25 in this annual report.

At the annual general meeting for the year ended 31 December 2011, the Directors and Supervisors of the Company were re-elected by ordinary resolutions.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 39, 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 2012.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 39, 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 2012, 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 (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "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**	**Approximate percentage of total issued domestic share capital as at 31 December 2012**	**Approximate percentage of total issued share capital as at 31 December 2012**
	(Note 1)	*(%)*	*(%)*
Holding Company	744,937,600	95.41	62.37
Shandong Weiqiao Investment Holdings Company Limited (the "Weiqiao Investment")	744,937,600 *(Note 2)*	95.41	62.37

Long positions 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 2012 *(%)*	Approximate percentage of total issued share capital as at 31 December 2012 *(%)*
Brandes Investment Partners, L.P.	Investment manager	79,322,612 (Long position) *(Note 4)*	19.18	6.64
The Bank of New York Mellon Corporation	Interest of a controlled corporation	41,318,078 (Long position)	9.99	3.46
		18,805,078 (Lending pool) *(Note 5)*	4.55	1.57
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 6)*	9.93	3.44
The Boston Company Asset Management LLC	Investment manager	21,641,900 (Long position) *(Note 7)*	5.23	1.81
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	24,783,063 (Long position)	5.99	2.07
		10,765,169 (Short position)	2.60	0.90
	Custodian corporation/ approved lending agent	14,057,985 (Lending pool) *(Note 8)*	3.39	1.18

Note 1: Unlisted shares.

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

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

Note 4: These 79,322,612 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 5: These 41,318,078 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.

Note 6: These 41,073,100 H Shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Note 7: These 21,641,900 H Shares were held by The Boston Company Asset Management LLC in its capacity as investment manager.

Note 8: These 24,783,063 H Shares (long position) and 10,765,169 shares (short position) in which Citigroup Inc. was deemed interested as the interest of corporation controlled by a substantial shareholder under the SFO were directly or indirectly held by its several subsidiaries or related companies. These 14,057,985 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.

REPORT OF THE DIRECTORS

Save as disclosed above, so far as known to the Directors, Supervisors and the chief executive of the Company, as at 31 December 2012, there was no other person (not being a Director, Supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2012, 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 2012** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2012** *(%)*
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 2012 *(%)*
Zhang Shiping *(Non-executive Director)*	Holding Company	Beneficial	31.59
Zhang Hongxia *(Executive Director)*	Holding Company	Beneficial and spouse *(Note 1)*	9.73 *(Note 1)*
Zhang Yanhong *(Executive Director)*	Holding Company	Beneficial	5.63
Zhao Suwen *(Executive Director)*	Holding Company	Beneficial	0.38
Zhao Suhua *(Non-executive Director)*	Holding Company	Spouse *(Note 2)*	4.93 *(Note 2)*

Note 1: These 112,000,000 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: Ms. Zhao Suhua is deemed to be interested in the 78,922,000 shares directly held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at 31 December 2012, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or their associates 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 (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 (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 2012.

CONNECTED TRANSACTIONS

The "Related Party Transactions" as set out in Note 39 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 Listing Rules.

Details of the connected transactions of the Group for the year ended 31 December 2012 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules.

During the year ended 31 December 2012, 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 Weiqiao 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. Huibin Dyeing is 100% owned by Mr. Zhang Shiping, a key management member of the 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.

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, GREY FABRIC AND DENIM BY THE GROUP TO PARENT GROUP

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003 ("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. The Company and the Holding Company entered into a new cotton yarn/grey fabric and denim supply agreement on 31 October 2011 with the term starting from 1 January 2012 and ending on 31 December 2014. A circular regarding the above continuing transaction was issued on 11 November 2011.

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 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.

(ii) 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.

(iii) 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.

REPORT OF THE DIRECTORS

(iv) 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.

(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 RMB2,000,000 for the land relating to the Zouping Economic Development Zone.

(vi) 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 where the thermal power assets acquired from the Holding Company were located in.

On 20 September 2008 and 15 June 2012, respectively, the leases of certain part of the land where the Weiqiao First Thermal Power Plant and the Binzhou Thermal Power Plant are situated were terminated and the annual rental rates have been adjusted thereafter to RMB2,127,000 and RMB1,537,000, respectively, on a pro-rata basis. Except for this, all of the original clauses and terms remain unchanged.

(vii) Land use rights lease agreement dated 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental expense 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.

(viii) Land use rights lease agreement dated 18 March 2008 with the commencement date and expiry date on 18 March 2008 and 18 March 2028, respectively, at an annual rental expense 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 39 to Financial Statements.

REPORT OF THE DIRECTORS

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 on 18 March 2008 and ending on 31 December 2010 (both dates inclusive) (the "Old Supply of Excess Electricity Agreement"). 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 a supply of excess electricity agreement with Holding Company for a period of three years commencing on 1 January 2011 and ending on 31 December 2013 (the "Supply of Excess Electricity Agreement"), pursuant to which the Group will supply excess electricity to Holding Company. 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 Holding Company 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 Holding Company 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 2012

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2012:

Transaction nature	**Aggregate value for the year ended 31 December 2012** *(RMB'000)*
1. Supply of cotton yarn, cotton fabric and denim	
(a) by the Group to the Parent Group	1,049,040
(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	11,753
4. Supply of excess electricity by the Company to Holding Company	1,883,185

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 the shareholders of the Company as a whole;

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

(iv) within the relevant annual cap.

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

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

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

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

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

REPORT OF THE DIRECTORS

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 2.4 and Note 6 to the financial statements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

CODE ON CORPORATE GOVERNANCE

The Company has applied the principles of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules. Except for the deviation from code provision A.1.8 and A.2.1, the Company has been in compliance with all the mandatory code provisions for the year ended 31 December 2012.

Pursuant to code provision A.1.8 of the CG Code, issuers should arrange appropriate insurance coverage for directors' liabilities in respect of legal actions against the directors. As disclosed in the Company's Interim Report dated 30 August 2012, as at 30 June 2012, the Group has not yet identified any insurer who would provide insurance service to the Group on satisfactory commercial terms. As at 31 December 2012, the Group has identified an insurer who would provide insurance service to the Group on satisfactory commercial terms.

Code provision A.2.1 of the CG 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 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.

REPORT OF THE DIRECTORS

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 15 March 2013 to review the Group's annual report and financial statements.

INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2012. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the annual general meeting 2012.

The Company has not changed the auditors for the ten years ended 31 December 2012.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
15 March 2013

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2012, 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, provided advices and recommendations thereon, effectively supervised the acts of directors and the management in performing their duties and reviewed on an irregular basis the Company's operation and financial positions so as to protect the interests of shareholders. The work of the Supervisory Committee in 2012 are reported as follows:

1. Work of the Supervisory Committee

In 2012, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 23 March 2012, the 6th 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 2011", "The Audited Financial Report for the Year Ended 31 December 2011", "The Profit Distribution Proposal for 2011", "The Financial Report on the Final Account for 2011" and "The Proposal in relation to the Election of the Fifth Supervisory Committee" were reviewed and approved.

2. On 17 August 2012, the 1st meeting of the 5th 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 2012 issued by Ernst & Young was discussed and approved.

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2012

1. Operation in compliance with laws

During the Year under Review, 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 2012, 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 Company, and considered that the Group's financial report for 2012 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 Year under Review were conducted at arm's length with reasonable pricing and without prejudice to the interests of shareholders and the Company; there was no use of capitals for non-operational purpose by controlling shareholders and other related parties.

In 2013, 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 duties 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
15 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

Other than the follows, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions of the former Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules; and during the period from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions of the CG Code.

Pursuant to code provision A.1.8 of the CG Code, issuers should arrange appropriate insurance coverage for directors' liabilities in respect of legal actions against the directors. As disclosed in the Company's Interim Report dated 30 August 2012, as at 30 June 2012, the Group has not yet identified any insurer who would provide insurance service to the Group on satisfactory commercial terms. As at 31 December 2012, the Group has identified an insurer who would provide insurance service to the Group on satisfactory commercial terms.

Code provision A.2.1 of the CG 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 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.

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 (the "Model Code") in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, the Directors have confirmed that for the year ended 31 December 2012, they have complied with the required standards set out in the Model Code and the Company's Code of Conduct regarding Securities Transactions by the Directors.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

As at 31 December 2012, the Board comprised four executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board members are as follows:

Executive Directors

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

Non-executive Directors

Mr. Zhang Shiping
Ms. Zhao Suhua

Independent Non-executive Directors

Mr. Chan Wing Yau, George
Mr. 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; making decisions on the deployment of the internal management bodies of the Company; appointing or removing the Company's general manager, the Company's deputy general manager and financial controller pursuant to the nomination of the general manager, and making decisions on their remunerations; formulating the Company's basic management system; formulating the plans for the amendment to the Articles of Association; subject to compliance with the relevant requirements of the state, making decisions on the level of salaries, welfare and incentives measures of the Company; making decisions on other significant operation and administrative matters not required to be decided by the general meeting under the Articles of Association; formulating major acquisition or disposal plans of the Company and other duties as provided by the Articles of Association.

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

The general manager is accountable to the Board, and is responsible for taking lead in the management of the Company's production operations, organising the implementation of the resolutions of the Board; organising the implementation of the Company's annual operation plans and investment plans; formulating the deployment plans for the Company's internal management bodies; formulating the Company's basic management system; formulating the Company's basic rules and regulations; proposing for the appointment or removal of the Company's deputy manager and financial controller; appointing or removing 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 four meetings during the Year.

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

Board Members	Attendance of Board Meetings held in 2012	Attendance of General Meetings held in 2012
Ms. Zhang Hongxia	4/4	1/1
Ms. Zhang Yanhong	4/4	1/1
Ms. Zhao Suwen	4/4	1/1
Mr. Zhang Jinglei	4/4	1/1
Mr. Zhang Shiping	4/4	–
Ms. Zhao Suhua	4/4	1/1
Mr. Chan Wing Yau, George	3/4	1/1
Mr. Xu Wenying	3/4	1/1
Mr. Wang Naixin	3/4	1/1

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

CORPORATE GOVERNANCE REPORT

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

Code provision A.2.1 of the CG 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.

INDUCTION TRAINING AND DEVELOPMENT

The Company provides induction training programme for all new Directors which, taking into account their experience and background, is designed to enhance their knowledge and understanding of the Group's culture and operations as well as their relevant role and responsibilities. Development and training of Directors is an ongoing process so that they can perform their duties appropriately. The Company Secretary regularly circulates materials of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses at the Company's expense. Since January 2012, all the Directors have been required to provide their training records to the Company, which are kept by the Company Secretary.

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2012, the Board conducted evaluations of its performance.

CORPORATE GOVERNANCE REPORT

SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee
- Nomination 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 23 March 2012 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 2011;

2. to consider and approve the consolidated audited financial statements of the Company for the year ended 31 December 2011;

3. to consider and approve the profit distribution plan and financial budget report of the Company for 2011;

4. to consider and approve the reappointment of Ernst & Young Hua Ming LLP as the Company's domestic auditors for the year ended 31 December 2012 and Ernst & Young as the Company's international auditors for the year ended 31 December 2012;

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 2011.

CORPORATE GOVERNANCE REPORT

On 17 August 2012, 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 Group for the six months ended 30 June 2012 (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 2012 were the appropriate accounting policies;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2012 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 2012 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 2012, 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 2012, 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 2012 without any misleading contents;

(7) The Audit Committee has examined and reviewed the independence and objectivity of Ernst & Young as the Group's external auditors and the effectiveness of the auditing procedures, and considered that Ernst & Young was independent, report issued by which was objective, and the auditing procedures carried out was effective; meanwhile, it has also examined and reviewed the financial control, internal control and risk control systems of the Group, and considered that such control systems were effective. The management of the Group has fulfilled establishing effective internal control duties; and

(8) 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 of the Company as of 30 June 2012;

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 four items above:

(i) The members of the Committee should keep in contact with the Board, senior management and the person appointed as the qualified accountant of the Company. The 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 2012:

Committee Members	**Attendance of Audit Committee Meetings held in the year ended 31 December 2012**
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 2012.

The Composition of the Remuneration Committee

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

	Attendance of Remuneration Committee Meeting held in 2012
Mr. Wang Naixin	1/1
Ms. Zhang Hongxia	1/1
Mr. Xu Wenying	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: 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.

C. NOMINATION COMMITTEE

The Nomination Committee was established on 23 March 2012. At present, the Nomination Committee is comprised of an executive director and two independent non-executive directors.

One meeting was held by the Nomination Committee for the year ended 31 December 2012.

The Composition of the Nomination Committee

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

	Attendance of Nomination Committee Meeting held in 2012
Ms. Zhang Hongxia	1/1
Mr. Wang Naixin	1/1
Mr. Xu Wenying	1/1

Roles and Functions

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

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

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

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

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

PROPOSED GRANT OF A GENERAL MANDATE, ISSUE OF DEBT FINANCING INSTRUMENTS IN THE INTER-BANK BOND MARKET (INCLUDING BUT NOT LIMITED TO SHORT-TERM FINANCING BILLS, MEDIUM-TERM NOTES AND/OR NON-PUBLIC DEBT FINANCING INSTRUMENTS IN THE INTER-BANK BOND MARKET) AND ISSUE OF DOMESTIC CORPORATE BONDS AT THE ANNUAL GENERAL MEETING 2012

A special mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the Annual General Meeting 2012 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 6 in the Notice of Annual General Meeting 2012 of the Company.

A special mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the Annual General Meeting 2012 to issue debt financing instruments in the inter-bank bond market (including but not limited to short-term financing bills, medium-term notes and/or non-public debt financing instruments in the inter-bank bond market, subject to specific conditions. For details, please refer to Special Resolution 7 in the notice of Annual General Meeting 2012 of the Company.

A special mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the Annual General Meeting 2012 to issue domestic corporate bonds, subject to specific conditions. For details, please refer to special Resolution 8 in the notice of Annual General Meeting 2012 of the Company.

CORPORATE GOVERNANCE REPORT

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 2012, the external auditors Ernst & Young and Ernst & Young Hua Ming LLP have provided the Group with the following services:

	2012
	RMB'000
Interim review service	1,600
Annual audit service	4,450
Other non-auditing services	250

INTERNAL CONTROL AND RISK MANAGEMENT

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

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary, Mr. Zhang Jinglei. The Company Secretary reports to the Chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with Shareholders and management. As of 31 December 2012, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT

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,
Economic Development Zone, 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

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1 Tim Mei Avenue
Central, Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com

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 60 to 146, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

INDEPENDENT AUDITORS' REPORT

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 2012, 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

15 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**15,247,956**	15,232,034
Cost of sales		**(14,210,749)**	(14,953,545)
Gross profit		**1,037,207**	278,489
Other income and gains	5	**794,410**	927,998
Selling and distribution expenses		**(206,211)**	(180,418)
Administrative expenses		**(252,398)**	(230,650)
Other expenses		**(84,216)**	(75,353)
Finance costs	9	**(628,886)**	(467,743)
Share of profit of an associate		**3,835**	2,232
PROFIT BEFORE TAX	6	**663,741**	254,555
Income tax expense	10	**(184,752)**	(15,230)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**478,989**	239,325
Attributable to:			
Owners of the parent	11	**481,880**	245,584
Non-controlling interests		**(2,891)**	(6,259)
		478,989	239,325
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**RMB0.40**	RMB0.21

During the years ended 31 December 2012 and 31 December 2011, 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 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**13,662,949**	15,645,003
Prepaid land lease payments	16	**185,791**	195,345
Other intangible assets	17	**1,109**	2,169
Investment in an associate	19	**51,067**	47,232
Deferred tax assets	31	**263,044**	259,281
Total non-current assets		**14,163,960**	16,149,030
CURRENT ASSETS			
Inventories	20	**5,799,515**	10,045,178
Trade receivables	21	**548,475**	351,225
Prepayments, deposits and other receivables	22	**119,249**	188,369
Due from the immediate holding company	23	**8,312**	8,436
Pledged time deposits	24	**243,598**	460,182
Non-pledged time deposits maturing over three months	24	**120,332**	96,450
Cash and cash equivalents	24	**7,349,732**	2,057,949
		14,189,213	13,207,789
Non-current assets classified as held for sale	14	**20,496**	–
Total current assets		**14,209,709**	13,207,789
CURRENT LIABILITIES			
Trade payables	25	**1,935,893**	3,505,954
Due to other related parties	23	**5,670**	6,440
Due to the immediate holding company	23	**–**	741
Other payables and accruals	26	**1,033,245**	1,007,495
Derivative financial instruments	27	**3,236**	–
Interest-bearing bank and other borrowings	28	**4,460,927**	4,441,452
Tax payable		**357,085**	228,860
Deferred income	30	**41,538**	16,596
Total current liabilities		**7,837,594**	9,207,538
NET CURRENT ASSETS		**6,372,115**	4,000,251
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,536,075**	20,149,281

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**4,605,450**	4,665,813
Deferred income	30	**282,366**	240,493
Deferred tax liabilities	31	**4,385**	4,663
Total non-current liabilities		**4,892,201**	4,910,969
Net assets		**15,643,874**	15,238,312
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**1,194,389**	1,194,389
Reserves	33(a)	**14,213,252**	13,880,193
Proposed final dividend	12(b)	**148,821**	70,947
		15,556,462	15,145,529
Non-controlling interests		**87,412**	92,783
Total equity		**15,643,874**	15,238,312

Zhang Hong Xia
Executive Director

Zhao Su Wen
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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 2011	1,194,389	6,673,380	1,263,477	5,768,699	522,665	15,422,610	101,800	15,524,410
Final 2010 dividend declared	–	–	–	–	(522,665)	(522,665)	–	(522,665)
Dividend paid to a non-controlling shareholder	–	–	–	–	–	–	(2,758)	(2,758)
Total comprehensive income for the year	–	–	–	245,584	–	245,584	(6,259)	239,325
Proposed final 2011 dividend *(note 12(b))*	–	–	–	(70,947)	70,947	–	–	–
Transfer from retained profits	–	–	43,034	(43,034)	–	–	–	–
At 31 December 2011	1,194,389	6,673,380*	1,306,511*	5,900,302*	70,947	15,145,529	92,783	15,238,312

	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 2012	**1,194,389**	**6,673,380**	**1,306,511**	**5,900,302**	**70,947**	**15,145,529**	**92,783**	**15,238,312**
Final 2011 dividend declared	**–**	**–**	**–**	**–**	**(70,947)**	**(70,947)**	**–**	**(70,947)**
Total comprehensive income for the year	**–**	**–**	**–**	**481,880**	**–**	**481,880**	**(2,891)**	**478,989**
Proposed final 2012 dividend *(note 12(b))*	**–**	**–**	**–**	**(148,821)**	**148,821**	**–**	**–**	**–**
Disposal of a subsidiary *(note 34)*	**–**	**–**	**–**	**–**	**–**	**–**	**(2,480)**	**(2,480)**
Transfer from retained profits	**–**	**–**	**56,933**	**(56,933)**	**–**	**–**	**–**	**–**
At 31 December 2012	**1,194,389**	**6,673,380***	**1,363,444***	**6,176,428***	**148,821**	**15,556,462**	**87,412**	**15,643,874**

* These reserve accounts comprise the consolidated reserves of RMB14,213,252,000 (2011: RMB13,880,193,000) in the consolidated statement of financial position as at 31 December 2012.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**663,741**	254,555
Adjustments for:			
Finance costs	9	**628,886**	467,743
Share of profit of an associate		**(3,835)**	(2,232)
Bank interest income	5	**(20,549)**	(33,554)
Recognition of deferred income	5	**(61,775)**	(12,464)
Gross rental income on property leasing	5	**–**	(363)
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	5	**(4,045)**	(515,501)
Loss on disposal of a subsidiary	6	**622**	–
Impairment of property, plant and equipment	6	**30,000**	–
Depreciation	6	**1,370,689**	1,380,980
Amortisation of other intangible assets	6	**1,060**	1,359
Recognition of prepaid land lease payments	6	**4,612**	4,661
Reversal of impairment of trade receivables	6	**(4,525)**	(1,757)
Unrecoverable prepaid tax		**4,499**	–
Fair value losses on derivative financial instruments – transactions not qualifying as hedges	6	**3,236**	–
Changes in provision against inventories	6	**(176,587)**	518,754
		2,436,029	2,062,181
Decease/(increase) in inventories		**4,420,318**	(4,692,818)
(Increase)/decrease in trade receivables		**(196,836)**	151,366
Decrease in prepayments, deposits and other receivables		**65,338**	533,056
Decrease in amounts due from the immediate holding company		**124**	37,604
(Decrease)/increase in trade payables		**(1,626,239)**	2,012,522
Decrease in bills payable		**–**	(580,000)
Decrease in amounts due to other related parties		**(770)**	(3,300)
(Decrease)/increase in amounts due to the immediate holding company		**(741)**	741
Increase in other payables and accruals		**12,002**	126,753
Cash generated from/(used in) operations		**5,109,225**	(351,895)
Interest paid		**(611,521)**	(567,137)
PRC corporate income tax paid		**(60,278)**	(641,059)
Net cash flows from/(used in) operating activities		**4,437,426**	(1,560,091)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**24,343**	38,515
Purchases of items of property, plant and equipment		**(225,760)**	(517,143)
Construction payment refund to be settled		**136,113**	–
Additions to prepaid land lease payments		**–**	(81,774)
Receipt of government grants		**128,590**	84,963
Proceeds from disposal of items of property, plant and equipment		**627,980**	662,860
Proceeds from disposal of prepaid land lease payments		**87,142**	–
Disposal of a subsidiary	34	**23,454**	–
Rental received on property leasing	5	**–**	363
(Increase)/decrease in non-pledged time deposits maturing over three months		**(23,882)**	1,498,050
Decrease/(increase) in pledged time deposits		**216,584**	(293,168)
Net cash flows from investing activities		**994,564**	1,392,666
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**8,380,746**	6,369,911
Repayment of bank loans		**(8,415,686)**	(6,005,415)
Repayment of a finance lease		**(4,755)**	–
Dividends paid to owners of the parent		**(70,947)**	(522,665)
Dividends paid to non-controlling shareholders		**–**	(2,758)
Net cash flows used in financing activities		**(110,642)**	(160,927)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5,321,348**	(328,352)
Cash and cash equivalents at beginning of year		**2,057,949**	2,412,583
Effect of foreign exchange rate changes, net		**(29,565)**	(26,282)
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**7,349,732**	2,057,949
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**7,349,732**	2,057,949
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	24	**7,349,732**	2,057,949

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**10,208,566**	11,884,838
Investment properties	15	**7,080**	7,281
Other intangible assets	17	**1,109**	1,268
Investments in subsidiaries	18	**1,697,218**	1,701,818
Deferred tax assets	31	**71,479**	100,060
Total non-current assets		**11,985,452**	13,695,265
CURRENT ASSETS			
Inventories	20	**5,480,883**	8,280,867
Trade receivables	21	**496,852**	324,332
Prepayments, deposits and other receivables	22	**82,201**	42,234
Due from subsidiaries	18	**112,994**	1,256,741
Due from the immediate holding company	23	**8,312**	8,436
Pledged time deposits	24	**219,764**	436,029
Non-pledged time deposits maturing over three months	24	**120,300**	96,450
Cash and cash equivalents	24	**6,790,769**	1,520,237
		13,312,075	11,965,326
Non-current assets classified as held for sale	14	**20,496**	–
Total current assets		**13,332,571**	11,965,326
CURRENT LIABILITIES			
Trade payables	25	**1,170,193**	2,884,464
Due to subsidiaries	18	**1,826,481**	609,946
Due to other related parties	23	**5,670**	6,440
Other payables and accruals	26	**682,547**	696,498
Interest-bearing bank and other borrowings	28	**2,176,985**	2,866,550
Tax payable		**322,421**	200,909
Deferred income	30	**–**	1,276
Total current liabilities		**6,184,297**	7,266,083
NET CURRENT ASSETS		**7,148,274**	4,699,243
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,133,726**	18,394,508

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**4,083,950**	3,822,913
Deferred income	30	**–**	20,202
Total non-current liabilities		**4,083,950**	3,843,115
Net assets		**15,049,776**	14,551,393
EQUITY			
Issued capital	32	**1,194,389**	1,194,389
Reserves	33(b)	**13,706,566**	13,286,057
Proposed final dividend	12(b)	**148,821**	70,947
Total equity		**15,049,776**	14,551,393

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Zhang Hong Xia

Executive Director

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Zhao Su Wen

Executive Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

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

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the manufacture and sale of cotton 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 Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao 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. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendment to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurment*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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 significant 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 that are not classified as held for sale in accordance with HKFRS 5 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Group's profit or loss to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

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 an 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". 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 depreciates them accordingly.

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	10 to 40 years	2.4% to 9.6%
Machinery and equipment	5 to 33 years	2.9% to 19.2%
Others	5 to 14 years	6.9% to 19.2%

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 including 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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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 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 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 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 write-off is later recovered, the recovery is credited to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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, derivative financial instruments, financial guarantee contracts and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling 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. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as a forward currency contract. 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.

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 and regions in which the Group operates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when 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, an associate and joint ventures, when 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, the carryforward of any unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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, an associate 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

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

Pension scheme

The employees of the Group are required to participate in a central pension scheme operated by the local municipal governments. The Group is required to contribute 18% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, capitalisation rates of 7% for 2012 and 6% for 2011 respectively were applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the beginning of the month in which the transactions occur. 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. Differences arising on settlement or translation of monetary items are recognised in 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 beginning of the month in which the transactions occur.

3. SIGNIFICANT ACCOUNTING 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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 described below.

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. 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 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 2012 was RMB43,719,000 (2011: RMB33,410,000). The amount of unrecognised tax losses at 31 December 2012 was RMB190,523,000 (2011: RMB137,668,000). Further details are contained in note 31 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

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

Impairment of inventories

Management reviews the condition of the inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group carries out an inventory review at the end of each reporting period and makes provision for obsolete and slow-moving items.

4. OPERATING SEGMENT INFORMATION

The Group has only one operating segment, which is the manufacture and sale of cotton yarn, grey fabric and denim. An analysis by product for the years ended 31 December 2012 and 2011, is as follows:

	2012	2011
	RMB'000	*RMB'000*
Cotton yarn	**6,902,721**	6,252,705
Grey fabric	**7,583,270**	8,138,605
Denim	**761,482**	820,658
Others	**483**	20,066
	15,247,956	15,232,034

NOTES TO FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION (continued)

The geographical revenue information, based on the locations of the Group's customers, is as follows:

Revenue from external customers

	2012 *RMB'000*	2011 *RMB'000*
Mainland China	**10,367,191**	10,326,648
Hong Kong	**2,610,779**	1,037,645
East Asia	**817,960**	1,789,984
Others	**1,452,026**	2,077,757
	15,247,956	15,232,034

All of the Group's assets are located in the PRC.

There is no transaction with a single external customer which arises revenue amounting to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net 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	2012 RMB'000	2011 RMB'000
Revenue			
Sale of textile goods		15,247,956	15,232,034
Other income			
Bank interest income		20,549	33,554
Compensation from suppliers on supply of sub-standard goods and service		66,589	65,761
Recognition of deferred income	30	61,775	12,464
Gross rental income		–	363
Government subsidies		17,044	10,225
Others		39,047	10,786
		205,004	133,153
Gains			
Sale of electricity and steam		2,832,240	3,226,814
Less: Cost thereon		(2,280,422)	(2,977,769)
Gains on sale of electricity and steam		551,818	249,045
Gains on disposal of items of property, plant and equipment and prepaid land lease payments		4,045	515,501
Gains on sale of waste and spare parts		33,543	30,299
		589,406	794,845
		794,410	927,998

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**14,372,597**	14,412,463
Employee benefit expense (excluding directors' and supervisors' remuneration *(note 7)*):			
Wages, salaries and other social insurance costs		**2,165,768**	2,647,386
Pension scheme contributions		**140,933**	120,205
		2,306,701	2,767,591
Depreciation	*14,15*	**1,370,689**	1,380,980
Amortisation of land lease payments	*16*	**4,612**	4,661
Amortisation of other intangible assets	*17*	**1,060**	1,359
Repairs and maintenance		**239,741**	330,955
Gains on disposal of items of property, plant and equipment and prepaid land lease payments		**(4,045)**	(515,501)
Loss on disposal of a subsidiary	*34*	**622**	–
Auditors' remuneration		**6,090**	6,670
Foreign exchange differences, net	*9*	**29,713**	(101,714)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**–**	399
Changes in provision against inventories		**(176,587)**	518,754
Reversal of impairment of trade receivables	*21*	**(4,525)**	(1,757)
Bank interest income	*5*	**(20,549)**	(33,554)
Government subsidies	*5*	**(17,044)**	(10,225)
Recognition of deferred income	*30*	**(61,775)**	(12,464)
Impairment of property, plant and equipment	*14*	**30,000**	–
Fair value losses on derivative instruments – transactions not qualifying as hedges		**3,236**	–
Research and development costs included in:			
Wages and salaries		**32,804**	33,417
Consumables		**24,565**	27,852
		57,369	61,269
Minimum land and building lease payments under operating leases		**22,860**	24,845

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	
	2012	2011
	RMB'000	*RMB'000*
Fees	**3,862**	3,979
Other emoluments:		
Salaries, allowances and benefits in kind	**351**	361
Pension scheme contributions	**51**	30
	402	391
	4,264	4,370

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2011: 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 (2011: Nil).

(a) Independent non-executive directors

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

	2012	2011
	RMB'000	*RMB'000*
Mr. Wang Naixin	**150**	150
Mr. Xu Wenying	**150**	150
Mr. Chan Wing Yau, George	**487**	489
	787	789

There were no other emoluments and benefits payable to the independent non-executive directors during the year (2011: 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*
2012				
Executive directors:				
Ms. Zhang Hongxia	1,200	72	8	1,280
Ms. Zhao Suwen	600	54	8	662
Ms. Zhang Yanhong	600	56	8	664
Mr. Zhang Jinglei	300	50	8	358
	2,700	232	32	2,964
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Mr. Wang Zhaoting	42	–	–	42
Ms. Zhao Suhua	100	47	8	155
Ms. Wang Xiaoyun	42	51	8	101
	284	98	16	398
	2,984	330	48	3,362

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011				
Executive directors:				
Ms. Zhang Hongxia	1,200	68	5	1,273
Ms. Zhao Suwen	600	52	5	657
Ms. Zhang Yanhong	600	52	–	652
Mr. Zhang Jinglei	300	48	5	353
	2,700	220	15	2,935
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Mr. Wang Zhaoting	100	–	–	100
Ms. Zhao Suhua	100	45	5	150
Ms. Wang Xiaoyun	100	47	5	152
	400	92	10	502
	3,100	312	25	3,437

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*
2012				
Mr. Liu Mingping	**13**	**21**	**3**	**37**
Mr. Lu Tianfu	**30**	**–**	**–**	**30**
Ms. Wang Wei	**30**	**–**	**–**	**30**
Ms. Wang Xiaoyun	**18**	**–**	**–**	**18**
	91	**21**	**3**	**115**
2011				
Mr. Liu Mingping	30	49	5	84
Mr. Lu Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
	90	49	5	144

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were five (2011: 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	
	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans		
wholly repayable within five years	**598,973**	569,049
Foreign exchange differences, net	**29,713**	(101,714)
Interest on a finance lease	**200**	408
	628,886	467,743

No interest was capitalised in 2012 (2011: Nil).

10. INCOME TAX

Except for a subsidiary in Hong Kong which is subject to profits tax at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2012, all other entities within the Group are subject to corporate income tax at the statutory tax rate of 25% (2011: 25%).

	Group	
	2012	2011
	RMB'000	*RMB'000*
Current		
– Mainland China	**184,702**	174,136
– Hong Kong	**4,091**	11
Deferred *(note 31)*	**(4,041)**	(158,917)
Total tax charge for the year	**184,752**	15,230

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company, majority of 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			
	2012		2011	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax	**663,741**		254,555	
Tax at PRC jurisdiction statutory tax rate	**165,935**	**25.0**	63,639	25.0
Effect of the different income tax rate for a Hong Kong subsidiary	**(2,107)**	**(0.3)**	(6)	–
Profit attributable to an associate	**(959)**	**(0.2)**	(558)	(0.2)
Expenses not deductible for tax	**8,981**	**1.3**	3,673	1.4
Tax losses utilised from previous years	**–**	**–**	(3,102)	(1.2)
Tax losses not recognised	**13,214**	**2.0**	–	–
Adjustment in respect of tax concession approved by local tax bureau	**–**	**–**	(48,599)	(19.0)
Others	**(312)**	**–**	183	–
Tax charge at the Group's effective rate	**184,752**	**27.8**	15,230	6.0

The share of tax attributable to an associate amounting to RMB959,000 (2011: RMB558,000) is included in "share of profit of an associate" in the consolidated income statement.

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 2012 includes a profit of RMB569 million (2011: RMB430 million) which has been dealt with in the financial statements of the Company (note 33).

12. PROFIT APPROPRIATIONS

(a) Reserve

Under the PRC Company Law and the respective companies' articles of association, net profit as determined in accordance with China Accounting Standards for Business Enterprises ("CAS") 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 Shandong Luteng Textile Company Limited ("Luteng Textile"), Shandong Binteng Textile Company Limited ("Binteng Textile") and Weiqiao Textile (Hong Kong) Trading Company Limited ("Weiqiao (Hong Kong)"), are required to appropriate 10% of the annual statutory net profit (after offsetting any prior years' losses), determined in accordance with CAS, to the statutory surplus reserve. When the balance of the reserve fund of an entity reaches 50% of its registered capital, 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 net profit, determined in accordance with CAS, to the statutory reserve funds for the years ended 31 December 2012 and 2011.

(ii) General reserve fund, employee 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 have been made by offsetting any prior years' losses out of the annual statutory net profit, determined in accordance with CAS, and allocations to the statutory reserve funds, which comprise a general reserve fund, an employee 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

	2012 RMB'000	2011 RMB'000
Proposed final – RMB0.1246 (2011: RMB0.0594) per share	**148,821**	70,947

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with CAS; and (ii) the net profit determined in accordance with the accounting standards of the overseas jurisdiction where the Company's shares are listed (HKFRSs).

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB481,880,000 (2011: RMB245,584,000), and on the weighted average number of ordinary shares of 1,194,389,000 (2011: 1,194,389,000) in issue during the year.

The Group had no potentially dilutive ordinary share in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	6,553,836	17,313,761	98,529	158,631	24,124,757
Accumulated depreciation and impairment	(1,070,456)	(7,335,366)	(73,932)	–	(8,479,754)
Net carrying amount	5,483,380	9,978,395	24,597	158,631	15,645,003
At 1 January 2012, net of accumulated depreciation and impairment	5,483,380	9,978,395	24,597	158,631	15,645,003
Additions	29,444	54,069	5,362	27,685	116,560
Disposals	(331,408)	(326,972)	(46)	(293)	(658,719)
Disposal of a subsidiary *(note 34)*	(16,686)	(1,904)	(120)	–	(18,710)
Impairment	–	(30,000)	–	–	(30,000)
Depreciation provided during the year	(237,889)	(1,118,485)	(14,315)	–	(1,370,689)
Classified as held for sale	–	(20,496)	–	–	(20,496)
Transfers	25,125	143,672	–	(168,797)	–
At 31 December 2012, net of accumulated depreciation and impairment	4,951,966	8,678,279	15,478	17,226	13,662,949
At 31 December 2012:					
Cost	6,153,577	16,869,898	103,313	17,226	23,144,014
Accumulated depreciation and impairment	(1,201,611)	(8,191,619)	(87,835)	–	(9,481,065)
Net carrying amount	4,951,966	8,678,279	15,478	17,226	13,662,949

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2011					
At 1 January 2011:					
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
At 1 January 2011, net of accumulated depreciation and impairment	5,636,041	10,448,898	21,962	573,189	16,680,090
Additions	26,995	79,735	14,998	331,561	453,289
Disposals	(143,450)	(3,171)	(677)	–	(147,298)
Depreciation provided during the year	(237,752)	(1,131,094)	(11,735)	–	(1,380,581)
Transfers	201,546	584,027	49	(746,119)	39,503
At 31 December 2011, net of accumulated depreciation and impairment	5,483,380	9,978,395	24,597	158,631	15,645,003
At 31 December 2011:					
Cost	6,553,836	17,313,761	98,529	158,631	24,124,757
Accumulated depreciation and impairment	(1,070,456)	(7,335,366)	(73,932)	–	(8,479,754)
Net carrying amount	5,483,380	9,978,395	24,597	158,631	15,645,003

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 2012					
At 31 December 2011 and at 1 January 2012:					
Cost	5,096,427	13,082,671	79,263	–	18,258,361
Accumulated depreciation and impairment	(856,502)	(5,458,910)	(58,111)	–	(6,373,523)
Net carrying amount	4,239,925	7,623,761	21,152	–	11,884,838
At 1 January 2012, net of accumulated depreciation and impairment	4,239,925	7,623,761	21,152	–	11,884,838
Additions	26,143	27,007	3,388	491	57,029
Disposals	(333,298)	(323,437)	(36)	(292)	(657,063)
Impairment	–	(15,000)	–	–	(15,000)
Depreciation provided during the year	(200,979)	(828,695)	(11,068)	–	(1,040,742)
Classified as held for sale	–	(20,496)	–	–	(20,496)
Transfers	–	199	–	(199)	–
At 31 December 2012, net of accumulated depreciation and impairment	3,731,791	6,463,339	13,436	–	10,208,566
At 31 December 2012:					
Cost	4,685,599	12,481,958	82,405	–	17,249,962
Accumulated depreciation and impairment	(953,808)	(6,018,619)	(68,969)	–	(7,041,396)
Net carrying amount	3,731,791	6,463,339	13,436	–	10,208,566

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2011					
At 1 January 2011:					
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
At 1 January 2011, net of accumulated depreciation and impairment	4,424,696	8,231,853	24,316	247,559	12,928,424
Additions	24,023	14,623	5,884	85,775	130,305
Disposals	(143,449)	(2,593)	(357)	–	(146,399)
Depreciation provided during the year	(201,637)	(856,667)	(8,691)	–	(1,066,995)
Transfers	136,292	236,545	–	(333,334)	39,503
At 31 December 2011, net of accumulated depreciation and impairment	4,239,925	7,623,761	21,152	–	11,884,838
At 31 December 2011:					
Cost	5,096,427	13,082,671	79,263	–	18,258,361
Accumulated depreciation and impairment	(856,502)	(5,458,910)	(58,111)	–	(6,373,523)
Net carrying amount	4,239,925	7,623,761	21,152	–	11,884,838

At 31 December 2012, certain of the Group's buildings, machinery and equipment with a net carrying amount of approximately RMB3,095 million (2011: RMB4,451 million) were pledged to secure certain of the Group's bank loans (note 28(ii)).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

There were no fixed assets held under finance leases as at 31 December 2012 (2011: RMB4 million).

The Group's idle buildings, machinery and equipment were revalued individually by Shanghai Wan Long Assets Evaluation Co., Ltd., an independent professionally qualified valuer, based on the fair value less costs to sell basis. The impairment amounting to RMB30 million, resulting from the above valuation, was charged to profit or loss in 2012 (2011: Nil).

At 31 December 2012, the machinery classified as non-current assets held for sale were under sales agreements which were expected to be fulfilled in 2013. As their fair values less costs to sale were higher than the carrying amounts, no impairment loss was recognised in profit or loss.

15. INVESTMENT PROPERTIES

Group	2011 *RMB'000*
At 1 January:	
Cost – buildings	44,600
Accumulated depreciation and impairment	(4,698)
Net carrying amount	39,902
At 1 January, net of accumulated depreciation and impairment	39,902
Depreciation provided during the year	(399)
Transfers to owner-occupied properties, net of accumulated depreciation and impairment	(39,503)
At 31 December, net of accumulated depreciation and impairment	–
At 31 December:	
Cost – buildings	–
Accumulated depreciation and impairment	–
Net carrying amount	–

The Group did not have any investment property as at 31 December 2012.

15. INVESTMENT PROPERTIES (continued)

Company	**2012** *RMB'000*	2011 *RMB'000*
At 1 January:		
Cost – buildings	**8,433**	53,033
Accumulated depreciation and impairment	**(1,152)**	(5,651)
Net carrying amount	**7,281**	47,382
At 1 January, net of accumulated depreciation and impairment	**7,281**	47,382
Depreciation provided during the year	**(201)**	(598)
Transfers to owner-occupied properties, net of accumulated depreciation and impairment	**–**	(39,503)
At 31 December, net of accumulated depreciation and impairment	**7,080**	7,281
At 31 December:		
Cost – buildings	**8,433**	8,433
Accumulated depreciation and impairment	**(1,353)**	(1,152)
Net carrying amount	**7,080**	7,281

The Company's investment property is leased to a subsidiary under an operating lease.

16. PREPAID LAND LEASE PAYMENTS

Group	**2012**	2011
	RMB'000	*RMB'000*
Carrying amount at 1 January	**200,006**	204,667
Disposals	**(5,032)**	–
Recognised during the year	**(4,612)**	(4,661)
Carrying amount at 31 December	**190,362**	200,006
Current portion included in prepayments, deposits and other receivables *(note 22)*	**(4,571)**	(4,661)
Non-current portion	**185,791**	195,345

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

At 31 December 2012, certain of the Group's land use rights with a net carrying amount of approximately RMB48 million (2011: RMB73 million) were pledged to secure certain of the Group's bank loans (note 28(ii)).

17. OTHER INTANGIBLE ASSETS

Group

	2012	2011
	RMB'000	*RMB'000*
Software and a technology right		
Cost at 1 January, net of accumulated amortisation	**2,169**	3,528
Amortisation provided during the year	**(1,060)**	(1,359)
At 31 December, net of accumulated amortisation	**1,109**	2,169
At 31 December:		
Cost	**13,588**	13,588
Accumulated amortisation	**(12,479)**	(11,419)
Net carrying amount	**1,109**	2,169

Company

	2012	2011
	RMB'000	*RMB'000*
Software		
Cost at 1 January, net of accumulated amortisation	**1,268**	1,427
Amortisation provided during the year	**(159)**	(159)
At 31 December, net of accumulated amortisation	**1,109**	1,268
At 31 December:		
Cost	**1,586**	1,586
Accumulated amortisation	**(477)**	(318)
Net carrying amount	**1,109**	1,268

18. INVESTMENTS IN SUBSIDIARIES

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

	2012	2011
	RMB'000	*RMB'000*
Unlisted investments, at cost	**1,697,218**	1,701,818
Due from subsidiaries	**112,994**	1,256,741
Due to subsidiaries	**(1,826,481)**	(609,946)

The amounts due from and to subsidiaries are unsecured, interest-free and usually have a repayment term of one month. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2012 are as follows:

Company name	**Place and date of incorporation/ registration and operations**	**Legal status**	**Paid-up capital/ registered share capital**	**Percentage of equity directly attributable to the Company**	**Principal activities**
Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao")	Weihai, Mainland China 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, Mainland China 26 November 2001	Limited liability company	RMB600,000,000	98.5	Production and sale of cotton yarn and fabric
Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park")	Weihai, Mainland China 30 January 2004	Limited liability company	RMB760,000,000	100	Production and sale of cotton yarn and fabric
Weiqiao (Hong Kong)	Hong Kong 12 October 2011	Limited liability company	HK$500,000	100	Import of textile raw materials, machinery and equipment and sale of textile raw materials and products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries of the Company as at 31 December 2012 are as follows (continued):

Company name	Place and date of incorporation/ registration and operations	Legal status	Paid-up capital/ registered share capital	Percentage of equity directly attributable to the Company	Principal activities
Luteng Textile	Zouping, Mainland China 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, Mainland China 12 March 2004	Sino-foreign equity joint venture	US$15,430,000	75	Production and sale of compact yarn and related products

19. INVESTMENT IN AN ASSOCIATE

	Group	
	2012	2011
	RMB'000	*RMB'000*
Share of net assets	**51,067**	47,232

The Group does not have any receivable or payable balance with the associate.

The particular of the associate is as follows:

Company name	Place and date of incorporation/ registration	Paid-up capital/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Weihai Huancui District Hongyuan Microfinance Company Limited	Weihai, Mainland China 5 January 2011	RMB150,000,000	30	Provision of finance and financial advisory services to small enterprises

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

19. INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates the financial information of the associate extracted from its financial statements:

	2012 RMB'000	2011 RMB'000
Assets	174,522	176,172
Liabilities	4,299	18,733
Revenue	36,089	28,504
Profit	12,783	7,439

20. INVENTORIES

	Group	
	2012 RMB'000	2011 RMB'000
Raw materials	482,351	1,374,029
Work in progress	683,451	706,227
Semi-finished goods	1,194,962	4,119,539
Finished goods	2,884,882	3,068,363
Consumables	64,276	85,920
Raw materials in transit	489,593	691,100
	5,799,515	10,045,178

	Company	
	2012 RMB'000	2011 RMB'000
Raw materials	443,705	1,227,213
Work in progress	454,821	489,683
Semi-finished goods	765,171	2,947,261
Finished goods	1,956,749	2,006,296
Consumables	49,200	63,057
Consigned materials for processing	1,432,955	905,964
Raw materials in transit	378,282	641,393
	5,480,883	8,280,867

20. INVENTORIES (continued)

At 31 December 2012, the carrying amounts of inventories were net of impairment provision of RMB420 million (2011: RMB597 million).

21. TRADE RECEIVABLES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**550,065**	357,340
Impairment	**(1,590)**	(6,115)
	548,475	351,225

	Company	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**498,442**	330,447
Impairment	**(1,590)**	(6,115)
	496,852	324,332

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

21. 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	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**545,170**	340,291
3 to 6 months	**47**	8,723
6 months to 1 year	**3,219**	412
Over 1 year	**39**	1,799
	548,475	351,225

	Company	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**493,547**	321,098
3 to 6 months	**47**	1,023
6 months to 1 year	**3,219**	412
Over 1 year	**39**	1,799
	496,852	324,332

21. TRADE RECEIVABLES (continued)

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**6,115**	7,872
Impairment losses reversed	**(4,525)**	(1,757)
At 31 December	**1,590**	6,115

	Company	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**6,115**	7,768
Impairment losses reversed	**(4,525)**	(1,653)
At 31 December	**1,590**	6,115

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1.6 million (2011: RMB6.1 million) with a carrying amount before provision of RMB1.6 million (2011: RMB6.1 million).

21. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**437,087**	289,165
Less than 2 months past due	**108,083**	51,126
More than 2 months past due	**3,305**	10,934
	548,475	351,225

	Company	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**435,572**	279,236
Less than 2 months past due	**57,975**	41,862
More than 2 months past due	**3,305**	3,234
	496,852	324,332

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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Prepayments to suppliers	**89,112**	51,440
Prepaid land lease payments, current portion *(note 16)*	**4,571**	4,661
Interest receivables	**2,948**	6,741
Taxes recoverable	**13,405**	125,316
Other receivables and prepayments	**9,213**	211
	119,249	188,369

	Company	
	2012	2011
	RMB'000	*RMB'000*
Prepayments to suppliers	**79,200**	34,100
Interest receivables	**2,948**	6,741
Taxes recoverable	**–**	1,372
Other receivables and prepayments	**53**	21
	82,201	42,234

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.

23. BALANCES WITH THE IMMEDIATE HOLDING COMPANY AND OTHER RELATED PARTIES

The balances with the immediate holding company and other related parties are unsecured, interest-free and usually have a repayment term of one month.

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**7,349,732**	2,057,949
Time deposits	**363,930**	556,632
	7,713,662	2,614,581
Less: Pledged time deposits against:		
– Letters of credit	**(243,598)**	(429,182)
– Guarantee issued	**–**	(31,000)
Non-pledged time deposits maturing over three months	**(120,332)**	(96,450)
Cash and cash equivalents	**7,349,732**	2,057,949

	Company	
	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**6,790,769**	1,520,237
Time deposits	**340,064**	532,479
	7,130,833	2,052,716
Less: Pledged time deposits against:		
– Letters of credit	**(219,764)**	(405,029)
– Guarantee issued	**–**	(31,000)
Non-pledged time deposits maturing over three months	**(120,300)**	(96,450)
Cash and cash equivalents	**6,790,769**	1,520,237

24. CASH AND CASH EQUIVALENTS, PLEDGED TIME DEPOSITS AND NON-PLEDGED TIME DEPOSITS MATURING OVER THREE MONTHS (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi amounted to RMB7,370 million (2011: RMB2,388 million). 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 authorised banks 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 between 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.

25. 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	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**1,828,194**	2,865,108
3 to 6 months	**2,893**	555,759
6 months to 1 year	**13,460**	7,684
Over 1 year	**91,346**	77,403
	1,935,893	3,505,954

25. TRADE PAYABLES (continued)

	Company 2012 RMB'000	Company 2011 RMB'000
Within 3 months	**1,105,246**	2,261,604
3 to 6 months	**2,053**	541,346
6 months to 1 year	**4,967**	6,895
Over 1 year	**57,927**	74,619
	1,170,193	2,884,464

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

26. OTHER PAYABLES AND ACCRUALS

	Group 2012 RMB'000	Group 2011 RMB'000
Payroll payable	**210,262**	207,183
Other taxes payable	**186,526**	121,433
Accruals	**19,840**	25,211
Other payables	**616,617**	653,668
	1,033,245	1,007,495

	Company 2012 RMB'000	Company 2011 RMB'000
Payroll payable	**152,237**	144,934
Other taxes payable	**118,315**	95,623
Accruals	**19,690**	24,959
Other payables	**392,305**	430,982
	682,547	696,498

Other payables are non-interest-bearing. Some of these balances normally have a term of one month while some have no specific payment term.

27. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2012 Liabilities *RMB'000*
A forward currency contract	**3,236**

The Group had no derivative financial instruments as at 31 December 2011.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012			2011		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans						
– Unsecured	**2.4-7.6**	**2013**	**1,984,554**	3.8-8.0	2012	1,434,030
– Secured	**5.6-7.2**	**2013**	**2,098,690**	4.0-7.5	2012	1,993,402
Current portion of long term bank loans						
– Unsecured	**LIBOR+3.8**	**2013**	**94,283**	LIBOR+1.5	2012	78,761
– Secured	**6.0-7.4**	**2013**	**283,400**	5.8-8.5	2012	935,000
Finance lease payable *(note 29)*			**–**	9.1	2012	259
			4,460,927			4,441,452
Non-current						
Bank loans						
– Unsecured	**6.0**	**2014**	**300,000**	4.2-6.6	2013-2014	426,019
– Secured	**6.0-8.2**	**2014-2015**	**4,305,450**	5.3-7.9	2013-2015	4,235,800
Finance lease payable *(note 29)*			**–**	9.1	2013-2022	3,994
			4,605,450			4,665,813
			9,066,377			9,107,265

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

Company

	2012			2011		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans						
– Unsecured	**5.3-7.6**	**2013**	**1,125,702**	3.8-8.0	2012	1,339,530
– Secured	**6.2-7.2**	**2013**	**887,000**	6.6-7.2	2012	513,000
Current portion of long term bank loans						
– Unsecured	**LIBOR+3.8**	**2013**	**94,283**	LIBOR+1.5	2012	78,761
– Secured	**6.0-7.4**	**2013**	**70,000**	5.8-8.5	2012	935,000
Finance lease payable *(note 29)*			**–**	9.1	2012	259
			2,176,985			2,866,550
Non-current						
Bank loans						
– Unsecured	**6.0**	**2014**	**300,000**	4.2-6.6	2013-2014	426,019
– Secured	**6.0-7.8**	**2014-2015**	**3,783,950**	5.8-7.2	2013-2015	3,392,900
Finance lease payable *(note 29)*			**–**	9.1	2013-2022	3,994
			4,083,950			3,822,913
			6,260,935			6,689,463

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**4,460,927**	4,441,193	**2,176,985**	2,866,291
In the second year	**1,666,000**	2,704,819	**1,509,500**	2,073,419
In the third to fifth years, inclusive	**2,939,450**	1,957,000	**2,574,450**	1,745,500
	9,066,377	9,103,012	**6,260,935**	6,685,210
Finance lease repayable:				
Within one year	**-**	259	**-**	259
In the second year	**-**	283	**-**	283
In the third to fifth years, inclusive	**-**	1,013	**-**	1,013
Beyond five years	**-**	2,698	**-**	2,698
	-	4,253	**-**	4,253
	9,066,377	9,107,265	**6,260,935**	6,689,463

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

Notes:

(i) Other than certain of the Group's bank loans in the aggregate amount of US$174 million (equivalent to RMB1,091 million) as at the end of the reporting period (2011: US$121 million, equivalent to RMB760 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,703 million (2011: RMB5,834 million) were secured by certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments) of an aggregate carrying value of approximately RMB2,961 million (2011: RMB3,912 million) as at the end of the reporting period.

(iii) Certain of the Group's bank loans up to RMB463 million (2011: RMB460 million) were secured by certain of Weihai Industrial Park and Binzhou Industrial Park's trade receivables from the Company of approximately RMB594 million (2011: RMB581million) as at the end of the reporting period, which were eliminated in the consolidated statement of financial position.

(iv) Certain of the Group's bank loans up to RMB169 million (2011: RMB227 million) were secured by certain of Binzhou Industrial Park's sales orders from the Company of approximately RMB254 million (2011: RMB339 million) as at the end of the reporting period.

(v) Weihai Civil Aviation Industrial Company Limited, the non-controlling shareholder of Weihai Weiqiao, guaranteed bank loans of Weihai Weiqiao of approximately RMB19 million (2011: RMB34 million) as at the end of the reporting period.

(vi) The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB587 million (2011: RMB609 million) as at the end of the reporting period.

29. FINANCE LEASE PAYABLE

In 2012, the Company terminated its finance lease of certain machinery and paid off the remaining balance of finance lease payable. As at 31 December 2012, the Group did not have any finance lease payable.

At 31 December 2011, the total future minimum lease payments under the finance lease and its present value are as follows:

Group and Company	**Minimum lease payments** *RMB'000*	**Present value of minimum lease payments** *RMB'000*
Amounts payable:		
Within one year	646	259
In the second year	646	283
In the third to fifth years, inclusive	1,939	1,013
After five years	3,557	2,698
Total minimum lease payments	6,788	4,253
Future finance charges	(2,535)	
Total net finance lease payable	4,253	
Current portion *(note 28)*	(259)	
Non-current portion *(note 28)*	3,994	

30. DEFERRED INCOME

Deferred income recognised in the consolidated statement of financial position, arising from the government grants received, is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**257,089**	184,590	**21,478**	22,754
Additions	**128,590**	84,963	**–**	–
Recognised as income during the year	**(61,775)**	(12,464)	**(21,478)**	(1,276)
At 31 December	**323,904**	257,089	**–**	21,478
Portion classified as current liabilities	**(41,538)**	(16,596)	**–**	(1,276)
Non-current portion	**282,366**	240,493	**–**	20,202

The government grants were provided by local finance bureaus for the purposes of providing support for construction of new plants, product development, research activities and a pollution prevention project.

31. DEFERRED TAX

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
At 1 January	**259,281**	101,825	**100,060**	22,861
Credited/(charged) to profit or loss during the year	**3,763**	157,456	**(28,581)**	77,199
At 31 December	**263,044**	259,281	**71,479**	100,060
Deferred tax liabilities				
At 1 January	**4,663**	6,124	**–**	–
Credited to profit or loss during the year	**(278)**	(1,461)	**–**	–
At 31 December	**4,385**	4,663	**–**	–
Deferred tax credited/(charged) to profit or loss *(note 10)*	**4,041**	158,917	**(28,581)**	77,199

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

31. DEFERRED TAX (continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
Tax deductible loss	**43,718**	33,410	**–**	–
Provision against inventories	**105,115**	149,261	**63,500**	91,700
Impairment of trade receivables	**398**	1,529	**398**	1,529
Impairment of property, plant and equipment and investment properties	**12,268**	4,768	**4,050**	300
Government grants recognised as deferred income	**80,976**	64,272	**–**	5,370
Interest capitalisation on fixed assets, net of related depreciation	**(5,203)**	(5,548)	**(5,203)**	(5,548)
Difference in depreciation arising from different residual values of fixed assets recognised for tax and accounting purposes	**9,113**	7,089	**8,734**	6,709
Unrealised gains arising from intra-group sales	**16,659**	4,500	**–**	–
At 31 December	**263,044**	259,281	**71,479**	100,060
Deferred tax liabilities				
Interest capitalisation on fixed assets, net of related depreciation	**4,385**	4,663	**–**	–
At 31 December	**4,385**	4,663	**–**	–

The Group has tax losses arising in the PRC of RMB365 million (2011: RMB272 million) that will expire in one to five years and are available for offsetting against future taxable profits of the companies in which the losses arose based on the profit forecasts.

Deferred tax assets were not recognised in respect of tax losses of RMB191 million (2011: RMB138 million) as it is not considered probable that taxable profits will be available against which the above items can be utilised.

32. SHARE CAPITAL

	2012	2011
	RMB'000	*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.

33. RESERVES

(a) 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.

(b) Company

	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
Balance at 1 January 2011	6,673,380	1,209,020	5,044,270	522,665	13,449,335
Final 2010 dividend declared	–	–	–	(522,665)	(522,665)
Total comprehensive income for the year *(note 11)*	–	–	430,334	–	430,334
Transfer from retained profits	–	43,034	(43,034)	–	–
Proposed final 2011 dividend *(note 12(b))*	–	–	(70,947)	70,947	–
At 31 December 2011	6,673,380	1,252,054	5,360,623	70,947	13,357,004
Final 2011 dividend declared	**–**	**–**	**–**	**(70,947)**	**(70,947)**
Total comprehensive income for the year *(note 11)*	**–**	**–**	**569,330**	**–**	**569,330**
Transfer from retained profits	**–**	**56,933**	**(56,933)**	**–**	**–**
Proposed final 2012 dividend *(note 12(b))*	**–**	**–**	**(148,821)**	**148,821**	**–**
At 31 December 2012	**6,673,380**	**1,308,987**	**5,724,199**	**148,821**	**13,855,387**

34. DISPOSAL OF A SUBSIDIARY

	Note	2012 RMB'000
Net assets disposed of:		
Property, plant and equipment		18,710
Inventory		1,932
Cash and bank balances		4,445
Trade receivables		29,914
Prepayments and other receivables		37,734
Trade payables		(60,270)
Accruals and other payables		(1,174)
Tax payable		(290)
Non-controlling interests		(2,480)
		28,521
Loss on disposal of a subsidiary	6	(622)
		27,899
Satisfied by cash		27,899

There was no disposal of any subsidiary in 2011.

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

	2012 RMB'000
Cash consideration	27,899
Cash and bank balances disposed of	(4,445)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	23,454

35. CONTINGENT LIABILITIES

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

	Company	
	2012	2011
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**970,915**	787,672

The Group had no contingent liabilities as at 31 December 2012 and 2011.

As at 31 December 2012 and 2011, all the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised.

36. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 28 to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Company leases its investment properties (note 15) under an operating lease arrangement, with the lease negotiated for a term of twenty years.

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

	Company	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**208**	208
In the second to fifth years, inclusive	**832**	832
After five years	**2,547**	2,755
	3,587	3,795

(b) As lessee

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

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**22,042**	23,180
In the second to fifth years, inclusive	**87,958**	90,372
After five years	**171,653**	198,901
	281,653	312,453

37. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

	Company	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**21,186**	22,324
In the second to fifth years, inclusive	**84,534**	86,948
After five years	**163,422**	189,813
	269,142	299,085

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group and the Company had the following capital commitments at the end of the reporting period, principally for purchase of machinery and equity investment:

	Group	
	2012	2011
	RMB'000	*RMB'000*
Contracted, but not provided for	**54,900**	56,984

	Company	
	2012	2011
	RMB'000	*RMB'000*
Contracted, but not provided for	**25,000**	25,000

39. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under Weiqiao Investment and has extensive transactions and relationships with the members of Weiqiao Investment. As such, it is possible that the terms of these transactions are not the same as those of the transactions among unrelated parties. The transactions were made on terms agreed between the parties.

The Group had the following transactions with related parties during the year:

(a) Transactions with related parties

	Group	
	2012	2011
	RMB'000	*RMB'000*
The immediate holding company:		
Sales of textile products	**184,532**	280,806
Sales of electricity	**1,883,185**	1,435,987
Expenses on land use rights and property leasing	**21,425**	23,320
Gross rental income on property leasing	**-**	292
Sales of textile products to fellow subsidiaries	**768,050**	867,079
Sales of textile products to a company of which a director of the Company is a controlling shareholder	**96,458**	197,923
Gross rental income on property leasing to an associate	**-**	71

Textile products supply agreement with the Holding Company

On 20 October 2008, the Company and the Holding Company entered into a Cotton Yarn, Grey Fabric and Denim Supply Agreement (the "Old Supply Agreement") with a term commencing on 1 January 2009 and ending on 31 December 2011. Pursuant to the Old Supply Agreement, the Company will supply or will procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Holding Company, its subsidiaries other than the companies now comprising the Group and the associates of the Holding Company (collectively referred to as the "Holding Group").

On 31 October 2011 and 11 November 2011, the Company made an announcement and a circular, respectively, on "Renewal of Continuing Connected Transactions (Supply of Cotton Yarn, Grey Fabric and Denim)". According to the announcement and the circular, the Company announced that, on 31 October 2011, it entered into the Renewed Cotton Yarn, Grey Fabric and Denim Supply Agreement with a period of three years commencing on 1 January 2012 (the "Renewed Supply Agreement"). Terms and conditions of the Renewed Supply Agreement are basically the same as those of the Old Supply Agreement except for the newly agreed maximum aggregate annual value of textile products supplied.

39. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Electricity and steam supply agreement with the Holding Company

On 4 November 2010 and 8 November 2010, the Company made an announcement and a circular, respectively, on "Renewal of Continuing Connected Transactions (Supply of Excess Electricity)". According to the announcement and the circular, the Company announced that, on 4 November 2010, it renewed the excess electricity supply agreement dated 18 March 2008 with a period of three years commencing from 1 January 2011 (the "Renewed Excess Electricity Supply Agreement"). The Renewed Excess Electricity Supply Agreement agreed a new maximum aggregate annual value of excess electricity supplied. Pursuant to the Renewed Excess Electricity Supply Agreement, the Company will supply excess electricity to the Holding Group at a price of RMB0.50 per kWh (including VAT at the rate of 17%) or the price at which a power plant in Shandong Province would sell its electricity 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.

Lease agreements with the Holding Company

As lessor

In the year ended 31 December 2011, the Company, as lessor, had one property lease agreement with the Holding Company. The significant terms of the agreement are summarised as follows:

Operating lease agreement dated 16 April 2008 with the commencement date and expiry date on 16 April 2008 and 16 April 2011, respectively, was entered at an annual rental of RMB1,000,000 each for two buildings, 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 while the other one was not extended after its expiry on 16 April 2011.

39. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

***Lease agreements with the Holding Company** (continued)*

As lessee

In the years ended 31 December 2011 and 2012, the Group had eleven land use rights and property lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the eleven agreements are summarised as follows:

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

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

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

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

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

(vi) Operating lease agreement dated 31 January 2010 with the commencement date and expiry date on 1 February 2010 and 1 February 2013, respectively, was entered 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.

39. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

***Lease agreements with the Holding Company** (continued)*

As lessee (continued)

(x) Land use right lease agreement dated 2 November 2005 with the commencement date and expiry date on 31 October 2005 and 31 October 2025, respectively, was entered 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 and 15 June 2012, respectively, the leases of certain part of the land where the Weiqiao First Thermal Power Plant and the Binzhou Thermal Power Plant are situated were terminated and the annual rental rates have been adjusted thereafter to RMB2,127,000 and RMB1,537,000, respectively, on a pro-rata basis. Except for this, all of the original clauses and terms remain unchanged.

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

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

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

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

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

39. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

	Due from related parties		Due to related parties	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**8,312**	8,436	**–**	741
Fellow subsidiaries	**–**	–	**5,670**	6,440

The balances with related parties are unsecured, interest-free and usually have a repayment term of one month.

(c) Commitments with related parties

At the end of the reporting period, in addition to the sale and lease agreements mentioned in note 39(a), the Group entered into sales agreements with certain fellow subsidiaries with commitments amounting to RMB15,250,000, which are expected to be fulfilled in 2013.

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

	2012	2011
	RMB'000	*RMB'000*
Short term employee benefits	**4,213**	4,489
Post-employment benefits	**51**	34
Total compensation paid to key management personnel	**4,264**	4,523

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.

40. 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			
	2012		2011	
Financial assets	**Loans and receivables** *RMB'000*	**Total** *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade receivables	**548,475**	**548,475**	351,225	351,225
Due from the immediate holding company	**8,312**	**8,312**	8,436	8,436
Financial assets included in prepayments, deposits and other receivables	**12,161**	**12,161**	6,952	6,952
Pledged time deposits	**243,598**	**243,598**	460,182	460,182
Non-pledged time deposits maturing over three months	**120,332**	**120,332**	96,450	96,450
Cash and cash equivalents	**7,349,732**	**7,349,732**	2,057,949	2,057,949
	8,282,610	**8,282,610**	2,981,194	2,981,194

	2012			2011	
Financial liabilities	**Held for trading** *RMB'000*	**Financial liabilities at amortised cost** *RMB'000*	**Total** *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	**–**	**1,783,098**	**1,783,098**	3,422,512	3,422,512
Financial liabilities included in other payables and accruals	**–**	**846,719**	**846,719**	886,062	886,062
Due to the immediate holding company	**–**	**–**	**–**	741	741
Finance lease payable	**–**	**–**	**–**	4,253	4,253
Derivative financial instruments	**3,236**	**–**	**3,236**	–	–
Interest-bearing bank loans	**–**	**9,066,377**	**9,066,377**	9,103,012	9,103,012
	3,236	**11,696,194**	**11,699,430**	13,416,580	13,416,580

40. 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			
	2012		2011	
Financial assets	**Loans and receivables** *RMB'000*	**Total** *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Trade receivables	**496,852**	**496,852**	324,332	324,332
Due from subsidiaries	**112,994**	**112,994**	1,188,678	1,188,678
Due from the immediate holding company	**8,312**	**8,312**	8,436	8,436
Financial assets included in prepayments, deposits and other receivables	**3,001**	**3,001**	6,762	6,762
Pledged time deposits	**219,764**	**219,764**	436,029	436,029
Non-pledged time deposits maturing over three months	**120,300**	**120,300**	96,450	96,450
Cash and cash equivalents	**6,790,769**	**6,790,769**	1,520,237	1,520,237
	7,751,992	**7,751,992**	3,580,924	3,580,924

	2012		2011	
Financial liabilities	**Financial liabilities at amortised cost** *RMB'000*	**Total** *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	**1,034,727**	**1,034,727**	2,805,049	2,805,049
Due to subsidiaries	**1,826,481**	**1,826,481**	609,946	609,946
Financial liabilities included in other payables and accruals	**564,232**	**564,232**	600,875	600,875
Finance lease payable	**–**	**–**	4,253	4,253
Interest-bearing bank loans	**6,260,935**	**6,260,935**	6,685,210	6,685,210
	9,686,375	**9,686,375**	10,705,333	10,705,333

41. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument can 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:

The fair values of cash and cash equivalents, non-pledged time deposits maturing over three months, pledged deposits, trade receivables, trade payables, finance lease payable, 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/to 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.

The carrying amounts and fair values of the non-current portion of interest-bearing bank loans are as follows:

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest-bearing bank loans	**9,066,377**	9,103,012	**9,082,268**	9,094,354

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest-bearing bank loans	**6,260,935**	6,685,210	**6,263,767**	6,680,149

41. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The Group enters into a forward currency contract with a counterparty in 2012. The forward currency contract is measured using valuation techniques similar to forward pricing, using present value calculations. The model incorporates various market observable inputs including the credit quality of the counterparty, foreign exchange spot and forward rates. The carrying amount of the forward currency contract is the same as its fair value.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

Liabilities measured at fair value:

Group

As at 31 December 2012

	Level 2 *RMB'000*	**Total** *RMB'000*
Derivative financial instruments	**3,236**	**3,236**

The Group did not have any financial instruments measured at fair value as at 31 December 2011.

During the year, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2011: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, principally a forward currency contract. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Besides, the Group has price risk resulted from the fluctuations of the raw material price. 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 derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

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**	**Decrease in equity**	**Decrease in equity**
		RMB'000	*RMB'000*	*RMB'000*
2012				
Renminbi	**50**	**26,524**	**19,893**	**17,347**
United States dollar	**50**	**785**	**589**	**589**
2011				
Renminbi	50	34,524	25,893	20,418
United States dollar	50	394	296	296

42. 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 65% or US$56 million (2011: 54% or US$30 million) of the Group's trade receivables were denominated in United States dollars, whilst approximately 66% or US$204 million (2011: 79% or US$439 million) of the Group's trade payables and 12% or US$174 million (2011: 8% or US$121 million) of the Group's bank loans were denominated in United States dollars.

The following table demonstrates the sensitivity at the end of the reporting period to reasonably possible changes in the United States dollar and the Hong Kong dollar exchange rates, 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.

	(Decrease)/ increase in foreign currency exchange rates	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*
2012			
If RMB strengthens against US$	**(5)**	**73,272**	**60,373**
If RMB weakens against US$	**5**	**(73,272)**	**(60,373)**
2011			
If RMB strengthens against US$	(5)	155,747	117,978
If RMB weakens against US$	5	(155,747)	(117,978)
If RMB strengthens against HK$	(5)	11	9
If RMB weakens against HK$	5	(11)	(9)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. Except for the below mentioned, 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 14% (2011: 16%) and 30% (2011: 30%) 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 21 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. 49% of the Group's debts would mature in less than one year as at 31 December 2012 (2011: 49%) based on the carrying value of borrowings reflected in the financial statements.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Group

	2012				
	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	1,253,407	529,691	–	–	1,783,098
Financial liabilities included in other payables and accruals	799,182	47,537	–	–	846,719
Derivative financial instruments	–	3,236	–	–	3,236
Interest-bearing bank loans	804,202	3,656,725	4,605,450	–	9,066,377
Interest payment on bank loans	135,498	275,530	366,503	–	777,531
	2,992,289	4,512,719	4,971,953	–	12,476,961

	2011				
	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	3,310,828	111,684	–	–	3,422,512
Financial liabilities included in other payables and accruals	773,982	112,080	–	–	886,062
Due to the immediate holding company	741	–	–	–	741
Interest-bearing bank loans	1,434,768	3,006,425	4,661,819	–	9,103,012
Interest payment on bank loans	141,400	305,133	299,664	–	746,197
Finance lease payable *(note 29)*	162	484	2,585	3,557	6,788
	5,661,881	3,535,806	4,964,068	3,557	14,165,312

42. 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

	2012				
	Less than 3 months	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Trade payables	**701,615**	**333,112**	**–**	**–**	**1,034,727**
Due to subsidiaries	**1,826,481**	**–**	**–**	**–**	**1,826,481**
Financial liabilities included in other payables and accruals	**543,314**	**20,918**	**–**	**–**	**564,232**
Interest-bearing bank loans	**655,202**	**1,521,783**	**4,083,950**	**–**	**6,260,935**
Interest payment on bank loans	**97,519**	**219,967**	**322,167**	**–**	**639,653**
	3,824,131	**2,095,780**	**4,406,117**	**–**	**10,326,028**

	2011				
	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,693,365	111,684	–	–	2,805,049
Due to subsidiaries	609,946	–	–	–	609,946
Financial liabilities included in other payables and accruals	514,723	86,152	–	–	600,875
Interest-bearing bank loans	893,246	1,973,045	3,818,919	–	6,685,210
Interest payment on bank loans	104,677	242,328	263,836	–	610,841
Finance lease payable *(note 29)*	162	484	2,585	3,557	6,788
	4,816,119	2,413,693	4,085,340	3,557	11,318,709

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Price risk

Lint cotton is the main raw material for the Group's production. It accounts for a substantial portion of the Group's costs of sales. The price of lint cotton is affected by various factors which are beyond the control of the Group, such as changes in government policies, the supply-demand relation and other unexpected events. The fluctuations of the price may have favourable or unfavourable impacts on the Group. The Group did not enter into any hedging of its price risk during the year (2011: None).

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 2012 or 31 December 2011.

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 represents interest-bearing bank loans less cash and cash equivalents. The gearing ratios as at the ends of the reporting periods were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Interest-bearing bank loans	**9,066,377**	9,103,012
Less: Cash and cash equivalents	**(7,349,732)**	(2,057,949)
Net debt	**1,716,645**	7,045,063
Total equity	**15,643,874**	15,238,312
Gearing ratio	**11.0%**	46.2%

43. EVENTS AFTER THE REPORTING PERIOD

No significant event has taken place subsequent to 31 December 2012.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 15 March 2013.